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**TRENDS IN INTERNATIONAL TRADE AND IMPLICATIONS FOR
DEVELOPING COUNTRIES**

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I. Introduction

The subject and timing of this Conference is of the utmost importance particularly in view of the many developments in the international trade scene. I welcome the invitation and propose to comment briefly on three items:

- A. Recent developments in world trade;
- B. The changing trade situation in Eastern Europe;
- C. Some implications for developing countries.

In the time available my comments are essentially an introduction to the subject, to be followed by more detailed presentations by other speakers.

The evolution of international trade in the 1990's will take place in a rapidly changing world environment, and be influenced by a number of important developments in the sector. In this decade:

- the Uruguay Round of multilateral trade negotiations will end;
- a single market will be created in the European Community, and the North American bilateral trade agreement will become fully operational;
- the market orientation of the Eastern European countries will intensify;
- the Second Window of the Common Fund for Commodities will be operational;
- the international adjustment process in developing countries can be expected to gain momentum and new growth poles in the world economy will emerge as a result of rapid industrialisation in certain countries;
- the evolution of the European Exchange Rate Mechanism and the European Monetary Union will continue;
- the 'globalization' of the World Economy will accelerate;
- the newly industrializing economies (NIEs) will become increasingly important participants in international markets;
- the evolution of technology will have dramatic effects on international trade, especially on the growth of trade in services.

This text is based on published and internal research material of the General Agreement on Tariffs and Trade and the International Trade Centre UNCTAD/GATT (ITC).

We must however also take into account the serious deterioration in the economic situation in nearly all the least developed countries and in many of the highly indebted countries. These two groups account for one fifth of the world's population and the problems they face represent one of the world's major challenges in the 1990s.

In the 1980s we have witnessed continuous structural changes in world trade. Technological innovations are widening the scope of goods and services traded internationally, both through the development of new tradeable goods and services and through advances in transport and communications. Agreements among firms from different countries for joint production, marketing, technology sharing and mergers are multiplying. As a result of these and other factors, international trade in most countries is increasingly influencing the overall performance of the economy.

Since the beginning of the 1980s the share of manufactures in world trade increased from 55 to 70%. The strong performance of a number of developing countries has changed the overall product composition of their exports, and manufactures now account for about half of their merchandise exports. However, a limited number of countries account for most of this increase.

In the 1980s we have also witnessed a very important increase in trade in commercial services. The statistical data available are not as complete and accurate as those for merchandise exports. However, tentative figures indicate that export of services in 1988 amounted to \$US 600 billion. (The figure for merchandise exports in 1988 was \$US 2,880 billion). Matters relating to services are, as we are all aware, presently being discussed in the Uruguay Round.

II. Evolution of World Trade

1. Merchandise Trade - the present situation

The value of world merchandise trade in 1989 exceeded £3 trillion (\$3,000 billion) reaching a new record of \$3.1 trillion. As recently as 1987 the value was just \$2.5 trillion (Table 1).

The 7 1/2 per cent increase in world trade value in 1989 was virtually matched by an estimated 7 per cent increase in volume - the third largest gain in volume during the 1980s. Once again, the volume of world merchandise trade expanded at a significantly faster pace than world production.

The strongest contribution to the expansion of the volume of world merchandise trade in 1989 came from the developed countries. Within the group, above average export growth was experienced by the United States and the European Community, while Japan's export growth rate was below the world average.

TABLE 1

VALUE OF WORLD TRADE, 1987, 1988 and 1989

<u>Merchandise exports by major product group:</u>			
	<u>Value 1987</u>	<u>Value 1988</u>	<u>Value 1989</u>
Agriculture	340	390	405
Mining	365	370	385
Manufacturing	1750	2050	2214
All merchandise	2530	2880	3090
<u>Commercial services exports:</u>			
	530	600	

Source: GATT 1990

2. The flow of world merchandise trade

For planning international marketing strategies, whether at national or enterprise level, an understanding of the flow of international trade is essential and Graph I (page 20) gives an indication of the main trade flows in 1989. Western Europe was by far the most important market, with an intra-regional trade value of over US\$900 billion and an import trade from the rest of the world of US\$370 billion. North America was the second largest market with an intra-regional trade of US\$164 billion and an import trade of US\$377 billion. The United States continued to be the single largest import market.

Overall, the pattern of world trade shows a triangular relationship between the Western European, North American and Asian developed/developing country markets. The projected expansion of trade in the mid-90s is expected to continue to be based on this trade flow pattern, with an increasing role for the Asian developing economies.

3. The anticipated growth of import demand

The most dynamic development is expected in Western Europe. Irrespective of the difficulties in creating the legal framework for a truly single European market by 1993, European business is in the midst of a restructuring and rationalization process which has set off a new growth process with an increasing import demand. Similarly, Asian developing countries are likely to push up their already significant share in world trade. In contrast, exports from non-Asian developing countries and Eastern Europe are expected to decline in relative terms.

The trend of a growing share of manufactures in world trade is expected to continue in the 1990s and will apply for all developing countries as a group as well as for each of the four subregions - at least in volume terms (Graph 2, page 20).

4. The geographic pattern of world trade

South-North trade constitutes the largest part of developing countries' exports, with \$ US 431 billion or 66 per cent of the latter's total exports in 1989 (GATT 1990). This situation will also prevail in the 1990s. African and Latin American exporters depend to a large extent on European and United States importers, respectively. For them, market diversification will be essential in the future. In contrast, Asian and Middle Eastern exporters have achieved a more balanced regional distribution of their exports (Graph 3, page 21).

The growth performance of developing country exporters has been quite disparate between the various exporting regions and destinations. North America is not only the largest importer of goods from developing countries but was also the fastest growing import market over the past decade (Graph 4, page 21).

5. South-South trade

Many observers point to a regionalization of world trade in the 1990s with three major regions, namely Western Europe, North America and Japan. The logical response for developing countries is to step up South-South trade, which allows their exporters to gain experience in new markets and which is facilitated by the fact that demand structures in neighbouring countries in Asia, Africa or Latin America often tend to be more similar than those of other countries.

Imports of developing countries are expected to grow fast in the 1990s. South-South trade totalled \$ US 170 billion in 1989 or 26.1 per cent of all developing countries' exports. Intra-Asian trade accounts for a large share and is likely to further expand both in absolute and in relative terms. Yet, trade flows between and within the other developing regions are sizeable (Graphs 5 and 6, page 22). After a substantial decline in the first half of the 1980s, they have grown rapidly since 1986 at an average annual rate of as much as 18 per cent (GATT 1990). South-South trade appears to be of particular importance to exporters from low and middle-income countries and for manufactures. Succeeding in selling to countries with broadly similar demand structures is an important step in the process of meeting ever growing sophistication in developed market economies. Moreover, such trade stands to benefit comparatively more from trade promotion and facilitation activities, as the level of disincentives for South-South trade continue to be serious.

In discussions on South-South trade, one argument is that developing countries have little to trade among each other. ITC's experience is quite different. There are not only primary commodity trade flows between developing countries and one way trade flows of manufactures from newly-industrialized economies to other developing countries, but also a significant amount of trade between neighbouring countries - even in low-income regions.

Many policy advisers have argued that the attraction of foreign investment represents the best short-cut to rapid integration into the international division of labour. In fact, the majority of developing countries have streamlined their investment procedures with a view to attracting more foreign investment inflows. Foreign investment promotion has sometimes been considered as the most effective form of trade promotion. Investments into developing countries, however, have declined in absolute and in relative importance in the late 1980s (Graph 7, page 23). The changes in Central and Eastern Europe are likely to further dampen the flow of direct investment to developing countries. In turn, the developing countries' exporters may have fewer joint-venture partners to assist in the difficult process of developing and adapting their products to international markets, characterized by increasingly short product cycles and growing sophistication.

Throughout the post-war period, international trade has grown faster than output. This pattern was particularly pronounced in the late 1980s and all available forecasts predict a continuation of this trend (Graph 8, page 23).

6. Major trading countries

The growing importance of newly industrializing economies in international trade is shown in Table 2 where countries are ranked in the order of their importance in merchandise trade in 1979 and 1989.

In 1989 the United States regained its position as the world's leading exporter, after three years in second place behind the Federal Republic of Germany (this was the result of two factors - the higher volume growth of United States' exports and the depreciation of the D-mark against the dollar - either one of which would have been sufficient to move the United States into first place).

The estimated value of world merchandise export and import trade in 1990 and projection for 1994 is presented in Graphs 9 and 10, page 24). The importance of the EEC, as the world's biggest import and export market should be noted, as well as the important role of Asian developed countries (Australia/New Zealand/ Japan: 9.8% and Asian developing countries: 11.5% of world exports in 1990). These two trading groups are estimated to account for 59.1% of world exports and 58.7% of world imports respectively in 1990.

Increases in the world demand for manufactures are expected to be particularly important in Western Europe (Graph 11, page 25), especially because of the existing base, developing Asian countries and Japan, though the latter's increase will be from a relatively small base. However, (Graph 12, page 26), the developed market economies have tended to trade increasingly amongst themselves which may create difficulties in future years for developing countries seeking to access and expand their participation in international markets.

TABLE 2

Leading exporters and importers in world merchandise, 1989
(Billion dollars and percentage)

Rank			Value	Share	Percentage change		Rank		Value	Share	Percentage change		
1979	1989				1989/88	1989/79	1979	1989			1989/88	1989/79	
EXPORTERS													
1	1	United States	344.4	11.8	13	93	1	1	United States	492.0	15.4	7	120
2	2	Germany, Fed. Rep.	241.4	11.0	5½	99	2	3	Germany, Fed. Rep.	269.8	8.4	2½	70
3	3	Japan	275.2	8.9	4	149	3	3	Japan	210.8	6.6	12½	92
4	4	France	177.0	5.7	5½	76	5	4	United Kingdom	200.6	6.3	6	102
5	5	United Kingdom	152.7	4.9	3	77	4	5	France	191.0	6.0	7	79
6	6	Italy	140.6	4.6	9½	93	6	6	Italy	132.9	4.8	10½	95
10	7	Canada	120.1	3.9	2	107	10	7	Canada	120.0	3.7	7½	112
7	8	USSR	108.3	3.5	-2	88	9	8	USSR ^a	111.4	3.5	4	93
8	9	Netherlands	107.0	3.5	3½	88	7	9	Netherlands	104.4	3.3	3	53
11	10	Belgium-Luxembourg	97.5	3.2	6	72	8	10	Belgium-Luxembourg	96.5	3.0	4½	58
26	11	Hong Kong ^a	73.3	2.4	16	344	22	11	Hong Kong ^c	72.3	2.3	13	322
22	12	Taiwan	66.2	2.1	9½	311	13	12	Spain	71.7	2.2	18½	182
27	13	Korea, Rep.	62.3	2.0	2½	214	15	13	Korea, Rep.	61.5	1.9	15½	202
32	14	China	57.5	1.7	10½	244	24	14	China	59.1	1.8	7	278
12	15	Sweden	51.8	1.7	4	88	11	15	Switzerland	58.2	1.8	3	98
13	16	Switzerland	51.6	1.7	2	94	25	16	Taiwan	52.3	1.6	5	254
30	17	Singapore ^a	44.7	1.4	13½	214	20	17	Singapore ^c	49.8	1.6	12½	182
19	18	Spain	43.0	1.4	6½	136	12	18	Sweden	48.0	1.5	5	67
16	17	Australia	37.3	1.2	13	100	19	19	Australia	42.7	1.3	14½	67
33	20	Mexico ^d	36.4	1.2	17½	192	14	20	Austria	38.7	1.2	7	91
25	21	Brazil	34.4	1.1	2	136	29	21	Mexico ^d	34.5	1.1	26	186
74	22	Austria	32.2	1.0	4	104	23	22	German Dem. Rep. ^b	27.3	0.9	2	68
20	23	German Dem. Rep.	28.7	0.9	3	74	18	23	Denmark	26.9	0.8	3	44
9	24	Saudi Arabia	28.4	0.9	20	-35	26	24	Czechoslovakia ^b	24.8	0.8	2½	79
28	25	Denmark	28.0	0.9	1½	91	30	25	Finland	24.8	0.8	17½	113
		Total	2 555.0	82.7	6½	102			Total	2 642.0	82.4	8½	103
		World	3 090.0	100.0	7½	86			World	3 203.0	100.0	7½	86

^a Includes substantial re-exports. For Hong Kong, re-exports accounted for 61 per cent of total exports in 1989, and for Singapore the corresponding figure was 37 per cent. Imports f.o.b. ^b Includes substantial imports for re-exports. ^c Includes estimates of trade flows through processing zones.

Source: GATT 1990

III. Trade in commercial services

The growth in world trade in services, and the importance of this sector in the economies of many countries led to a decision to include it in the Uruguay Round negotiations. The plan of the countries participating in the negotiations is that a General Agreement on Trade in Services (GATS) may emerge early next year on conclusion of the negotiations. The categories of services which are important in international trade (and are being discussed in the negotiations) are listed in Annex I.

In many countries service activities account for the largest share of employment and national production. Most of the job creation in the industrial countries in the past two decades has been in the service sector. Technological innovations are creating numerous new services and making many types of services increasingly tradable across national frontiers. These innovations have gone hand-in-hand with changes in the organization of production. One result is that the production - and trade - of goods and services are becoming increasingly interlinked.

1. The regional composition of trade in commercial services

Western Europe accounted for the largest proportion of recorded world trade in commercial services in 1988 with a share of over 58 per cent (exports plus imports). Western Europe also had the highest ratio of commercial services to combined trade in merchandise and commercial services.

North America and Asia were the most dynamic regions in commercial services trade between 1979 and 1988. Asia's strong growth, with the value of exports expanding at 7 1/2 per cent a year between 1980 and 1988 - was due not only to other private services and income but also to travel. Africa, Latin America and the Middle East, whose merchandise trade has been affected by adverse commodity price developments and debt-servicing difficulties, experienced a decline in commercial services trade, especially on the import side.

2. Leading exporters and importers of commercial services

The list of leading exporters and importers of commercial services in 1988 (Table 3) is quite similar to the list of leading merchandise traders. For example, the United States both imports substantial shipment services and is the leading exporter of port services, due largely to its substantial merchandise imports. Japan operates the world's largest seaborne merchant fleet and is a top merchandise exporter. The United Kingdom is a leading exporter of other private services, due in part to its dominance in insuring merchandise trade.

TABLE 3

Leading exporters and importers in world trade
in commercial services, 1979 and 1988 (Preliminary data)

(Billion dollars and percentage)

Rank		EXPORTERS	Value	Share In	Percentage change	Rank		IMPORTERS	Value	Share In	Percentage change
1979	1988		1988	1988	1988/1979	1979	1988		1988	1988	1988/1979
2	1	United States	80.7	14.9	195	3	1	United States	73.2	11.9	170
1	2	France	57.9	9.8	56	1	2	Germany, Fed. Rep.	69.0	11.2	64
3	3	United Kingdom	47.2	7.9	63	2	3	Japan	60.8	11.2	152
4	4	Germany, Fed. Rep.	42.2	7.1	90	4	4	France	46.8	7.6	75
5	5	Italy	34.9	5.9	130	5	5	United Kingdom	38.3	6.2	91
6	6	Japan	34.2	5.0	75	7	6	Italy	30.8	5.0	135
9	7	Spain	24.8	4.2	143	6	7	Netherlands	23.7	3.9	62
7	8	Netherlands	22.6	3.8	52	9	8	Belgium-Luxembourg	19.7	3.2	74
8	9	Belgium-Luxembourg	21.1	3.6	69	10	9	Canada	17.7	2.9	111
10	10	Austria	17.1	2.9	105	13	10	Switzerland	13.2	2.2	136
12	11	Switzerland	14.9	2.5	126	11	11	Sweden	12.3	2.0	92
14	12	Canada	12.6	2.1	108	27	12	Taiwan	11.1	1.8	310
18	13	Hong Kong	10.1	1.8	166	20	13	Spain	11.1	1.8	170
13	14	Sweden	9.7	1.6	48	15	14	Austria	10.7	1.7	114
11	15	Norway	9.5	1.6	36	14	15	Australia	10.4	1.7	89
19	16	Korea, Rep.	9.3	1.6	129	12	16	Norway	10.3	1.7	75
17	17	Singapore	9.2	1.5	110	8	17	Saudi Arabia	9.0	1.5	-25
16	18	Denmark	9.2	1.5	84	19	18	Denmark	8.2	1.3	190
15	19	Mexico	8.2	1.4	30	26	19	Hong Kong	7.1	1.1	163
22	20	Australia	8.1	1.4	151	23	20	Korea, Rep.	6.8	1.1	106
26	21	Taiwan	6.0	1.0	200	17	21	Mexico	6.2	1.0	29
32	22	Thailand	5.4	0.9	374	21	22	Yugoslavia	6.1	1.0	56
20	23	Greece	5.2	0.9	51	32	23	Singapore	5.9	1.0	165
51	24	Turkey	5.2	0.9	53	34	24	Finland	4.6	0.9	130
21	25	Yugoslavia	4.7	0.8	47	25	25	Indonesia	4.6	0.7	64
		Total	523.1	83.2				Total	531.5	85.6	
		World	629	100.0				World	621	100.0	

Source: GATT-1990

For other elements of commercial services, such as travel and passenger services, the link with merchandise trade is less direct. Countries with high per capita incomes tend to spend relatively more on consumer services, especially those related to leisure. Many countries are major importers of commercial services by virtue of expenditures on travel abroad. Sweden, the Netherlands, and the Federal Republic of Germany lead the list of countries in terms of per capita expenditure on foreign travel. Despite the data deficiencies, however, the ranking of the top fifteen countries on the list is likely to be fairly accurate. In the second tier of countries data shortcomings are more acute.

3. The contribution of services to the globalization of world markets and the expansion of world trade

It is not easy to describe processes as complex as:

- the interaction of trade in goods and services
- the interaction between trade in different types of services, and
- the impact of service-related developments on firms production and investment decisions around the globe.

One approach is to sub-divide the interactions into two categories focusing on the effect of demand and supply factors on trade in goods and services.

(a) Links between services and merchandise trade

Increases in merchandise trade stimulate the expansion of such trade-related services as shipping, port services and merchandise insurance: the reverse is also true - advances in these traditional services, can stimulate merchandise trade. In the case of traditional services, it is primarily cost-reducing innovations that stimulate trade, for example the development of containerized shipping and the large reductions in airfreight rates. Similarly, since trade across frontiers encounters more obstacles than sales within the domestic market - for example, distance, language, customs, transport, laws, and regulations - there is a growing demand for services to deal with these obstacles to export expansion. When firms discuss the added cost of doing business overseas, they are mainly talking about added services costs.

The greater the availability and the lower the costs of the needed services, the faster the pace of globalization of markets. Thus, while there are many factors behind the growing emphasis on global markets and the declining importance of national boundaries for many production and investment decisions, it is clear that technological advances in services industries are playing a pivotal rôle. At the most fundamental level this involves advances in communication services - the medium through which many other services are delivered. Advances in communications facilitate and transform the nature of international trade in goods and services.

On the other hand, when the demand for transportation services increases due to a growing volume of world trade, this stimulates the demand for ships, airplanes, trucks and railroad rolling stock. Among the "newer" service industries, the very rapidly expanding demands for data processing and telecommunications services are stimulating demand for personal and mainframe computers (along with supporting hardware), telephone switching equipment, satellites and related equipment. The greatly increased trade in electronic products such as video cassette recorders, television receivers and other types of equipment is associated with the consumption of many kinds of entertainment and cultural services.

(b) Links between services

Advances in communications technology have not only facilitated the expansion of services related to merchandise trade (distribution and marketing, for example), but also stimulated trade in intermediate input services with little or no link to merchandise trade, and in services sold to households. Thus, certain services fulfil a crucial "transportation" function for other services: the greater the availability of communications and transport services, the greater the trade in many categories of other private services.

4. The rôle of services

There are at least three major trends in this sector with important implications for the international trading system.

First, there is the rise in a broad cross-section of countries in the share of employment provided by service industries, and this trend shows no sign of slowing. Because most non-government services are internationally tradable, an important share of each country's employment in the future will be affected by developments in the world market for services.

Second, services are playing a major rôle - perhaps the major rôle - in the globalization of markets and the expansion of world trade. Partly this is through the expansion of trade in services themselves. But they also contribute in a key way to the expansion of world production and trade in goods and services.

Finally, with the exception of holiday-related passenger and travel expenditures (one-third of recorded exports of commercial services), most internationally traded services are intermediate inputs into the production of goods and services. Some of these services are highly specialized, for example architectural design, and play only a modest rôle in the overall economy. Other services, such as banking, insurance, communications and transportation reach into nearly every corner of the economy, and can have a major impact on the efficiency with which a country's resources are used.

If an industrial firm cannot produce the needed services competitively in-house, or if it is forced to pay above world market prices for service inputs purchased on the local market, it will be at a competitive disadvantage in the international markets. In a world economy in which the level of technological sophistication is continuously rising, access to competitively priced producer services is increasingly important in determining a firm ability to compete abroad.

IV. South-Eastern Europe trade

The implications of Eastern Europe's transition to a market economy are difficult to anticipate. In the second half of the 1980s, this region recorded a declining share in world trade. Developing countries in general, and in particular the newly industrializing economies proved to be more dynamic in terms of growth and diversification of their exports to developed market economies. Indicators for 1990 suggest that imports of Central and Eastern European countries have been picking up rapidly - in fact much faster than the regions' exports (OECD trade data 1990). Available projections assume a further decline in the region's share in world trade. On the other hand, the pent-up demand for imports is substantial. Moreover, most Eastern Europe foreign trade will no longer be divided into convertible and rouble trade as of 1991. This will open up the large, formerly captive market for low-price products traded within the region and fuel a rapidly growing demand for a large variety of goods. Exporters from developing countries, and in particular from the NIEs, are likely to be major beneficiaries of these developments. Once countries in Eastern Europe have adopted convertible currencies and a realistic price system and financial sectors have been liberalized integration is likely to move ahead very rapidly.

1. The countries in Eastern Europe and the USSR have a history of trading heavily with one another on the basis of agreements negotiated in the context of the Council of Mutual Economic Assistance (CMEA) (Table 4). Only Western Europe - with its tariff-free intra-trade in manufactures - has a larger proportion of intra-regional trade in its total merchandise trade (70 per cent as compared to 60 per cent for Eastern Europe and the USSR). The seven countries in the region fall into two groups in terms of the extent to which their exports are concentrated on the other six countries: Bulgaria and Czechoslovakia, and until recently the German Democratic Republic, are the most concentrated, while Poland, Hungary, the USSR and Romania have close to half or more of their merchandise exports going to countries outside the region.

TABLE 4

Distribution of exports of East European countries and the USSR, 1988
(Percentage)

Origin	Destination Eastern Europe	USSR	Developed countries	Rest of the World
Bulgaria	18	61	7	14
Czechoslovakia	30	43	19	8
German Dem. Rep.	24	42	27	7
Hungary	17	28	43	12
Poland	16	24	47	13
Romania	21	31	33	15
<u>Above six</u>	22	40	27	11
USSR	49	-	25	26

For the developed countries, trade with Eastern Europe and the USSR represents less than three per cent of their total merchandise trade and is about evenly divided between the USSR and the other countries. Western Europe accounts for (i) more than three-quarters of the developed countries' trade with the East European countries and the USSR, and (ii) more than one-half of the extra-regional trade of those countries. Despite the dynamism of North America's exports to the region in recent years, trade with the East European countries and the USSR remains small (in 1988, less than \$3 billion in imports and less than \$5 billion in exports).

2. The product composition of trade

In terms of major product groups, the trade of Eastern Europe and the USSR is more heavily concentrated in mining products and less in agricultural products and manufactures than world trade. The importance of mining products is primarily due to the USSR's position as the world's leading exporter of fuels - in 1988 the value of fuel exports was more than double that of Saudi Arabia - and to its role as the main fuel supplier for most East European countries.

The product composition of Western Europe's imports from Eastern Europe and the USSR is described in Table 5 which shows the products for which the USSR currently is a relatively more important supplier than Eastern Europe, and ends with the products for which the East European countries are the relatively more important suppliers. The total value of Western Europe's imports from Eastern Europe is \$19 billion, and the corresponding figure for the USSR is \$20 billion.

In value terms, the single most important item in the table is the USSR's fuel exports, and primary products as a whole account for 85 per cent of its exports to Western Europe. Eastern Europe's exports, in contrast, involve more manufactures than primary products, although fuels and agricultural products are important. In general, Eastern Europe's exports to Western Europe are much more diversified than the USSR's exports, reflecting among other factors differences in natural resource endowments.

TABLE 5

Product composition of West European imports from Eastern Europe, the USSR and other country groups, 1988
(Billion dollars and percentage)

	Eastern Europe	USSR	Share in imports excluding Intra-West European trade		
			Eastern Europe and USSR	Developing economies	Developed countries
Fuels	2.44	12.36	27	64	8
Raw materials	1.21	2.11	17	33	47
Non-ferrous metals	0.76	1.01	19	45	34
Automotive products	0.47	0.48	5	7	87
Ores and other minerals	0.52	0.46	8	42	49
Other transportation equipment	0.25	0.18	3	13	81
Power generating machinery	0.19	0.11	5	17	77
Chemicals	2.27	1.15	16	19	60
Other semi-manufactures	1.50	0.74	11	43	43
Office and telecom equipment	0.15	0.05	0	25	72
Iron and steel	1.31	0.33	37	33	27
Other non-electrical machinery	0.90	0.16	7	9	82
Textiles	0.69	0.09	9	55	24
Electrical machinery	0.47	0.05	5	23	71
Food	2.63	0.21	6	63	27
Other consumer goods -	1.77	0.12	5	34	55
Clothing	1.45	0.01	9	78	4

- Notes:
1. Product groups are ranked by the share of the USSR in West European imports from the region of Eastern Europe and the USSR. The table does not include trade in gold.
 2. Figures exclude imports of the Federal Republic of Germany from the German Democratic Republic.
 3. The shares of Eastern Europe, the USSR, developing economies and developed countries do not add to 100 due to the exclusion of imports from China and other centrally planned economies in Asia, as well as of imports of products from unspecified origins.

The product composition of Western Europe's exports to Eastern Europe and the USSR is shown in Table 6. In 1988, the value of exports to Eastern Europe and the USSR amounted to \$19 billion and \$20 billion, respectively. The East European countries and the USSR both largely import the same products from Western Europe. Products within the group of machinery and transport equipment account for one-third of total imports, of which "other non-electrical machinery" (primarily machinery for specialised industrial uses) is the most important. Imports of the latter product group have nearly doubled since 1985, making it one of the fastest growing categories of their imports from Western Europe. Imports of chemicals are the second largest import product category for Eastern Europe, and third largest for the USSR. For iron and steel, in contrast, exports of Western Europe to the USSR are four times as important as exports to Eastern Europe.

TABLE 6
Product composition of West European exports to Eastern Europe,
the USSR and other country groups, 1988
 (Billion dollars and percentage)

	Eastern Europe	USSR	Share in exports excluding Intra-West European trade		
			Eastern Europe and USSR	Developing economies	Developed countries
Other non-electrical machinery	4.25	4.54	17	40	38
Chemicals	3.57	2.49	12	43	39
Iron and steel	0.71	2.85	24	38	34
Other semi-manufactures	1.50	1.50	9	48	42
Other consumer goods	1.23	1.50	7	35	55
Food	1.33	1.29	10	52	35
Other transportation equipment	0.40	1.24	9	44	45
Textiles	1.05	0.40	16	41	40
Electrical machinery	0.72	0.66	10	45	37
Office and telecom equipment	0.50	0.52	6	44	43
Raw materials	0.72	0.25	18	39	28
Automotive products	0.50	0.25	2	32	64
Clothing	0.30	0.37	13	29	58
Non-ferrous metals	0.44	0.16	11	32	54
Power generating machinery	0.20	0.11	4	42	52
Ores and other minerals	0.22	0.07	17	45	30
Fuels	0.14	0.08	3	16	60

- Notes:
1. Product groups are ranked by the absolute value of West European exports to Eastern Europe and the USSR.
 2. Figures exclude exports of the Federal Republic of Germany to the German Democratic Republic.
 3. The shares of Eastern Europe, the USSR, developing economies and developed countries do not add to 100 due to the exclusion of exports to China and other centrally planned economies in Asia, as well as of exports of products to unspecified destinations.

Source: GATT 1990

V. Some implications for developing countries

The major implication, from the comments above, is that governments and enterprises, which wish to participate, and succeed, the international markets in the 1990s, need to effectively organize and manage the whole export development process, in complement to their overall macro-economic trade policy reforms.

1. The current world situation is characterized by slower economic growth in the industrialized countries, slow expansion of international trade, unstable exchange rates for some currencies, high interest rates and the problems of protectionism. Many national economies suffer from the continuing deterioration on the terms of trade of traditional commodity exports, chronic shortage of foreign exchange, steep increases in foreign debt and problems in servicing this debt, high interest rates, bureaucratic systems that are not development oriented and the lack of efficient development finance institutions. Countries aiming at a successful export trade performance, as a contribution to national development plans, must achieve this in an international market environment very different to that experienced by countries in the period 1950-1970.

The first step for countries is to establish a national export development programme and supporting market/product/infrastructure strategies. This must be seen as a long-term partnership between:

- the government
- the business community
- the banking community.

A consensus between these groups is the first and essential pre-requisite in preparing to manage and monitor the export development process.

There are several guidelines for ensuring this. Firstly, export development programmes and strategies must be seen to have a social impact so that governments can demonstrate the effect of their policies on the quality of life, and that the activities contribute to achieving its social and economic objectives. Secondly, mechanisms must exist for continuing dialogue between all the parties to ensure that priority is given to removing disincentives and bureaucratic problems confronting exporters whether in policy, finance, trade support services or physical infrastructure, etc.. Such mechanisms provide for securing joint agreement by the government and business community on export targets and the commitment to achieving them. Thirdly, business associations, particularly concerned with export development, are necessary to provide a forum for contribution to the evolution of export policy and strategies. Fourthly, exporters in many countries, often far from international markets and without necessary experience or financial strength can be at considerable disadvantage to their competitors in other countries. Thus export development and support institutions are essential to assist the business community, whether in traditional or non-traditional sectors. Such institutions must have at least two main roles:

(a) to provide effective export trade support services to the business sector, and

(b) to research and bring to the attention of the consensus partners problems being experienced by the business sector in international markets.

ITC's research in developed and developing countries which have significant export performances shows clearly that within a national consensus three major issues have to be successfully tackled:

- Finance for export development, especially for term loans, pre and post shipment financing available and effective export credit quality and insurance mechanisms.
- An institutional framework for the provision of technical services to the exporting, and potential exporting, community.
- Exporters must have ready access to imports for export production.

These three areas are the cornerstone of an effective strategy: other problems experienced by exporters can be addressed and resolved within the above framework.

Firstly, in the absence of effective development finance institutions or DFIs, a significant expansion of supply capacity for export is impossible. Hence, as a matter of priority, consideration needs to be given to augmenting the supply of equity and term loans for export projects.

Secondly, at a certain level of development export support services are essential for:

- traditional exporters seeking to diversify both their production and markets;
- non-traditional exporters, again seeking to develop new products and enter new markets and, equally important;
- potential exporters,

An effective export infrastructure should have institutions which can provide services such as:

(a) Export development policy and strategy, planning and monitoring at national and sector level:

(b) Export promotion and support services for the business community which include creation of export awareness; promotion of investment in export projects; assistance in such aspects as feasibility studies, market information and research, export marketing and promotion, standardization and quality control, simplification of export procedures and documentation; etc.

Thirdly, the share of imported inputs in the total value of exported products may vary significantly from one industry to another. However, when all production inputs are taken into consideration (e.g., machinery and spares, tools and implements, raw materials and components, packaging materials for export), in most cases the imported share is quite sizeable. Even where imported inputs make up a small share in value terms, they are essential to the final export product. The lack of timely access to imported inputs at international market prices will appreciably affect export production capabilities and competitiveness.

Import and supply management practices at the enterprise level also need attention. Aside from having to operate within burdensome administrative environments, exporters often do not realize the effect of the cost of imported production inputs on the total product cost, and consequently on their competitiveness. They concentrate all their efforts on export marketing and tend to neglect the management of imported supplies. The availability of imported inputs, at international prices and quality, are essential to export success.

II. A national export development strategy requires a long-term commitment by the partners and it is very difficult to evaluate achievement in the short term. However, there are a number of indicators which help, however informally, to monitor progress. Some of these are:

(a) Progress in the evolution of macro-economic policies conducive to the development of exports. This is perhaps the strongest evidence of a government's commitment to export development, even though an ideal macro-policy framework may not be in place.

(b) Creation of institutions geared to improving the overall management of the export development process, promoting dialogue between the government and the business sector and alleviating the problems of exporters vis-à-vis government agencies. This would include mechanisms to assess the export potential of the country in non-traditional products, formulate export strategies and plans agreed by the government and the business sector, and monitor progress in these areas. The allocation of adequate financial resources to these institutions.

(c) Availability of finance for export projects - facilities for equity, term loans, and short-term credit for pre- and post-shipment working capital and export credit insurance.

(d) Availability of incentives for investment in the diversification and expansion of the supply capacity for export; special incentives for exporters among SMEs and indirect exporters (i.e. suppliers to exporters); incentives for foreign participation in export projects and transfer of technology.

(e) Mobilization of business sector support for export development - formation of exporters' associations capable of articulating the needs of exporters and acting as export lobbies. Evidence of growing entrepreneurial interest in new product or service sectors.

(f) Improvements in infrastructural facilities and services:

- Improving the operation of facilities for the procurement of imported inputs for export projects, e.g. duty drawbacks, bonded warehouses and temporary duty-free importation;
- Creation of export processing zones or export industrial estates;
- Simplification of export procedures and documentation;
- Progress in developing or improving the technical and other specialized services needed by export enterprises; and
- Schemes for assisting export enterprises.

(g) Overall evidence of a trend towards the diversification of the export base, i.e. towards non-traditional, value-added products.

III. Finally, we must always remember that the exporting enterprises is ultimately responsible for making the decisions on:

- What production oriented investments to make;
- What to produce;
- Where and how to sell the products and services.

However, the evolution of the world economy in the past 40 years has taken place in a relatively settled/structured environment. The changes expected in the international trading environment in the 1990s will require that companies plan very carefully for their survival, and success, in the international markets of the future.

In the environment envisaged in the 1990s, it is safe to say that every company engaged in export, whether engaged in manufacturing or services, will be influenced:

- (a) in the way it will operate
- (b) in its markets
- (c) in relations with customers

Under (a), companies will be directly affected through:

- the gradual reduction/harmonization of international trade rules and regulations
- the increasing mobility of labour
- changing management standards and requirements
- linguistic requirements of staff
- changing educational/skills requirements for management and staff
- improved telecommunication capacities
- availability of increasingly sophisticated and readily available manufacturing and management equipment and services
- changing agency representation legislation; etc.

Under (b), market opportunities will be greater. It will be very important both to develop new markets and protect existing markets. These will almost certainly become targets for competitors from other countries. In the markets there will be both challenges and opportunities, and changes in the trading practises for:

- consumer products
- intermediate products
- raw materials.

Thus companies need to plan their strategies for the future especially in relation to expansion/specialization/diversification/joint ventures, etc.

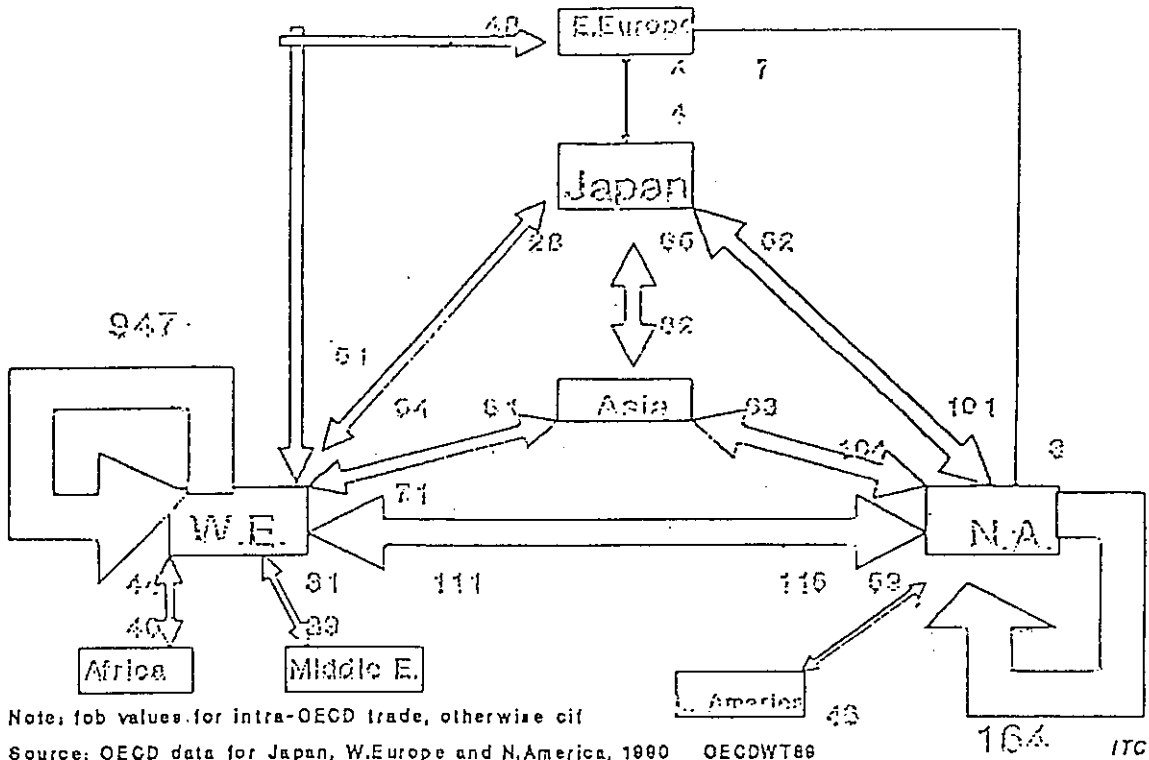
Under (c), present customers will undoubtedly be approached by competitors who may offer a:

- wider choice of products;
- wider choice of services, for example in finance, including credit services technology and support services, etc.

Our belief is that those countries which have, in one way or another, established the essential pre-conditions for sustained economic growth in international markets and instituted a consensus for the management and monitoring of the export development process will be most successful in benefiting from the opportunities and meeting the challenges in international markets in this decade.

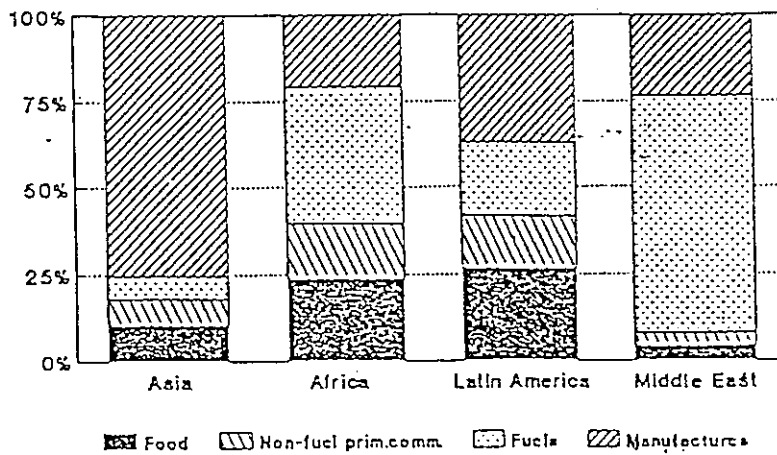
GRAPH 1

Trade flows between different regions of the world, 1989
(in billions of US\$)



GRAPH 2

EXPORTS OF DEVELOPING COUNTRIES BY MAJOR PRODUCT GROUP
(forecast for 1990)

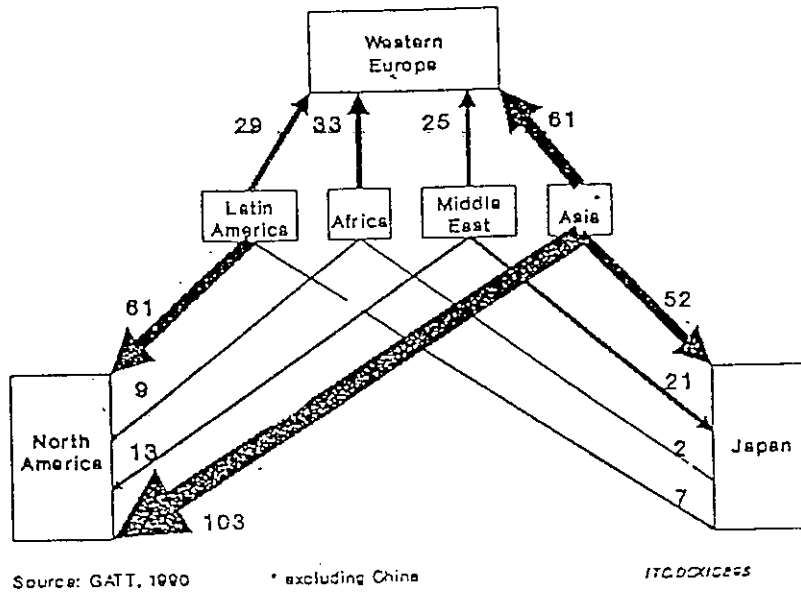


Source: UNDIESA 1990

* excluding Maghreb

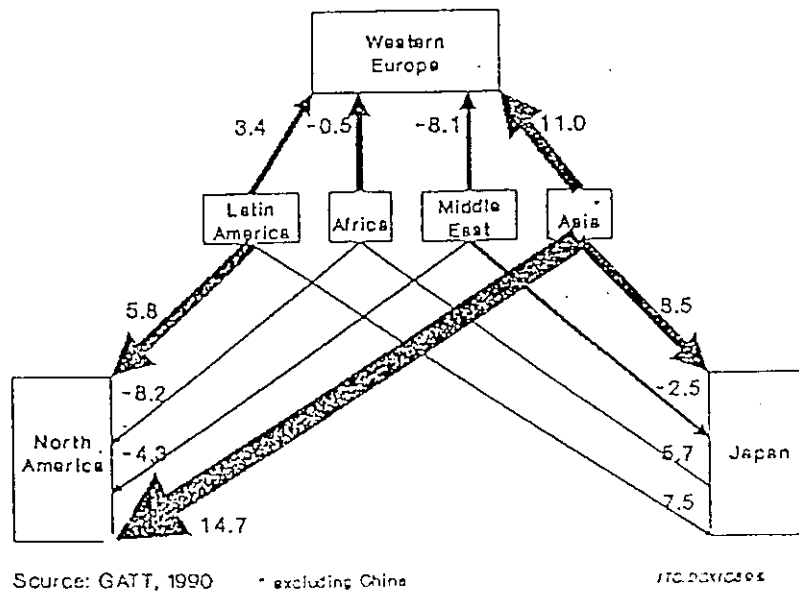
GRAPH 3

Developing countries's exports to developed market economies, 1989
(\$ US billion)



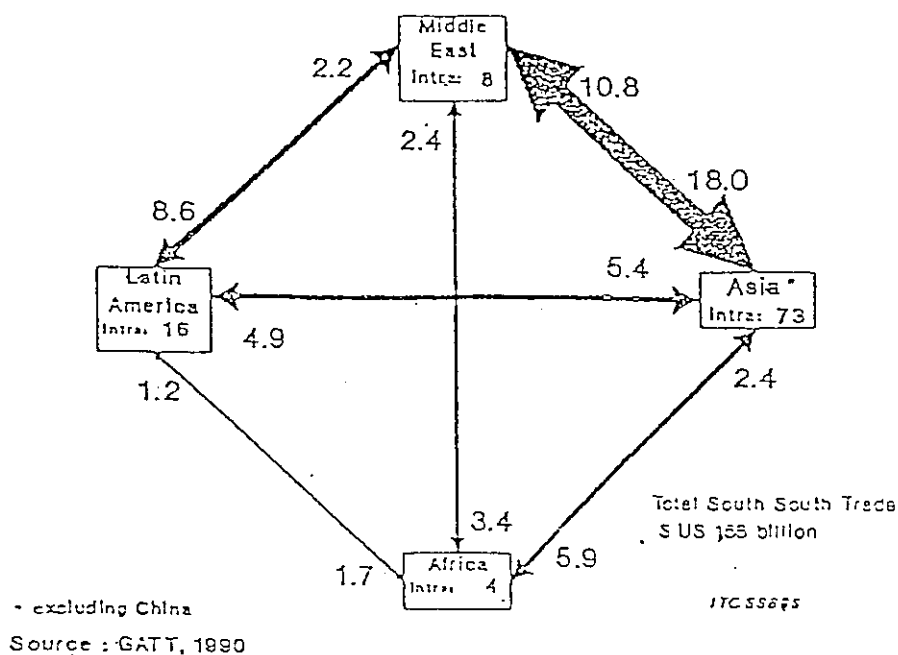
GRAPH 4

Developing countries's exports to developed market economies, 1989
(Annual percentage growth rate 1979-89)



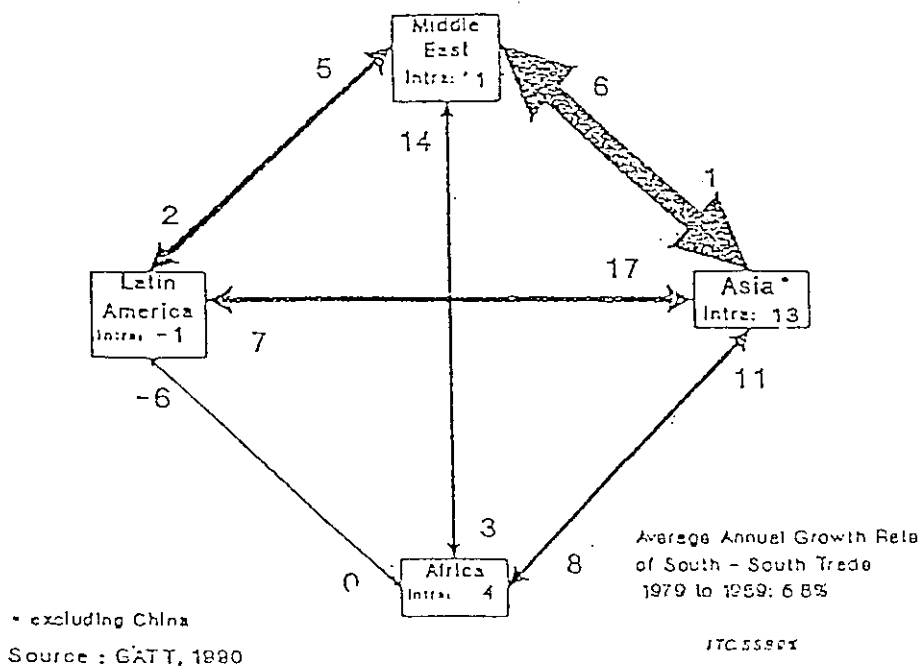
GRAPH 5

South-South trade, 1989 (\$ US billion)



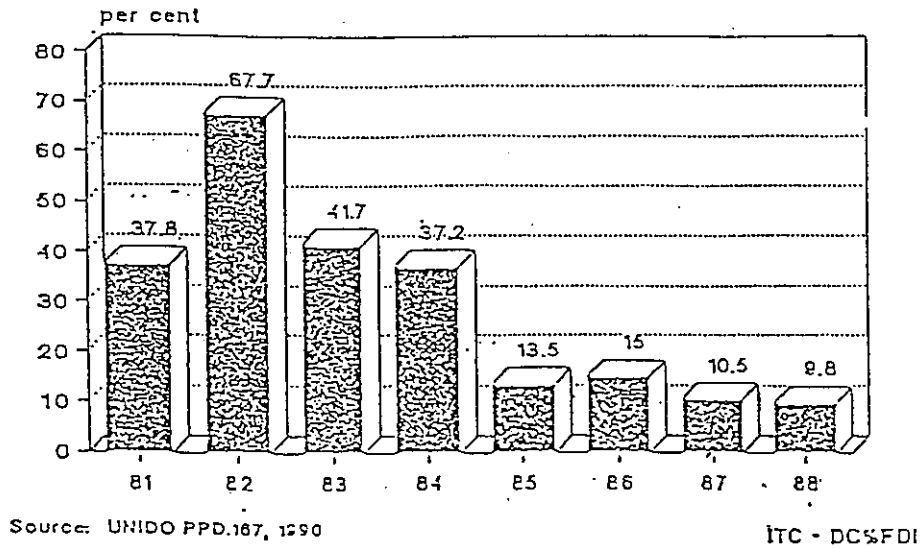
GRAPH 6

South-South Trade (Annual percentage growth rate 1979-89)



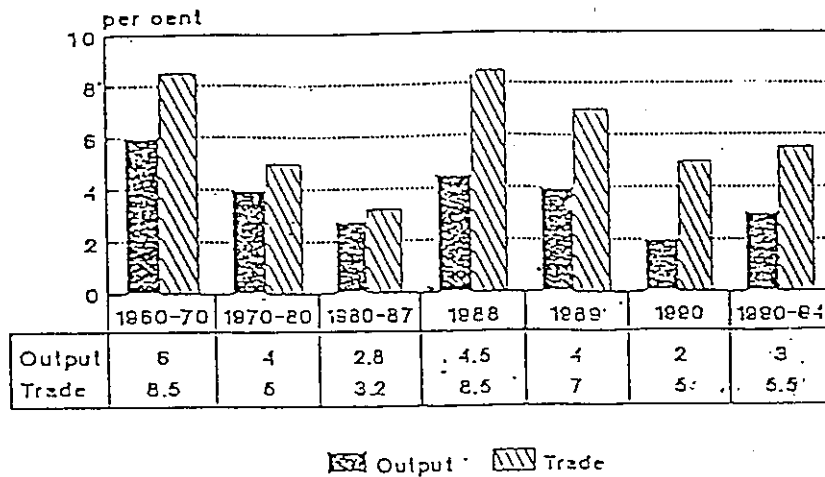
GRAPH 7

Share of developing countries in foreign direct investment from OECD countries
(in per cent)



GRAPH 8

Growth of world output and trade
(annual real growth rates)

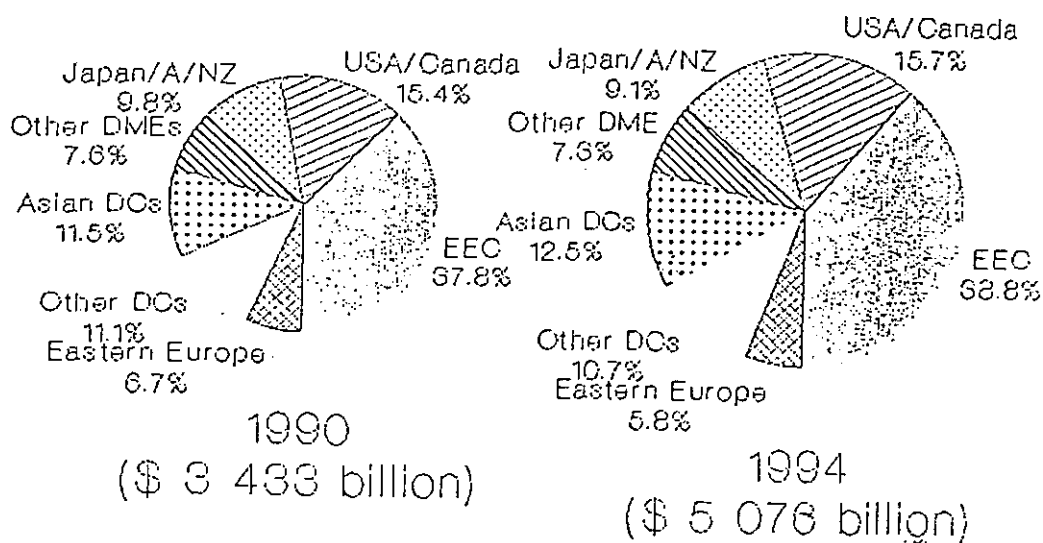


Source: GATT (1960-89) UNDIESA (1990-94)
Notes: merchandise trade only;
estimation for 89, forecast for 90-94

ITC - FCTRAFR0

GRAPH 9

Outlook on World Exports 1990 - 1994 (per cent, current \$ US)

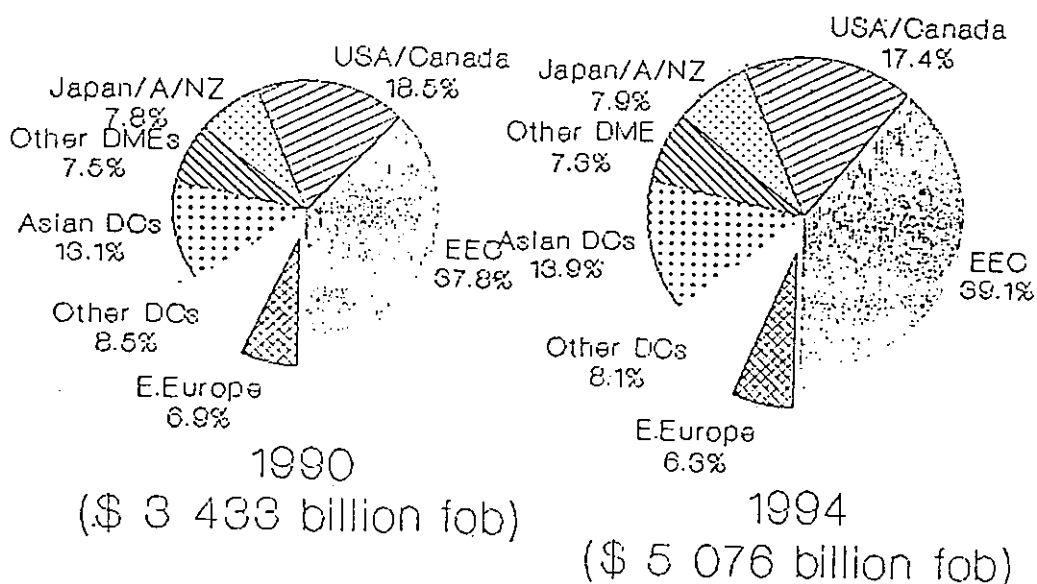


Source: UNDIESA, Spring 1990
Note: including intra-reg. trade

ITC * FCWX9094

GRAPH 10

World Imports 1990 - 1994 (per cent, current \$ US)

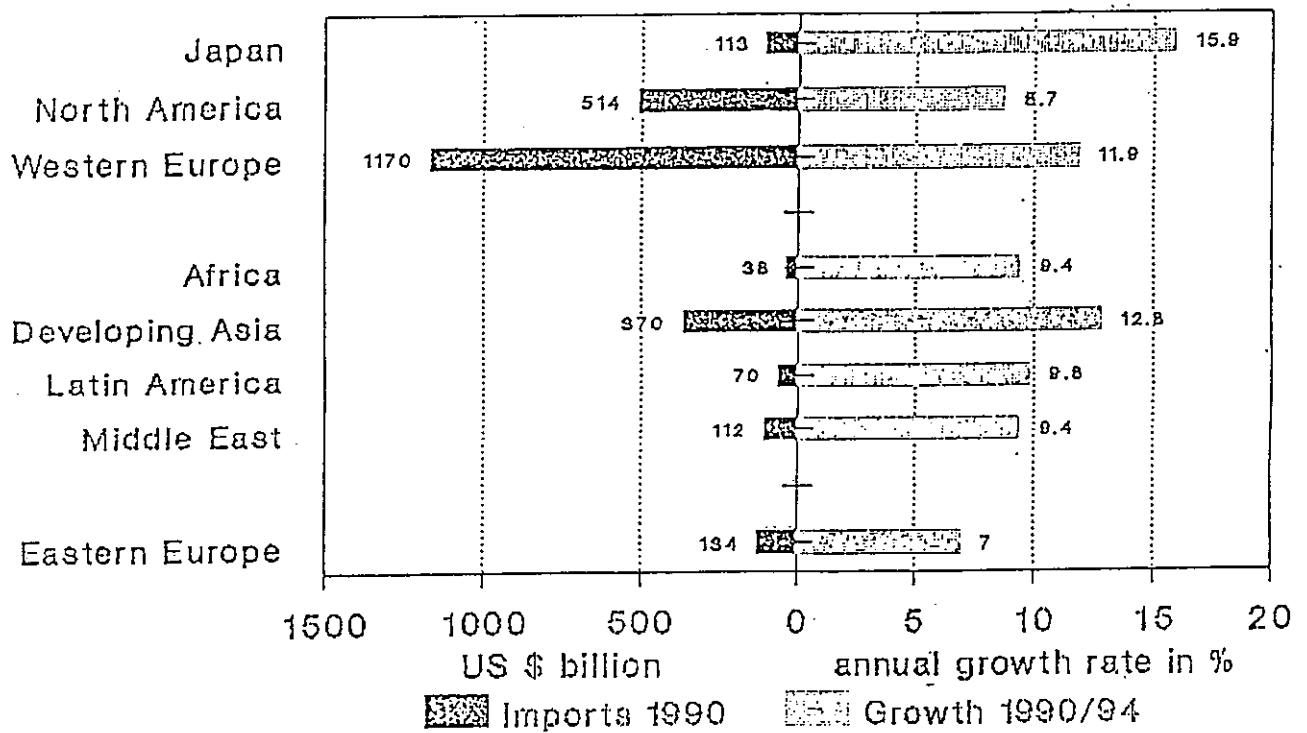


Source: LINK Project UN/DIESA Spring 90
Note: including intra-regional trade

ITC
FCWM-94

GRAPH 11

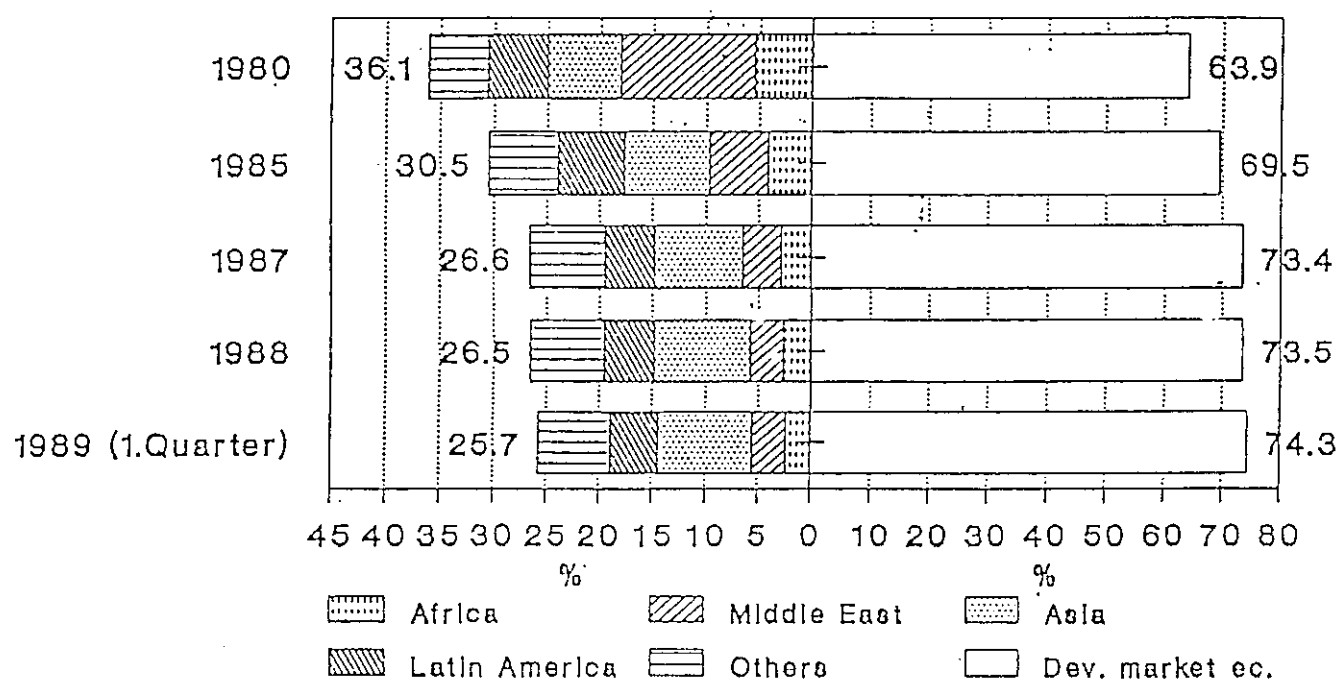
World demand for manufactures in the beginning of the 1990s



Source: UNDIESA, Spring 1990
(including intra-regional trade)

GRAPH 12

Imports of developed market economies by region of origin, 1980-89



Source: IMF, 1989

Note: Africa includes Maghreb countries



Categories of service activities

1. Construction services

Site preparation

New constructions

- Buildings
- Civil engineering (bridges, roads, etc.)

Installation and assembly work

Building completion

Maintenance and repair of fixed structures

2. Trade services; hotel and restaurant services

Wholesale trade services

Retail trade

Agent fees and commissions related to distribution

Maintenance and repair of equipment

Hotel and similar accomodation services

Food and beverage serving services

3. Transportation

Freight services

- Air Freight
- Ocean Freight
- Rail Freight
- Pipelines
- Internal and coastal waterways
- Road Freight
- Space launching and freight (including satellites)

Passenger transportation services

- Air
- Ocean
- Rail
- Road

- Internal and coastal waterways

Charter services (leasing of vessels with crew)

- Sea
- Air and Space
- Road

Services auxiliary to transport

- Cargo handling
- Storage and warehousing
- Other supporting services

4. Communication services

Postal services

Courier services

Telecommunication services

- Telephone services
- Telegraph services
- Data transmission services
- Telematic services (e.g. Teletex, facsimile and Videotex services)
- Radio and television broadcasting services
- Other telecommunication services

Film distribution and related services

Other communication services

- News and press agency services
- Library and archives services

5. Financial services (excluding insurance)

Wholesale and other bank deposit services

Services related to the administration of financial markets

Financial leasing

Other credit granting services (personal loans, mortgages, credit card and other credit services)

Source: GATT 1990

CATEGORIES OF SERVICE ACTIVITIES

Services related to securities markets (brokerage, securities issue and registration, portfolio management)

Other financial intermediation (including investment and property trusts)

Other services auxiliary to financial intermediation (loan broking, financial consultancy, foreign exchange services, etc.)

6. Insurance

Insurance on freight

Non-freight insurance

Life

Pensions and annuities

Disability and medical care

Property

Liability

Other non-freight insurance

Services auxiliary to insurance (brokerage, consultancy, actuarial, other)

Reinsurance

7. Business services

Rental/leasing of equipment without crew

transport: cars, trucks, aircraft, ships, etc.

non-transport: computers, construction/demolition, etc.

Real estate services (not including rental of land)

Installation and assembly work (other than construction)

Services incidental to manufacturing (manufacturing on a fee or contract basis)

Professional services (including consulting)

Agricultural, forestry and fishing services

Mining and oil-field services

Legal services

Accounting and taxation services

Management and administrative services

Architectural services

Advertising

Market research and opinion polling

Surveying and exploration services

Advisory and consultative engineering services

Industrial engineering

Engineering design services

Project management services

Urban planning services

Interior design services

R&D, laboratories, testing and certification

Computer-related services (including hardware-related consulting)

Software development (including software implementation)

Travel agents and tour operators

Economic and behavioural research

Labour recruitment and provision of personnel

Public relations services

Photographic services

Miscellaneous professional services

Business services not included elsewhere

Cleaning of buildings and similar activities

Packaging activities

Waste disposal and processing

Translation services

Other

8. Financial and nonfinancial intangible assets

9. Education services

10. Health related services (not including personal care)

Human health services

Hospital services

Medical and dental practice services

Other health services

Veterinary services

11. Recreational and cultural services (not including radio/film/TV)

12. Personal services (not included elsewhere)

House cleaning and maintenance services

Nursing and other personal care services (including day-care)

Other

Note: This list is adapted from the Central Product Classification (1989), prepared by the United Nations Statistical Office.

Source: GATT 1990



**AN ASSESSMENT OF TURKISH EXPORT PERFORMANCE :
GLOBAL PERSPECTIVES AND PROSPECTS**

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Istanbul, TURKEY



AN ASSESSMENT OF TURKISH EXPORT PERFORMANCE:
GLOBAL PERSPECTIVES AND PROSPECTS

INTRODUCTION

When one examines the volume of world trade during the period from 1983 through 1989, the most significant trend that is observed is the sustained trade boom that has been experienced over the past six years. This trade development is of great importance particularly for the developing nations, for such a trade boom is expected to increase the export earnings of the developing countries and ensure an inflow of foreign exchange.

It is noteworthy to mention that in selected top twenty importers this explosive import growth reached its peak with an increase at an annual average growth rate of 20.2 % during the period from 1986 through 1988. However, later on this growth rate slowed down and it dropped from this peak to a more moderate rate of 9.1 % in 1989.

In regard to the import trade boom of the 1980's Lindsey (1990) argues that there are two main issues which should be particularly emphasized. "First, it suggests that the trade boom - with its resulting increases in competition, specialization and economies of scale - is leading the world-wide economic expansion. Second, it means that the international component of world economic activity is growing; in other words, the markets are truly becoming global." (Lindsey, 1990).

This recent import growth in industrialized countries is undoubtedly a great opportunity for developing nations like Turkey with high foreign trade deficits. Nevertheless,

what are the chances of developing countries to take advantage of the opening markets and from the standpoint of global marketing management what has to be done in the 1990's. For example Reynolds (1986) designates some of the third world countries like India, China and Turkey as the "Late Developers". These are the countries with a relatively better infrastructure and a changed patterned of exports. Some of these countries arrived at a turning point in the 80's which was associated with a marked rise in the export /GDP ratio. Taiwan, South Korea, Hong Kong and Singapore, on the other hand, were the leaders of the export-oriented economies.

The objective of this country and firm specific analysis is twofold. First, the study makes an assessment of the short-term export performance of Turkey from 1987 through 1989 and it provides a macroeconomic assessment of export operations. Second, it highlights the strategic perspectives and prospects for the 90's.

Evaluating the export performance is a broad subject to deal with. Bodur (1986) emphasizes that export performance of developing countries can be enhanced at two different levels; at the national and at the firm levels. Branch (1984) mentions that market share is an important consideration in a general market analysis. Toyne and Walters (1989) argue that at the micro level there are three general measures of performance, but they mention that market share is most frequently used to measure export performance. Cooke (1988) claims that market share is the key ratio in international marketing. ITC (1990) for example, makes a systematic analysis of imports at the end of each year to examine the export performance of any given country using the import data on thirtyone main world markets. OECD (1989/1990) reports that one way of examining the export performance is to make use of

the Constant Market Share Analysis. Seringhaus (1988) on the other hand, points out that there are numerous other variables affecting export performance.

It is evident that these arguments are of great importance for researchers. In the study undertaken, however, we shall not only focus our attention on market share performance at the national level, but we will also deal with managerial issues and strategy development at the firm level. We hope that the evaluations and implications of this study will be a useful guideline for policy makers and Turkish exporters to face the competitive challenges of the global markets during the following years.

**EXPORT MARKET-SHARE PERFORMANCE:
PROSPECTS AND IMPLICATIONS FOR
TURKEY**

Dimensions of International Trade and Turkey's Exports

Turkey initiated its opening up to the outside world and its export campaign in 1980, and in the years between 1980 and 1990, it achieved an average growth rate of 18.2% in its exports and export trade volume has increased four times. Nevertheless, it is not possible to claim that this growth rate has been sufficient, the reason being that Turkey is the last among OECD countries in terms of per capita export income (\$209). Despite this weakness, Turkey with an Export/GDP ratio raised to 14.8 % in 1989 from 5.1 % in 1980, is a rapidly developing follower of the newly industrialized countries (TUSIAD 1990). However, when we compare the export performance of Turkey with the selected countries of Far East and South America we see that there is still a very big gap. This gap in export performance is illustrated in Table I.

TABLE I
Comparison of Selected Countries' Exports
(Billion \$)

Countries	Total Exports		Exports to US	Foreign Trade Surplus (+) Deficit (-)
	1988	1989		
Hong Kong	63.163	73.140	10.238	+
Taiwan	60.502	66.198	25.628	+
South Korea	60.697	62.331	20.543	+
Singapore	39.306	44.665	9.178	-
Mexico	20.765	35.638	27.590	+
Brazil	33.783	34.392	9.001	+
Malaysia	21.110	25.053	4.927	+
Indonesia	19.465	22.029	3.874	+
Thailand	15.830	20.056	4.636	-
Philippines	7.032	7.755	3.308	-
Turkey	11.662	11.627	1.479	-

Source: Authors Analysis based on figures from IMF
International Financial Statistics (Sept.1990).
Direction of Trade Statistics Yearbook (1990)

Turkey's Share of Export Markets: An Analysis of Short-Term Performance

It is obvious that developing countries like Turkey should improve their export performance and marketing effectiveness in the industrial country markets during the period ahead. But how can this be accomplished? We realize that the wealthiest markets are the OECD countries and especially the United States. However, there is still an argument that these markets have become saturated and for this reason, it is difficult to enter them. First of all, the industrial country markets are not saturated. According to our evaluations, the industrial country markets (top twenty importers in 1989) have been growing annually on an average of 9.1 %. For example, a 7.2 % annual growth in US imports

means \$33 billion worth of new opportunities. A 12.3 % annual growth in Japan's \$210 billion imports implies \$23 billion in additional opportunities.

Share-of-Market Data: The methodology used in this study is a non-quantitative technique and therefore as the first step in the market share analysis two groups of countries are selected. The first group is the top twenty importers of 1989. The second group is composed of the top twenty countries in Turkey's 1989 exports. When we combine these two groups and list them according to their 1989 import values (\$), we get a total of twenty-eight markets. Evidently this group list is dominated by OECD countries. It is noteworthy that Turkey's exports to twenty-eight countries account for 88 % of the total, whereas the remaining 12 % constitute the exports to other 104 countries. Terpstra (1986) points out that international marketing is a game played largely by OECD countries which are conducting almost two thirds of the world trade among themselves. The relationships between the world imports (selected 28 countries) and Turkey's exports over the short-term are examined and illustrated in Table II below.

The analysis in Table II shows us how miniscule Turkey's export figures are when compared with the dimensions of the markets in industrial countries and how minor a market share Turkey has in these markets. As is illustrated in Table II, Turkey has lost its share of market in some OECD countries. It is particularly noteworthy that the market share gains by Turkey over the short-term period from 1987 through 1989 account for only 9 country markets in contrast to 15 market share losses mostly in the Middle East, North Africa and EC countries. This situation is in sharp contrast with export performance of the period from 1986 through 1987 where we observe 21 market share gains in contrast to 8

TABLE II
World Imports and Turkey's Market Share (Worksheet)

	Total Imports (Billion \$)			% Change		Turkeys Export (Million, \$)		Turkeys Market Share %		Gains/ Losses
	1987	1988	1989	1987-	1988-	1988	1989	1988	1989	
				1988	1989					
U.S.A.	424	460	493	8.5	7.2	761	971	0.17	0.20	+
Germany	228	250	270	9.6	8.0	2.149	2.176	0.86	0.81	-
Japan	151	187	210	23.8	12.3	209	233	0.11	0.11	±
U.K.	154	189	198	22.7	4.8	576	616	0.30	0.31	+
France	158	179	193	13.3	7.8	499	595	0.28	0.31	+
Italy	125	139	153	11.2	10.1	955	978	0.69	0.64	-
Canada	93	112	121	20.4	8.0	59	65	0.05	0.05	±
USSR	108	111	109	2.8	-1.8	271	705	0.24	0.65	+
Netherlands	91	99	104	8.8	5.1	351	407	0.35	0.39	+
Belgium-Luxemburg	83	92	98	10.8	6.5	265	261	0.29	0.27	-
Hong-Kong	48	64	72	33.3	12.5	24	25	0.04	0.03	-
Spain	49	61	71	24.5	16.4	107	131	0.18	0.18	±
Korea	41	52	61	26.8	17.3	31	24	0.06	0.04	-
China	43	55	58	27.9	5.5	216	68	0.39	0.12	-
Switzerland	51	56	58	9.8	3.6	265	174	0.47	0.30	-
Taiwan	35	50	53	42.9	6.0	184	182	0.37	0.34	-
Singapore	33	44	50	33.3	13.6	15	8	0.03	0.02	-
Sweden	41	46	49	12.2	6.5	76	84	0.17	0.17	±
Australia	29	36	45	24.1	25.0	21	41	0.06	0.09	+
Austria	33	36	39	9.1	8.3	180	131	0.50	0.34	-
Saudi Arabia	20	22	(22)	10.0	0	359	364	1.63	(1.65)	+
Iraq	7	10	(11)	42.9	10.0	986	445	9.86	(4.05)	-
Iran	10	9	(10)	-10.0	11.1	546	561	6.07	(5.61)	-
Algeria	7	8	(9)	14.3	12.5	219	237	2.73	(2.63)	-
Egypt	12	9	7	-25.0	-22.2	185	140	2.06	2.00	-
Kuwait	5	6	6	20.0	0	199	168	3.32	2.80	-
Libya	5	6	(6)	20.0	0	218	227	3.63	(3.78)	+
Syrian A.Rep.	2	2	2	0	0	143	177	7.15	8.85	+
Total	2.086	2.390	2.578			10.069	10.194			

SOURCE: Author's Analysis; Data obtained from IMF International Financial Statistics (Sept.1990); Undersecretariat of Treasury and Foreign Trade, Ankara Basic Trade Indicators (May 1990); GATT-Statistics and Information Systems Division, Geneva, Switzerland. Statistical discrepancies are due to rounding, paranthesis are estimated figures.

8 market share losses. It can be inferred that the excellent export performance in 1987 owes much to the sharp improvement in price competitiveness in 1986. By the same token, the deceleration in export volume growth in 1988 appears to have been a result of the levelling-off of competitiveness gains in 1987. In addition the system of export subsidies via tax rebates was phased out by the end of 1988 and only partially replaced by a number of subsidized credit programs for exporters. As the new system offers less generous export promotion, it is likely to have contributed to the reversal of export performance (OECD, 1989/1990).

Hence, our analysis underpins the assertion that good Turkish export performance of 1987 may have been mainly the consequence of a competitiveness gained by effective depreciation of the currency and other measures promoting exports, and to a lesser degree by the positive effects of structural adjustment policies.

The data presented in Table II shows us six unique market situations. In the case of countries such as Germany, Italy, Hong Kong, Algeria and Iran we observe some expansion in nominal exports, but there are market share losses. This situation shows us that Turkish exports have failed to keep up with rapidly expanding demand of these markets. In USSR however, Turkey was able to increase its share in spite of declining market conditions. Obviously, there are both positive and negative effects changing the export performance. Results of the study reveals some significant country/market factors and growth rates. These evaluations are presented in tables III and IV respectively.

TABLE III

Export Performance in Different Types of Markets

Expanding Markets Market Share Gains By Turkey	U.S.A., United Kingdom, France, Canada, Netherlands, Spain, Sweden, Australia
Expanding Markets Market Share Losses For Turkey	Germany, Japan, Italy, Belgium-Luxemburg, Hong Kong, S.Korea, China, Switzerland, Taiwan, Singapore, Austria, Iraq, Algeria
Shrinking Markets Market Share Gains By Turkey	
Shrinking Markets Market Share Losses For Turkey	Egypt
Steady Markets Market Share Gains By Turkey	Saudi Arabia, Libya, Syrian Arab Rep.
Steady Markets Market Share Losses For Turkey	Kuwait
Inconsistent Markets Market Share Gains By Turkey	U.S.S.R.
Inconsistent Markets Market Share Losses For Turkey	Iran

Source: Author's Analysis based on data in Table II.

TABLE IV

Relationships Between Annual Growth Rates

Total Imports of 28 Countries Analyzed (Billion \$)		Turkey's Total Exports (Million \$)		Turkey's Share in Total (%)		Turkey's Average Market Share (%)	
1988	1989	1988	1989	1988	1989	1988	1989
2.390	2.578	10.069	10.194	0.42	0.40	1.50	1.31
Growth Rate 7.86 %		Growth Rate 1.24 %		Growth Rate -4.76 %		Growth Rate -0.12 %	

Source: Author's Analysis based on data in Table II.

Results and Implications: The illustrations in Tables III and IV provide evidence on two major issues. First, data presented in Table III indicate four different types of market situations and as is illustrated shares have been both gained and lost in each of these market groups. This analysis enables us to determine the relative importance of various export markets and shows the performance of Turkey in different market groups. Second issue is related to the data in Table IV and it emphasizes the deceleration in export volume growth in 1989 which is much less than the expansion of world markets.

Assessing the relative importance of various export markets in three clusters and evaluating the relative performance of Turkey in each cluster imply the following results: As it is illustrated in the cluster analysis presented in Table V, the expanding 21 markets offer the greatest opportunities and they are classified as "very important". In this group Turkey has eight market share gains and thirteen losses. Its share of exports accounts for 77%. The annual growth rate of this cluster is -3.6 %. Although Turkey has achieved an annual growth rate of 1.24% in 28 selected markets, it has a growth rate of -3.6 % in this cluster. The second cluster is the steady or inconsistent markets offering less opportunities. These are the countries with relatively "some importance". In this cluster six countries are listed and Turkey has a market share ratio of four to two which implies that there are four market share gains to two losses. This cluster accounts for 22 % of Turkey's share of exports and the annual export growth rate is 26.8 %. The third cluster offers no opportunity and it is designated as the shrinking markets with "no importance". One country is included in this cluster and the ratio of market share is zero to one. This cluster accounts for 1% of the Turkey's share of exports, but it has a negative

TABLE V

Relative Importance of Export Markets and Turkey's Performance

Importance	Expanding Markets	Steady and/or Inconsistent Markets	Shrinking Markets
	Very Important	Some Importance	No Importance
Number of Countries	21	6	1
Turkey's Share of Exports %	77	22	1
Ratio of Market Share Gains (+) to Losses (-)	8:13	4:2	0:1
Turkey's Export Growth Rates %	-3.6	26.8	-24.3

annual growth rate of 24.3%. Further explanation of the data in Table V can be obtained by making a comparison between the three clusters. It is apparent that Turkey has more advantages in the first cluster or in the expanding markets. However, there are some unidentified factors exerting negative influence on export performance. One significant point deserves special attention in this context. As illustrated in Table IV, the growth rate of Turkey's average market share is figured as -0.12% in contrast to -4.76% growth rate of Turkey's share in total. Turkey's very small shares in industrial country markets as opposed to much larger shares in small markets is the basis of our interpretation regarding these percentages. Although there are some indications that the export data is biased due to FOB exports and CIF imports, findings of our study provides evidence that in comparison with 1987 there is a strong fall in exports in 1988 and 1989.

From the standpoint of export development, the market share analysis in this paper implies that Turkey has reached

the emergent world markets and the stage of multinational marketing in the 90's. Being a domestic marketer in the 70's and an export marketer (close markets) in the 80's, this stage of progress is impressive and it is particularly worthy of mention. However, there is still some time and distance for Turkish companies to tap the competitive global markets and to become a global marketer. In the context of developing countries like Turkey, Kaynak (1987) points out that companies pass through five distinct stages of export development each of which requires a different set of strategic options and he refers to them as "Globalization Process of Firms".

The market share analysis adopted in the first section of this paper has certainly some implications on export performance. But our findings should be interpreted in light of several limitations. First, the commodity effect on export growth has not been examined. Second, the study does not investigate the competitiveness of Turkish exports. Therefore, in this context we cannot define Turkey's export market growth as the sum of individual growth rates.

Strategic Perspectives and Competitive Challenges of the 90's

There are many arguments on developing countries like Turkey about the selection of target markets and competitive strategies which should be utilized. For instance, some scholars practitioners and public policy makers are rather pessimistic about the competitiveness of Turkish products in industrial country markets and for that reason they argue that it is difficult for Turkish exporters to overcome the entry barriers and grab a larger share of these markets. Alternatively these people claim that there might be better market opportunities for Turkish products in Eastern European Countries and USSR.

These strategic issues are of great importance for exporters, but in the context of Turkey we need to make some more investigation on these issues.

In an empirical study on the subject of export market selection presented at the First World Marketing Congress by two scholars, Elko J. Kleinschmidt and Robert G. Cooper, the relationship and mutual influence of marketing strategies employed by developing countries on export performance was examined, and it was shown that the export strategy selected did have a direct effect upon the performance achieved. Lee (1987) also discussed the relationships and influence of marketing strategies on export performance. The possible export strategies were examined and defined in three dimensions:

- Degree of product adaptation
- Countries exported to (neighbor versus world); and
- Level of market segmentation.

Using two categories on each dimension yields eight strategy combinations (Kleinschmidt and Cooper, 1983).

According to the results of the study, it was noted that those firms which selected and utilized the "product adaptation" and "market segmentation" strategies were very successful in foreign markets. For this reason in countries like Turkey the resulting strategies that companies utilize should be defined in terms of world versus nearest neighbor approach and a "marketing" versus "selling" orientation. For example, a "marketer" utilizes both product adaptation and market segmentation concurrently. In contrast, a "seller" neither adapts his products nor practices market segmentation; and a third group of companies (quasi-marketers) fall between the two extremes and they practice either product

adaptation or segmentation, but not both. It also became clear that compared with exporting to neighboring countries, the alternative of world orientation or expanding into world markets achieved much greater increases in exports. When we examine Turkey's internationalization process however, we find that Turkish companies are still quasi-marketers and for that reason it is not possible to assert that sufficient use has been made by Turkish companies of these export marketing strategies.

In brief, the study makes it obvious that for world orientation, Turkish companies should go ahead and switch from "Export Selling" to a more comprehensive and sophisticated "International marketing" approach in the '90's.

Unfortunately many marketing mistakes were made in the past in overseas markets. At the first place, they should not be repeated. I am quite familiar with a number of garment exporters who have failed to grab a share of US market because they maintained standards and prices in their synthetic fabrics which were too high. The reason was that the price and quality of the products addressed a particular market segment while the fabrics addressed another. The quantity restrictions (Quotas) have of course, resulted in a definite market loss on the part of some exporters. On the other side, some countries from which the imports are subject to quantity restrictions have eliminated the effects of the quotas by offering products which are expensive but are still competitive in particular market segments. Another international marketing strategy is to make various modifications on the product and thus remove it from the scope of quantity restrictions. From these discussions we can see that Turkey must turn towards the categories on which the US and other industrial countries have not yet imposed quotas and it is

these categories where exports need stimulative national policies.

In addition to matters of quality standards and technical specifications, Turkish firms must be aware of the highest and lowest prices allowed by the state in entering the overseas markets. In our opinion, firms which intend to sell goods to industrial country markets like the US need to be sufficiently informed on the matter of "marketing channels." If there are any holes in the contractual arrangement made with the importer and if this results in the US' firms selling the goods it purchased from the Turkish exporters at a price below the national market price, then upon the complaint of local manufacturers, the US government can impose restrictions on products obtained from Turkey. For this reason, exporters need to show great care not to sell goods to US or Canadian markets whose prices are too far below the national levels.

Another interesting case which is worthy of mention in concerned with the furniture exports. A couple of years ago eight to ten firms got together for a proposal coming from US, but they were unable to supply what was being demanded. Getting export products into US marketing channels requires a branch office or a local partner and it can be achieved by deeper market penetration in the channels. Ohmae (1989), for example, has argued that market entry is a strategic issue and he mentioned that strategic alliances could be the most effective way of approaching the Japanese market. If a company lacks a ready sales and a distribution network, there it might be able to find a Japanese partner with a similar deficiency in the first companies home market so that an alliance could serve the needs of both firms.

In the context of Turkey a subject which needs to be

considered with great care is related to export marketing costs. The factors increasing such costs are not only the result of lapses in infrastructure; at the same time they arise from exports being made in an individualistic and haphazard fashion.

For example, to give an idea of the export costs involved in fresh fruit exportation, it will be sufficient to state that the freight charges entailed in shipping satsuma tangerines to Germany are at least 60 percent of the total cost of the products. The costs of crates and of packaging on the other hand, exceed those of such countries as Greece, Spain and Israel by a factor of two or three. This picture should show us clearly how high the export costs in Turkey are.

The Generalized System of Preferences: Is It The Solution to Turkey's Needs for Export Development? The Generalized System of Preferences (GSP) is a scheme which was developed for the purpose of accelerating the industrialization of developing countries like Turkey and of aiding them in their export operations. There are many arguments about the main benefit of GSP which is identified as the granting of preferential access to industrial country markets. It should be noted however, that this preferential or duty-free treatment is granted to exporters based in less developed or developing countries.

In this context Schooler, Wildt and Jones (1987) point out that some third world countries have succeeded in establishing autonomous exports and consumer patronage in high income countries. Taiwan and Korea are examples. Unfortunately most third world countries have neither patronage in, nor market access to the highly competitive, difficult

to penetrate, high income markets. The authors mention that third world access to industrial country markets have been facilitated through the Generalized System of Preferences (GSP). But they also argue that preferential access does not easily translate into increased exports.

GSP is a program which is offered to 136 designated beneficiary countries including Turkey. Nevertheless, some of the developing countries like Turkey are relatively small users of GSP. Table VI illustrates the GSP exports of selected countries to US and makes a comparison with Turkey's exports.

TABLE VI
Comparison of GSP Exports to U.S.A. of Selected Countries
(Billion US \$)

Selected Countries	Y e a r s		% Increase
	1988	1989	
Taiwan	3.420	-	
South Korea	2.766	-	
Hong Kong	1.859	-	
Singapore	1.809	-	
Malaysia	634	1.003	58
Thailand	714	1.044	46
Indonesia	87	148	70
Brazil	1.319	1.173	-11
Mexico	2.188	2.470	13
Turkey	72	114	58
Total: Selected Countries	14.868	5.952	-60
Total, All GSP Countries	18.354	10.015	-45

Source: Author's Analysis based on figures from US Department of Commerce, International Trade Administration, Office of Multilateral Affairs, Washington D.C. U.S.A.

As is shown in Table VI, Turkey has been a small user of GSP and in comparison with other selected countries it derives very little benefit from this duty-free treatment. Ranking 23rd in 1989, the value of GSP exports from Turkey to US was only 114 million \$ and it accounted for 8% of its total exports to US. It should also be noted that Taiwan, Korea, Hong Kong and Singapore were excluded from the GSP lists in 1989 and this created a market potential of 9 billion \$. For that reason, total GSP imports of US in 1988 reached a total of 18.3 billion \$ compared to 10 billion worth of imports in 1989. As you can see from Table VI, Turkey has improved its use of GSP in a substantial manner during the past two years. However, there is still room for a significant expansion of Turkey's GSP trade with the United States and also with other twelve countries offering this benefit to Turkey.

It is also worth noting that out of 4100 products listed in GSP in 1989 only 300 items were exported to US or 7.3%. By utilizing a product adaptation strategy, there is no reason why Turkish exporters should not derive more benefits from this preferential treatment. GSP is an opportunity that provides a competitive advantage for Turkish products. As a tool in international marketing it offers great advantages and serves as a catalyst in export promotion process in developing countries.

CONCLUSION

This paper is mainly concerned with issues of growing importance to developing countries. Access to huge industrial country markets is a critical challenge of the 90's and for that reason Turkish companies are expected to utilize competitive marketing strategies which will improve their access to the world markets.

New comers from developing countries to international marketing scene are usually faced with unexpected and unpleasant situations. A manufacturer in a domestic market enjoys the comfort of operating in a single market or couple of markets which he is quite familiar with. But if he is faced with the task of conducting operations in various export markets, he might have serious problems. International markets have unique characteristics and they don't resemble the domestic markets.

What are the keys to marketing success abroad?

- Turkish Companies should definitely gain some experience in analytical marketing techniques. That means they have to quit their domestic practices.
- Exporters should be keenly aware of the variation from one market to another. They should consider each country as a separate market and they should divide those markets into target segments.
- Turkish companies should know that policies and plans are implemented best when decisions are made by local people in each market.

I do not want to go any further with these general considerations. However, I have a few more words for Turkish companies. Exporters should realize that product adaptation and market segmentation are the most critical elements to their overseas market planning. Instead of exporting on an individual basis, they should go ahead and establish marketing organizations such as joint export groups. This will reduce their export costs and strengthen their competitiveness in foreign markets. They should also overcome the lack of market information. Furthermore, they should take some measures for a streamlined and standardized production in order to meet the demand from abroad.

In order to export, Turkey has a need for an adequate infrastructure and a strong industry and the basic problem is to be able to increase the present productive capacity.

It should not be forgotten that exporting is an integrated process, nevertheless, International Marketing Management is the most important and essential element in this process. In our opinion export performance of developing countries like Turkey is a function of marketing mix variables and national policy objectives. We should also note that great potential exists in Turkey in such labor intensive industries such as textiles, ready to wear garments, agricultural products and in minerals. However, due to the lack of natural policy objectives and of inadequate marketing organizations, this potential is not being exploited as it should be.

Since the current export subsidies in the form of tax exemptions and fund payments will be gradually eliminated in 1991 and beyond, new export marketing incentives should be provided to Turkish exporters to stimulate their overseas activities. It is also not possible to state that long-haul maritime freight and packaging incentives are adequate.

If these could be done by the state and if Turkish companies could utilize competitive marketing strategies in global markets, Turkey would be able to expand its share of world markets in the years to come.

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NETWORKING AS INTERNATIONAL MARKETING STRATEGY

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NETWORKING AS INTERNATIONAL MARKETING STRATEGY

Introduction

Networking as a strategy in international marketing is of special relevance to newly industrializing countries (NICs), such as Turkey, Brazil, and Thailand. It plays an indispensable role in all aspects of technology transfer, and is typically connected with barter and countertrade, joint ventures, turnkey projects and systems selling, management contracts, and so on.

This paper examines reasons for the growing popularity of networking, identifies various types and applications of networks, and provides numerous practical examples from both the developing countries and the industrialized ones. Specific purposes of networks are analyzed, and the necessity of network maintenance as a middle and top management activity emphasized. The sources and distribution of power among new participants are noted in such factors as expertise, trust, formal legitimacy, social relationships, and the relative importance of the seller (buyer) to the other party's (or parties') business.

Networking Is Long-Term Strategic Cooperation

The two driving forces in free societies--and in world markets--are competition and cooperation. The balancing act between them is age-old, and is likely to remain perennial. In recent years cooperation has received a boost from the growing emphasis on standing contracts and long-term relationships. Networks is the term applied here to arrangements promoting long-term strategic cooperation. They include standing contracts between buyers and sellers, producers and distributors, strategic alliances between competitors, international management contracts, consortia, franchising and joint ventures, export trading companies, and other varieties. The long-term emphasis of networks distinguish them from everyday spot contracts.

Strategic Areas of Network Application

Important examples of networking applications include the following:

Marketing Channels and Franchising

This may well be the single most important area. The trend is towards tighter networks here, to more governance of the systems (whether the "channel captain" is the manufacturer, wholesaler, or retailer), and to more coordinated programs than ad hoc actions and isolated strategies of individual members. An example in international marketing (IM) is French-owned Christian Dior USA, which has franchising agreements with 26 American manufacturers.

Vertical Integration (VI)

The VI issue is manifested in the make-or-buy decision so common in business. Simply put, the issue is do-it-yourself vs. contracting out.

Networking is a means of tighter integration than old-fashioned subcontracting on a spot basis, thus providing the valuable alternative of semi-integration. Just-in-time inventory management implies networking, as does the trend from many suppliers to few.

Patents and Know-how

Patent licensing provides the most typical example of technology transfer. Very often, however, a mastery of the technology requires knowledge about how it can best be used, how the product can be manufactured, and so on. Conveying such know-how calls for networking.

Turnkey Contracts and Systems Selling

These types of transactions by their very nature often cannot be handled by an individual firm. Typically the buyer as well as the sellers stand to gain

by close networking. Turnkey contracts are especially associated with technology transfer to the NICs. Systems selling is illustrated by Dutch Philips and Swedish Ericsson teaming up to provide Saudi Arabia with a common telephone system. Closer to home is the Japanese consortium building the new bridge across the Bosphorus.

Barter and Countertrade (Reciprocal Trading)

Here buyer and seller change roles in what is at least conceptually two separate sets of transactions. This often calls for the intimate, continuous kind of cooperation we associate with networking. Most, though far from all, countertrade involves an MNC and a developing country or firm. Believe it or not, I still remember from the 1930s that my father--a top executive in Ericsson Telephone Corporation--told me how the Company found itself involved in selling Turkish cigarettes bartered for telephone exchanges. Incidentally, he got addicted to them himself!

Transactions Between Subsidiaries

Relations between domestic subsidiaries of the same company are often more distant than between buyers and sellers in the open market. Internal networking and internal marketing are frequently needed as much as networking with outside parties. Indeed in a U.S. General Electric Company study some time ago it was found that relations between internal units were often more troublesome and expensive to handle than corresponding transactions with outsiders.

Intra-company transfer tends to be a special challenge to the MNC. The marketing of goods and services between company units can be an extremely important means of global coordination. Yet many national subsidiaries tend to think first of their own aggrandizement. Tax and currency exposure implications

must also be considered. So must global scale economies and the intensity of competition in local markets.

Joint Ventures (JV) and Acquisitions

JVs are becoming increasingly popular in IM. Indeed, in a country like the People's Republic of China (PRC) a JV is frequently the only permissible form of foreign direct investment. Empirical studies reveal that unless JVs are operated like tight networks they are not likely to last more than three to five years, and sometimes even less. They will either be dissolved or one partner will buy out the other one.

Acquisition is often viewed as a means of gaining rapid entry abroad. However, if the prime concern is the human resources (management, skilled employees) acquisitions should be both preceded and accompanied by active networking to make sure that the human talent sought is motivated to stay on and remain productive. Too often in the past this important factor has not been taken into full account.

Internationalization

The process of internationalizing company operations may well be the single most important area of networking applications. It may span across all the above-mentioned subjects, as illustrated below.

Complex International Networks Illustrated

Before going into some of the characteristics and dynamics of networking, a set of empirical illustrations of complex international networks will be provided.

Figure 1 presents a view of networking in the international automobile engine business by 1982-83. While individual relationships may be difficult to

single out due to the mass of information, it is abundantly clear that most auto engine manufacturers of the world were involved in one or several networks with other such manufacturers. Since that time few networks have been disbanded, but others have been added, e.g.,

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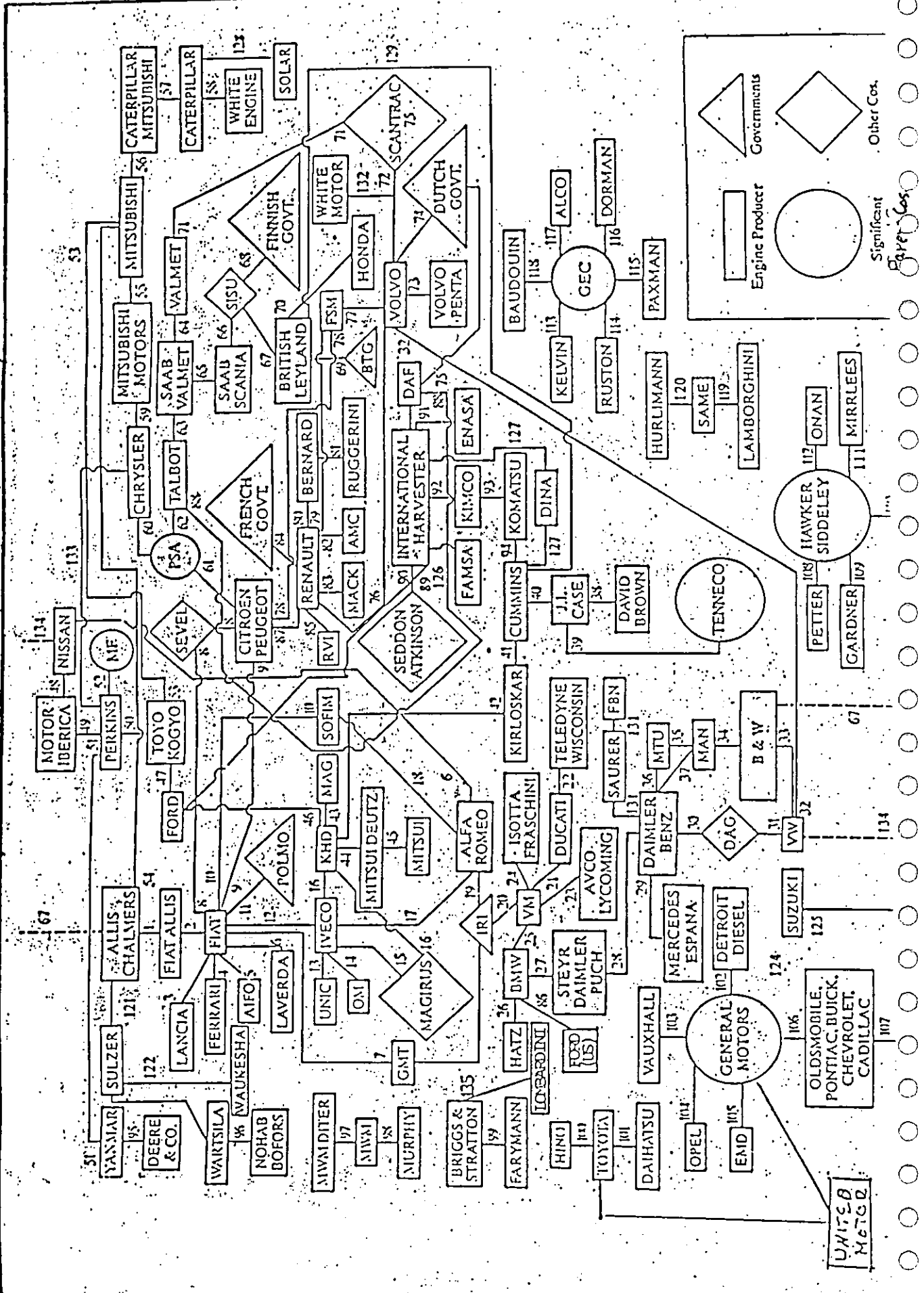
between Ford and Mazda and between Volvo and GM (truck engines). The diagram does not include "networking by ownership," such as GM's 20+ percent ownership in Izuzu. Perhaps due to its size and a self-perceived ability to go it alone, GM was at least until recently involved in surprisingly few networking arrangements.

Philips, the Dutch electronics giant, is involved in well over 90 networking arrangements with companies making similar products, e.g., light bulbs (Matsushita), consumer electronics (Grundig of Germany, STET of Italy, Sony), technology (Siemens, Control Data), appliances (Whirlpool of USA), telecommunications (ATT, Ericsson, Siemens, Alcatel, etc.) and other hi-tech markets (Thorn EMI of UK, Siemens, ATT, Bull, Nixdorf, Olivetti, etc.). In addition, Philips must be in at least an equal number of networks with vendors and distributors. Indeed, vertical networks between buyers and sellers are a great deal more common than "horizontal" agreements between similar companies.

Networking Objectives: Net Profit and Beyond

Most managers see greater profits as the objective they are ultimately striving for. But on the way to long-term profit (and often beyond short-term profit increases) there are other objectives or prerequisites, many of which lend themselves to networking:

Figure 1: NETWORKING IN THE INTERNATIONAL AUTO ENGINE BUSINESS



Risk Reduction

The General Electric-SNECMA (France) jet engine networking arrangement greatly reduces the risk and also pools the resources of both companies. Risk reduction was also a key idea behind the Anglo-French Concorde project, as well as the European Airbus.

Division of Labor and Functions

Division of labor manifests itself primarily in the division of functions performed by various firms. Division of functions can be both horizontal (doing your own advertising or marketing research vs. contracting out these activities to ad agencies or marketing research firms) and vertical (a manufacturer distributing his own products vs. selling through wholesalers, for example).

The division of functions in effect defines the firm's position in the so-called Value Added Chain from mine to consumer.

Diversification and Assortment

Networking may help the firm to gain so-called economies of scope by diversification or broadening its assortment. This, of course, is what distributors do when they try to build up a complementary assortment. In the United States an increasing number of automobile dealers are now representing domestic and foreign makes at the same time.

Synergy

Synergy refers to situations where the whole has greater effect than its parts. A good example of synergy is common economies, as when a firm can use a standard strategy in both the domestic market and the export market. Another illustration is the manufacturer selling through a wholesaler who also carries complementary lines.

Innovation

Several Research and Development (R&D) projects sponsored by the European Community in areas such as space and electronics make extensive use of networking between both governments and firms in many different countries. In Japan, MITI--the Ministry for International Trade and Industry--coordinates networks of firms for joint development of a variety of technologies.

Decision Support Systems

Management can become more "scientific," more professional only when and if the requisite information is on hand. Such networks as trade association data banks have found an important mission here.

Economies of Scale

A good example of economies of scale is the manufacturer who by intense networking with few suppliers, rather than spot buying from a number of sources, obtained very significant scale economies in the purchase of the components needed. In the last few years Whirlpool in the United States has achieved similar economies by reducing the number of steel suppliers to its appliance business by about one half.

Monopolistic Power

Cartel-type networks tend to create entrance barriers for outside firms, and to make use of the monopolistic power of the cartel to derive extra profits.

Market Share

Even when not pursuing monopoly power networks may be interested in building market share. The Norwegian suppliers of components to Volvo have a vested interest in Volvo's ability to increase its market share, as their own

growth is directly related to it.

Again, in the USA, nine non-IBM producers of personal computers have joined together to standardize a new way of managing internal data flow in the PC in a different way than the IBM Microbus Channel Architecture introduced in 1987. They are doing this in the hope of collectively gaining market share from IBM.

Technology Transfer

The NICs in general, and the PRC in particular, are often extremely keen on entering into networks with foreign firms involving the transfer of technology to these countries. But of course this also happens in industrialized nations. A case in point is the British Pilkington Group's activity in Japan. As is known, foreign companies trying to break into Japanese markets have to learn to take the long-term view and to build the personal contacts and links which make them acceptable members of the local "family." Pilkington is the supplier of the glass used in two-thirds of all Japanese-made sun glasses. According to the local marketing planning manager, Pilkington's formula has been "to tie itself closely to the intricate network of sub-contractors which do the cutting, edging, hardening and polishing of the glass before it reaches the sunglass maker.... It is important for us to show a company at each point of the chain that they can rely on us to help them, if necessary."

Differential Advantages in Networks

We have talked about networks as a whole and their overall objectives. It is time to adopt the perspective of individual participants in the network. The position of a firm in the net is largely determined by its relative power.

There are at least five interrelated but distinct sources of power of a network participant: economic base, technology, expertise, trust, and legitimacy.

A participant's power is manifested by his differential advantage in one or several of these areas. Some indicators of economic power in an international marketing network are market share and absolute size of seller, his share of the buyer's purchases, and the centrality of the seller's product to the buyer's core activity. Selling paper as office supply is probably of peripheral interest to a buyer, but if you are selling newsprint that is certainly of central concern to the newspaper buying it. The buyer's position is strengthened the greater the number of alternate sources of supply, the less the transactions costs involved in switching to another supplier, and the greater his share of the vendor's total sales. Other important aspects of the economic power base of participants are their relative liquidity, ability to extend credit and ability to integrate vertically.

Superior technology as a source of power is demonstrated in such areas as product and process innovation, marketing skills, quality maintenance, flexibility, logistics management, spare parts availability, and ability to produce to the specifications of the buyer. It is important to note that technology means special skills, in any area, not just the technical one. Cost leadership in production may be viewed as a source of either technological or economic power.

The Greeks, 2000 years ago, coined the phrase, "knowledge is power." (Some Turk probably said the same thing a lot earlier, but the Greek wrote it down.) Expertise as a source of power shows up in such matters as personnel and equipment capabilities in R&D, in applications engineering, in pre- and post-sales service, in the economics of the markets where network members are a part,

and general awareness of the situation, problems and priorities of other network members. In the fifties, General Electric failed to sell its jet engines to the commercial airlines until it switched from emphasizing the technical performance characteristics, which had impressed the military in WWII, to learning more about the economics of airline operation than was known even by most airline executives. A key source of differential advantage in IM, of course, is superior knowledge of foreign markets.

Trust may be viewed as confidence in the continuation of a mutually satisfying relationship and in the awareness of other parties of what this requires of their performance as network members. Trust is based on reputation and, more importantly, on past performance. It is also built by personal friendship and social bonds, established in day-to-day interaction. It is manifested by mutual feelings of belongingness and interdependence. Especially in Oriental cultures, trust is a vital supplement to contractual arrangements; it may even take their place. In pre-contractual contexts the establishment of trust frequently takes more time and patience than Western executives are used to invest.

Formal legitimacy as a source of power may derive from long-term contracts, part ownership of another network member, interlocking directorates, joint-venture arrangements, etc. It may also originate in patent rights or other privileges conferred by government, such as being the "chosen instrument" in the supply of defense equipment, or having an "inside track" in government procurement by simply being a national of the same country. Legitimacy may also be derived just from a fine reputation in the marketplace.

Again, it must be emphasized that differential advantage in one or several of these areas is indispensable to successful participation in networks. In IM

it often happens that the differential advantage is more perceived than real, as it may be difficult to get an objective evaluation of a foreign participant in advance. However, if he is not living up to expectations within a pretty short time he may find himself excluded from the network. Indeed, in the long run termination of such a relationship is probably in the best interest of all parties concerned.

Network Management and Dynamics. The Indispensability of Trust

There is an important challenge of maintenance in the dynamics of network management. As in any marriage, the long-term stability of a network is based on mutual advantage. That is, the relationship must be a positive-sum game for all partners, or what is often called a win-win situation. In effect, we are no longer just buyers and sellers--we are PARTNERS! Like any marriage, too, network stability also requires an element of trust. The daily activities in the network may be viewed as either building or drawing on differential advantage. All sources of differential advantage are involved. Thus we find links involving economic performance, technology transfer, diffusion of know-how and expertise, the forging or exploitation of trust, and the flow of legitimacy. The profile--or "mix"--of such links in a given network constitutes the essence of the particular culture of that network.

Due to the necessity of forging and maintaining differential advantage, building networks involves expenditure of money and executive talent over long periods of time. It follows that resources spent on all aspects of networking other than everyday care are to be regarded as strategic market investments. Some of these may be "hardware" investments in customer-specific productive equipment, inventory, and product development. Others are "software"

investments in building expertise, trust or long-term contracts--and, indeed, personal friendships.

Generally, strategic software investments are more important in business-to-business relations, and especially in IM. The fact that American business in the last decade or two has seemed much less successful abroad than at home in large part may be due to a lack of "savvy"--that is, sophistication--about linkages going beyond economic and technological performance in cross-cultural contexts, where investment in trust, expertise and other software often plays a crucial role. Indeed, differential advantage and willingness to invest in building a network is not enough to ensure its long-term viability. We also need bonding and communicating. The term "bonding" refers to the establishment of social and professional contacts as well as personal friendships between the executives and experts of all network member organizations, and at as many levels as possible. My experience is that Turks are more well-versed in this area than many other peoples. Communications and frequent exchanges of information and opinions are especially vital in IM, in the absence of daily face-to-face contacts.

Good and Bad Networks

When all is said and done, are networks good or bad? Of course, it depends on who is talking! My answer is that they are indispensable, but we must be aware that even a basically good thing can be carried too far.

In the strategic planning of a firm the network may be viewed as a powerful alternative to both vertical integration and to diversification, and as an instrument for reaching new clienteles and/or additional countries. In effect, it may serve as an engine of growth and perhaps even more as an engine of change, and of risk reduction.

Network thinking also brings to the fore a long-term view in fairly sharp contrast to the hectic instant-profit perspective often associated with businessmen in developing countries. Directly linked to this is the notion that marketing-related outlays in many instances are to be regarded as investments from a strategic management standpoint. The conventional elements of marketing strategy are product, price, promotion, distribution and service. The network concept draws our attention to at least two other crucial marketing elements, namely, power and trust.

In IM, networking may yield particular benefits. Networking may:

- * effectuate the transfer of technology to the developing countries;
- * implement a division of labor between countries as well as firms;
- * strike bridges between businessmen of different nations and cultures; and
- * stimulate trade which otherwise might not have taken place at all.

But networking in IM may also have some drawbacks. It may impose unfair barriers to entry (exclusionary behavior), or perpetrate other malpractices on potential or actual competitors or consumers. Diamonds are a girl's best friend, but the de Beer diamond syndicate is not! Price and production cartels have a bad reputation in the USA, the EC, and several other countries.

If a network is based on a very unequal distribution of power, it may perpetuate the existing division of labor between nations, which might impede the industrialization of some developing countries.

Those of us who care about open markets may ask, What about the future of competition in a world of networking? Between networks and "administered systems" there are many discontinuities and niches where the market is open and the competitive interplay intense. Indeed, the friction in these interfaces is an antidote to the complete bureaucratization of Western economies that otherwise might conceivably occur. Equally important is the competition between networks, especially between different vertical distribution systems. We should also be mindful of the pro-competitive impact of what may be termed network shocks. Examples include the removal of internal trade barriers in Europe and the recent deregulation of air and truck transportation as well as telecommunications in the USA. In the remarkably short period of 10 years the world energy market responded to the OPEC "monopoly" dramatically enough to put the cartel in strong competition with outside oil producers in the North Sea and elsewhere, and with other forms of energy, a process which now surely will take on new vigor. Even the PRC has chosen to introduce a major open market-like sector in its largest industry (agriculture), with sensational effects on productivity and rural standards of living. It would be difficult to find a better example of shock therapy against market bureaucratization run amuck as it did in the old commune system.

Note, too, that inter-network competition is vastly intensified in the modern economy by inter-product and inter-materials competition as the product, materials and alternate technology spectra increasingly are filled. It would be difficult to exaggerate the importance of these dimensions of competition.

The relationship between competition and vertical integration is also a fascinating one. Vertical integration has always been a source of potential competition. It is likely to become an even more tangible competitive force in

an era of proliferating technologies and increasingly flexible manufacturing systems.

Emergency Exit--Keep It Clear!

Like economic activity in general, IM needs a balance between cooperation and competition. Networking is a powerful force of cooperation between participants, and competition with the world outside, and thus provides a bit of both. (Too, we should not overlook that there is almost always some degree of rivalry within networks themselves.) As pointed out, there is no need to fear the demise of competition in the world at large. However, some networks may simply get too powerful (especially if enjoying government privileges) and/or engage in anti-social practices. One may predict that by the tenth round of GATT negotiations--by the year 2000 or so--an effort will be made to draft a global antitrust law regulating dysfunctional behavior of networks and multinational corporations.

In the meantime, the best protection against such behavior is for legislators and courts to safeguard the right of network participants to exit freely from networks to which they no longer wish to belong. We have to keep the emergency exit clear!

Networking As International Marketing Strategy: Talking Turkey

It is time to conclude. In the United States, when we want to be really serious, we have a favorite expression: "Let us talk Turkey." So let us do just that! Why is networking as IM strategy especially important to Turkey and Turkish business? There is at least a six-fold set of reasons:

- * Turkey is a natural link between East and West. This is an invitation to serve as a center of networking.

- * Networking offers Turkey a foothold in the European Community (and other world markets).
- * Turkey has clear subcontractor ability in many industries--and the potential to become a world leader in others.
- * Turkey could use more technology transfer.
- * Turks have demonstrated skills in bartering.
- * And do not forget: rightly used in your domestic economy, networking may provide a link between your urban and your rural economy--a bridge even mightier than those crossing the Bosphorus.



**THE NEW REALITIES OF THE GLOBAL MARKET PLACE:
IMPLICATIONS FOR TURKISH COMPANIES**

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INTRODUCTION

If we are to characterize the nature of the world economic environment in the past decade one key descriptor we would have to use is "constant change." Economic relations among nations continue to change and evolve drastically. Advances in communication and transportation, rapid pace of technological innovation, increasing number of global players, and the emergence of trading blocs are just some of the fundamental forces affecting business around the globe.

Turkey, with its strategic position between the East and the West and vying to become a worldwide player, has been significantly affected by the changes. How will these changes affect Turkey? What implications do they offer for Turkish exporters? In this paper, we shall elaborate on the evolution of the global marketplace and offer guidelines for the exporting sector and public policy in Turkey.

GLOBAL TRENDS

The following discussion will highlight some of the critical trends and managerial guidelines affecting global business.

Emergence of Trading Blocs

One key development is the ongoing integration of economies around economic unions. The best example of this is the European Community representing some 325 million consumers with relatively affluent life styles. Another example is the North American free trade area which may include Mexico, in addition to the U.S.A. and Canada. ASEAN nations make up another significant trading bloc in East Asia. Other economic unions may creep up in the near future.

Globally, three levels of competition have emerged. The first, which might be called the "professional league," includes the TRIAD regions. That is, North America, Western Europe and Japan. The second tier of competition is composed of vibrant economies of the "hopefuls." This tier includes many of the recently industrialized countries. Finally, the third tier of competition is at the level of the Third World countries. Generally speaking, this is "amateurish" competition.

For outward-looking economies and companies, the primary target is often the TRIAD. Though it represents 15 percent of world population, TRIAD nations account for 47 percent of world trade and 59 percent of world gross national product. The 600 million consumers in the TRIAD have ten times more income than their counterparts in the Third World. They make up a highly attractive target market as they share fairly universal needs, technology, and life styles. In addition, they are most sensitive to global brands, ideas, and symbols. Also, they are reachable through global communications.

Certain prerequisites are necessary for success in the professional league of TRIAD. First, the marketer ought to be prepared for a very sophisticated and particular customer. The customer has extensive choices; and needs to be convinced that yours is the right product. Second, there is intensive competition. Cut-throat competition can be detrimental to sustained existence in the marketplace. Third, it is often a better strategy to seek non-price competition through value-added and distinctive products than to seek advantages through low prices. Fourth, in the vast markets of TRIAD, companies from developing countries are better off identifying and catering to select niche markets. Finding opportunities with appropriate customer segments should be a fruitful strategy.

Trends toward Strategic Alliances

As proposed by others in this conference, there are strong motivations today encouraging companies to join forces in the development and marketing of products. Creation of synergy through business collaborations in technology, manufacturing and marketing is becoming widely accepted. Through partnerships, companies from distant parts of the world are sharing the costs and risks of product and market development. It is interesting to note that, unlike traditional joint ventures, new forms of collaboration are often non-equity based. They tend to be narrowly defined and project based. Often, they are short-term collaborations.

Strategic partnerships can be created in various spheres of business activity:

- technical (product/process development)
- product design and development
- venture capital
- organizing a venture
- manufacturing
- securing inputs, and
- export marketing.

Today, we have hundreds of examples of strategic collaboration among firms. Interestingly, most such collaborations are not anti-competitive. But they do create special opportunities for Turkish firms in terms of overcoming some of their weaknesses and tapping market opportunities which would otherwise go unattended.

It becomes essential then for Turkish firms to proactively and regularly screen for business partners in other countries which can bring complementary strengths to the table. Once such partners are identified, synergistic alliances may be formed.

Networking with Foreign Intermediaries and Gatekeepers

In today's intensely competitive world market, alliances with export intermediaries are also critical. In order to establish a lasting presence in key export markets, Turkish exporters need to identify and work with respectable intermediaries and gatekeepers. These include trading companies, major importers, brokers, major wholesalers, and institutional buyers in the target market. Interestingly, some of these intermediaries such as the Japanese Sogoshosa have established offices within Turkey. As of September 1990, five Sogoshosa are operating offices in Turkey with the intention of generating business in Turkey and with Turkish partners. Other intermediaries, on the other hand, need to be sought out proactively by Turkish companies. Such networking can be essential in learning about business opportunities in a timely manner, gaining favorable supplier treatment, securing favorable terms, and strengthening the export organization.

Common Facility Centers

A particular form of export institution which has proved to be very helpful in strengthening the export infrastructure in several developing countries is the common facility center. Common facility centers are initiatives to provide specialized and centralized assistance to a group of companies in the same industry and region. Companies or entrepreneurs operating in the same sector create the joint organization to provide export related services for the membership. The common facility is managed by a professional staff

who report to the entire membership.

Common facility centers can provide assistance and services in a variety of areas:

-securing raw materials and inputs

-technical assistance and training

-product design and development

-packaging

-product testing and certification, and

-export market research, negotiations, and exhibition.

Many other export-related services can be provided by common facility centers. In Turkey, it seems feasible that such centers and facilities are sponsored by groups such as regional carpet makers, ceramics producers, handicraft artists, garment makers, and so on. Such joint efforts can create significant scale economies and expand the horizons of small individual enterprises.

Product Development and Enrichment

In order to avoid price competition and to survive in the intensely competitive world markets, Turkish exporters must design their products to match the requirements and preferences of the export customers. Such a customer orientation represents a fundamental shift from the traditional practice of selling abroad the same product offered for the home market. Today this practice will no longer prove helpful to the exporter. Instead, what is necessary is careful attention to customer needs and preferences so that certain advantages can be built into the product from the outset.

To consider one example, let's take Turkish carpets. Many carpets offered for export markets still represent traditional colors, designs, sizes, material, and uses. While there will

always be those customers who are interested in the conventional Turkish carpets, a large, untapped market segment exists which might appreciate some variations. For example, certain color combinations or sizes may have more appeal for, say, Scandinavian households. Offering such desirable variations for sizeable market segments will help provide a distinctive image for the company.

While the originality and the novelty of the exported item will always be there, desirable adaptations should add another attractive dimension to the offering--functionality. When combined with the utilitarian advantage, a novel product can gain much more customer appeal. Most successful export product will incorporate both novelty and functional dimensions.

Several initiatives can be taken in the context of product design and enrichment. One initiative is to expose designers to foreign buyers through overseas trips or organizing inbound visits by foreign buyers. Another is to engage foreign designers to create new designs. New design creations can then be disseminated to producers. Once the feedback from export markets is obtained, successful designs can be promoted. Producers can be trained on the new designs and encouraged to experiment with alternatives.

Adding Value to Export Products

Most Turkish exporters can no longer compete with other countries in terms of cost/price advantages. Exporters from lower-cost economies are quite active in products ranging from textiles to furniture. It seems that the new strategy has to be one of adding unique value to exported products and avoiding direct price competition.

Turkish exporters can add value to their products in numerous ways:

-incorporating distinctive features into the product

- catering to new uses and applications
- unique labeling and packaging
- upgrading quality and design
- providing aftersales services to customers
- catering to intermediary needs in handling, shipping and promotion, etc.

In the final analysis, a differentiated product aimed at selected market segments will mean higher profit margins for the exporter. It will also ensure long term presence rather than fragile existence in the export market.

Making a Permanent Commitment to Exports

Learning exporting tasks, customers, and markets is a long term proposition. Most firms spend years before they become proficient in export transactions. Therefore, export efforts which are in the form of primarily "filling of occasional export orders" are not likely to be fruitful. Intermittent and half-hearted approach to exporting, although it is popular among Turkish exporters, must be abandoned in favor of "conscious and informed approach" to exporting. Turkish exporters need to invest time and resources in developing a lasting relationship with export customers. Beneficial relationships take a long time to evolve. They also require nurturing along the way. By getting to know export markets and customers better, the exporter can establish a more healthy presence in the export market.

Developing Qualified Export Staff

Perhaps the greatest asset in export marketing is the pool of properly trained and experienced export personnel. Turkish exporting companies require qualified manpower at two levels:

- clerical: staff with specialized training on export transactions such as documentation, banking, shipping, and export crating, etc.;
- managerial: staff with university training and foreign language proficiency who have acquired skills in such areas as cross-cultural business negotiations, pricing, overseas trade fair exhibiting and particular expertise in product category and regions of the world.

The existing pool of these individuals is highly inadequate to meet the needs of the Turkish export sector. Nor is there an organized effort to produce such talent on an ongoing basis. Most export personnel learn through "trial and error" and shift from one company to another in response to high demand for the limited manpower from the exporting companies. Unfortunately, the Turkish university system or the Commercial Lycee system do not cater to the applied, pragmatic needs of exporting sector. Although a proposal has been made for a permanent training institute to inculcate practical export skills and knowledge in export personnel, initiatives have not yet produced any results.

To close the gap in this area several efforts are underway. First several chambers of commerce (e.g., Istanbul, Izmir, Antalya and Mersin) have assumed leadership in training personnel from member companies. Second, IGEME, EXIMBANK and Exporters' Unions are engaged in a variety of training and outreach activities. Third, collaborative activities with the International Trade Centre (UNCTAD/GATT) are underway. Fourth, most recently, a training program has been offered by the private sector in exporting. It is hoped that progress on all fronts will continue. Furthermore, individual exporting companies will need to sponsor in-house training activities to overcome the manpower limitation.

Using Expert Systems

Expert systems are applications of artificial intelligence technology designed to assist managers in informed and systematic decision making. In one sense, they are computer tools designed to extract knowledge from human experts and then make them available to novice decision makers. Many applications of expert systems exist in fields ranging from medicine to logistics.

A group of researchers at Michigan State University has been developing expert systems applications for use by international business executives and trainers. These prototypes aim to illustrate systematic approaches to typical international business decisions such as overseas distributor selection, evaluation of joint venture partners, developing an entry strategy, formulating sales/distributor contracts, and so on. Other applications combine databases on foreign markets for the purpose of aiding the executive in understanding the commercial environment of the target market. Commercial data can then be used by the decision maker in an interactive manner for the purpose of formulating marketing plans and strategies.

These decision support systems and training tools for international business emerge as promising technology for international business executives. They can be used in a straightforward and convenient manner with AT compatible personal computers. Especially for those users who lack formal training in international business transactions, learning can be speeded up significantly. Through the expert systems, knowledge about international marketing issues and global markets can be transferred to numerous staff with little cost. As such, these tools represent a workable solution to the manpower training problem of Turkish exporters.

Critical Role of Macro-level Initiatives

The recommendations above call for action primarily by the company engaged in international business. While individual company action is essential, one cannot overlook the potential difference the public sector can make in facilitating international trade. Such public sector initiatives, discussed in detail elsewhere in this conference, include but are not limited to the following:

- creating a favorable economic and regulatory climate for exports;
- building an appropriate infrastructure for international trade;
- devoting sufficient manpower and other resources in order to facilitate international business; and
- engaging in a variety of informational and promotional campaigns abroad in order to establish a favorable image for Turkish products and producers.

The last initiative is very critical in view of the certain biases against products originating from developing countries. Such macro level campaigns are essential to complement the efforts of individual firms. To give one example, efforts such as the recent "Suleyman the Magnificent" campaign generate a lot of interest and goodwill in Turkish history and culture which, then, have spillover effects on commerce.

CONCLUSION

To conclude, if the 1980s were the decade of strategy, structure, and of course synergy, the 1990s will be the decade of innovation, interaction, and interdependence. The Turkish economy should take its part in the highly interdependent world markets and should be as innovative as possible to satisfy the demands of increasingly sophisticated customers. The interaction between producers and their suppliers and customers should be based on

cooperation and feedback. In this way the factors listed above can be exploited to the fullest and threats can be turned into opportunities.



OVERCOMING ENTRY BARRIERS : IMPLICATIONS FOR TURKEY

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It is a great pleasure for me to be here today to address such a distinguished audience. I have never had a previous opportunity to visit your country, and am therefore discovering only now how much I have missed so far in my life. All the history, the scholarship, and the culture which I encounter, combined with the fact that my Hungarian ancestry makes me sort of a second cousin to you, are elevating this moment far above a mere visit to the level of a true experience. Thank you for making this opportunity possible!

But of course, there is another reason why my visit here delights me so much. I can see, based on the program and the audience that we all have a major opportunity here which one does not often have in life. We can make a difference, we can have a real impact by our look at marketing strategies in general, and the overcoming of entry barriers in specific. Why do I believe that?

When your distinguished President Ozal visited Washington D.C. in September of this year, he was one of the few foreign dignitaries we have had in our city who did not focus on assistance and aid, and who did not highlight exclusively all the problems that Turkey has with U.S. economic policies. Rather, he stressed that Turkey wants to make its mark in trade, that it can make its mark in trade and that it wants to be given the opportunity to do so. He was able to back up that statement by demonstrating the many important economic changes which have been introduced in

Turkey, designed to make the Turkish economy more efficient, more competitive, and more of an international player. And that is of course why a better understanding of entry barriers will be important in realizing the goals of Turkey and its business community. If my analysis here today can contribute to such better understanding, then we will be able to make a difference.

TYPES OF BARRIERS

Barriers to trade are said to be a key inhibitor to increased welfare and economic activity in many countries. A better understanding of such barriers therefore seems essential, if one is to overcome them. Improving such understanding is the purpose of this paper.

In its analysis of barriers to trade this paper will differentiate the types of barriers which exist, since not all of them are the same. One useful model, which has been developed by Rugman and Verbeke (1990) shown in Figure 1, differentiates possible barriers into those that are imposed by government and those which are "natural" entry barriers. Both of them inhibit business and trade flows, and both of them are onerous to overcome. Yet the causes for the barriers and the ways of overcoming them differ substantially. Government imposed entry barriers typically consist of tariffs, regulations, and non-tariff measures. Furthermore, the administration of antidumping or countervailing duty measures can also be a main expression of governmental entry barriers. These barriers typically are the result of orderly market arrangements, of domestic industry pressure, or of foreign policy

desires. They can be overcome by government to government negotiations and are - to a large degree - subject to the political climate and political necessity in the nations concerned.

By contrast, natural entry barriers refer mainly to the extent to which changes in the competitive advantage of countries and firms encourage or inhibit international business flows. They are the result of the competitive platform offered by nations to their firms and are overcome mainly by public and private sector action in one's home country.

(FIGURE 1 HERE)

The analysis presented here will focus first on government-imposed entry barriers and their likely developments. A second section will then concentrate on a systematic evaluation of natural entry barriers. Finally, some strategic thoughts will be offered as to how these barriers can be overcome.

GOVERNMENT IMPOSED ENTRY BARRIERS

Various governmental barriers exist on both sides. Since 1984, Turkish exports of textiles are subject to quotas, which now restrain 31 of the 50 major categories of textile exports. The fact that the level for imports into the U.S. was set at a time where Turkey was only a very small player in the textile export field, has of course restrained the growth of such exports. Similarly, specialty steel exports from Turkey to the United States are restrained under the "voluntary agreement". Of course on the U.S. side, there are also some concerns in the area of governmental entry barriers, focusing particularly on intellectual property

rights. It appears that, specifically, U.S. pharmaceutical companies are worried about the lack of protection they experience. Similar concerns are expressed by holders of U.S. copy right laws, particularly in the film, motion picture and publishing industries. Selective taxes, surcharges, and subsidies are also points of contention (Foreign Trade Barriers, 1989).

From an overall perspective, these entry barriers, although important, are not overwhelming in number. Clearly, the fact that such barriers exist in those areas where Turkey has worked hard to garner competitive advantage, such as textiles, makes them more onerous than one would expect on the surface. However, there are opportunities to overcome them. From a micro perspective, the voluntary restraint agreements in steel were designed with a time limit and they will therefore expire. The fact that only 31 categories of textiles are restricted means that 19 other categories are unrestricted, thus offering market opportunities to those firms which can be flexible in their production and are able to shift their merchandise to some of the unrestricted areas.

More important, however, are macro considerations in the relations between Turkey and the United States which will be an important determinant to the future of such barriers. Turkey has clearly taken the role of a major ally within the Western World in the current conflict in the Middle East. Even though Turkey has been exposed as a front-line participant in the current political volatility, it has, without any hesitation done the right thing, at a major cost to its economy. This willingness has not gone

unnoticed, and is likely to influence the future policy stance of the United States. It has also, to some degree raised the U.S. awareness about Turkey, and highlighted Turkey's role as a pro-western democracy - even though this awareness level is probably one of the major shortcomings of Turkey on the U.S. policy viewing screen.

The close collaboration between our nations, the fact that over the years the U.S. has had a persistent trade surplus with Turkey (see Figure 2) taken together with the gradual weakening of the textile lobby in the United States, will probably bode well for a future reduction of such governmental barriers. As the Administration of President Bush continues its adherence to free trade, such barriers are likely to decline.

(FIGURE 2 HERE)

NATURAL ENTRY BARRIERS

In spite of the rationale developed for the lowering of governmental barriers to Turkish trade flows, the same cannot automatically be expected for the area of natural entry barriers. First of all, companies and individuals may not be in agreement with the governmental rationale. To overcome any reluctance to purchase Turkish products, adaptation to customer needs will be required. Even more important, however, will be the overall competitive positioning of Turkey, since it is the change in competitive advantage which will, in the long run, determine the ability of Turkish firms to overcome natural entry barriers which may consist of obstacles such as insufficient scale economies,

product differentiation, cost advantages, distribution systems, etc.

In order to carry out a systematic evaluation of the directionality of natural entry barriers, Porter's model of determinants of national competitive advantage will be used here. Porter (1990), in an in-depth study of a wide variety of nations has identified four broad attributes that shape the environment in which local firms compete and that promote or impede the creation of competitive advantage. By analyzing the status of these different factors in Turkey and their likely development in the short- and medium-term future, it becomes possible to outline trends for natural barrier formation or deletion. In the analysis presented here, some comments are made for each one of Porter's competitive determinants in the context of the Turkish economy. Yet, these comments should be seen as strictly tentative and for purposes of illustration only. You, the Turkish businessmen are the true experts who will have to apply the concept developed here and determine the appropriate remedies.

CHANGES IN COMPETITIVE ADVANTAGE

Local Factor Conditions

The first major determinant identified by Porter consists of local factor conditions. On the human resource side, Turkey has a large population, working for relatively low wages. The fact that over 50 percent of employment is currently in the agricultural sector (Turkish Economy, 1990 p.30), combined with strong population growth and a large youthful population (Czinkota and

Ronkainen, 1990) demonstrates the availability of a large future pool of manufacturing and service employees.

As far as physical resources are concerned, electric energy production has been growing but the availability of mineral fuels is elusive. Land, particularly for agricultural production appears to be sufficiently available, but in some instances a shortage of domestic raw materials is experienced (Monthly Economic Figures, 1990, p. 37) Strategically, the location of Turkey is an excellent one, offering a bridging of the gap between Europe and the Middle East.

With regards to knowledge resources, indications are favorable. Turkey's literacy rate, at 89.1 percent is high (Turkish Economy, 1990 p. i). Turkish employees possess a strong work ethic, - as evidenced by the desire for and success of Turkish guest workers around the world, and many are well trained in technical skills. Much knowledge and skill also exist in the Turkish work force which has acquired experience abroad. Projectwise, major expertise has been accumulated in the area of large scale contracting. Industrial activities such as Turkey's participation in building the F-16 jets, up-to-date improvements in textile manufacturing and increasing focus on quality control have served to strengthen the availability of knowledge resources.

The capital resource position may be subject to major uncertainty. Even though at this time both the domestic and external debt levels appear manageable, particularly in view of the existing gold and foreign currency reserves, some detrimental

changes may be in the offing. Turkey's participation in the trade sanctions against Iraq will have a detrimental effect on revenue received, trade opportunities and credit potential. Furthermore, the democratization of Eastern Europe and German unification is likely to pull in large amounts of funds for investment, some of which would have been directed to Turkey. Also, the remission payments of Turkish workers abroad may be on the decline if the EC 92 and Germany decrease their need for external additions to their work force. Some support payments to Turkey, designed to alleviate the loss of revenue due to sanctions can be expected. Overall however, loss of revenues combined with high rates of inflation and government austerity measures may well tighten up the availability of capital, even though a high private savings rate may mitigate the problem.

The area of infrastructure appears to be a positive factor. After a history of low investment and poor service quality, major improvements have occurred in the telecommunications sector (International Directory, 1986). The formerly inadequate transportation system has been enhanced by the development of an extensive road network. The nationwide availability and use of mass media has greatly contributed towards the emergence of social cohesion (Meri Report, 1985). Over 99 percent of villages receive electricity, even though some occasional shortages are still experienced (1990 Statistical Yearbook). Given the major role that a nation's infrastructure plays in the competitiveness of its firms, major progress has been made, but continued improvements

here appear to be imperative.

Demand Conditions

Demand conditions are a second major determinant identified by Porter. He postulates that the existence of strong market segments with a high demand for products, together with a sophisticated nature of buyers, will greatly contribute to international competitiveness.

With regards to segment structure, some Turkish industries have been able to develop major competitive strength. Among them are, based on production and sales volume, the Textile and Leather industries, the Petrochemicals industry, the Metal Machinery Industry, and the primary metals sector (Monthly Economic Figures, 1990, p. 35). At the same time however, weaknesses are evident based on low capacity utilization, which seems to be particularly high in some of the largest industries (Monthly Economic Figures, 1990 p. 33) In addition, the recently experienced volatility of demand hinders the development of orderly growth. The existence of such large industries, as far as their development is independent of state subsidies, however, bodes well for the benefits of economies of scale, and the industries' ability to respond to large segment demand.

The nature of buyers in Turkey appears to be in need of further development. It is said that the Turkish market currently presents a sellers market, due to much demand overhang and a lack of supply alternatives. As a result, buyer preferences are insufficiently developed and are therefore unlikely to become a

major pressure point for local firms to offer higher levels of quality or service. In the short term, demand is more likely to respond to product availability than to product sophistication. Therefore, buyers at this stage do not appear to contribute greatly to an increase in competitiveness, even though a return of expatriate workers may provide some impetus in this direction.

Related and Supporting Industries

A third major determinant consists of the presence of related and supporting industries. Porter postulates that high-powered supplier industries or related industries will encourage innovation and competitiveness.

Turkey has made great strides in developing specific industrial sectors which are thoroughly competitive on an international basis. Of particular note here are the textile and the leather goods industries. However, there seems to have been only limited progress in the development of support industries. Frequently, encouragement of specialization has neglected the development of interlinkages between industries, which would encourage innovation and quality.

Corporate Conditions

Firm strategy, structure, and rivalry form the fourth determinant of Porter's competitiveness components. For Turkey, the current level of management skills appears to be in further need of improvement. It is said that the largest holding companies are family run businesses and are very centralized in their operations. As a result, there is some lack in management depth. The result may

be a lack of knowledge about management techniques and an insufficiency of exposure to management operations.

Commitment is a second major component of firm strategy. In Turkey, many claim that the private sector has relied too much on government for success. In order to demonstrate commitment to a strategic course of corporate action, the Turkish private sector must become more autonomous - similar to the emergence of a strong private sector in South Korea.

Domestic rivalry in business has been identified by Porter as showing the strongest association with competitive advantage. Within Turkey, such rivalry appears to be on the increase. One major step in that direction was implemented when President Ozal convinced CitiBank to come to Turkey. The changes in import regime announced on the 17th of January appear likely to make a major difference in domestic rivalry by deregulating imports in general and encouraging certain specific import categories (Istanbul Chamber of Commerce, 1990, p. 8). The rapid and major increase in the number of foreign direct investment permits and the volume of such investment, which amounted to over \$ 900 Million in 1989, up from \$ 273 Million in 1987, provides further evidence as to the effectiveness of the new market opening measures and the desire of foreign firms to enter the Turkish market (Monthly Economic Figures, 1990, p. 25). Overall, President Ozal's drive to make Turkey more of a free trade-oriented economy appears to bode well for an increase in domestic rivalry, and therefore seems likely to provide a major incentive for Turkish firms to work harder and

better.

New business formations, another key component of competitive advantage, appear to be on the increase in Turkey. One indication is provided by the investment incentive certificates issued, which, from 1988-1989 increased by over 63 percent in value. More important yet is the number of firm formations, which, in terms of net additions, grew by 9,000 firms in the twenty-four months from January 1988 - December 1989, and by over 2,800 in the first five months of 1990 alone (Monthly Economic Figures, 1990, pp. 15, 80-81).

Government

Finally, Porter describes the role of government to be one of influencing the four key determinant areas of competitive advantage. The Turkish government appears to have entered a new era of encouraging international trade, enhancing privatization, and reducing government red tape. Even though there still remains much to be done, the role and capability of government as an actual facilitator of business activities appears to be on the increase.

Table 1 summarizes the tentative scoring of Turkey for the determinants of national advantage. While there are strong indications that the Turkish economy is making progress in strengthening its competitive advantage, there are still substantial shortcomings. As a result, it seems likely, that in the short and medium term, natural entry barriers could be increasing for Turkish firms. Coming back to the concept of barriers shown in Figure 1, it can be expected that Turkey will

fall into quadrant three, consisting of an environment with lower government barriers and higher natural entry barriers.

(TABLE 1 HERE)

OVERCOMING THE BARRIERS

Such a scenario may be very disheartening to Turkey - yet it is not a necessary one. Several steps can possibly change Turkey's position and facilitate a move towards quadrant 1, which would delineate a decrease of both governmental and natural barriers to trade.

On the part of governmental barriers, Turkey needs to ensure that the many sacrifices which have been taken on so willingly are understood, recognized and rewarded by the world trade community. To achieve these goals, there needs to be a strong effort of communication and explanation, particularly in the United States. Currently, few people are aware of Turkey and of Turkish policy issues. As a result, there is only minimal pressure to change existing government barriers. Since bureaucracies, if not motivated, are likely to prefer the status quo to change, it behooves Turkey to actively demonstrate why and how governmental barriers ought to be changed, and to build a constituency in the U.S. supporting such change. If Turkey is successful in demonstrating the mutuality of interests and offering trade-offs beneficial for all parties concerned, it is very likely that a decrease in governmental barriers can be accelerated.

Of greater importance, for the long term, will be the overcoming of natural entry barriers. Here, even lots of

governmental goodwill is likely to achieve little, since these natural barriers are a consequence of a country's competitive positioning. Even though governmental action can assist in delaying some of the immediate effect of natural entry barriers, such actions are likely to result in major economic distortions which will only further deteriorate the competitive platform for firms.

Addressing natural entry barriers will require a focus on the domestic economy of Turkey. Even though it may be tempting to address symptoms with a short term pay-off, the key to long term success is an upward shift in the determinants of competitive advantage. Such a shift will demand from firms and government alike a commitment to further strengthen those determinants which already are heading in a positive direction. This means, that even more emphasis has to be placed at building and improving factors such as human resources, knowledge resources, the evolution of large industrial segments, domestic rivalry and new business formation. From a personal perspective, I believe the areas of human and knowledge resources to be the most important ones here. We are battling with similar problems in the United States, and I for one, strongly believe that investment into human capital represents the bank deposits for the future, the interest from which can materially alter the standard of living and quality of life.

It will also be necessary for Turkey to increase the focus on those dimensions of competitive advantage which currently are weak.

The development of capital resources, further improvements in the domestic infrastructure, the development of related and supporting industries are only some areas here. Imperative will also be the further strengthening of corporate management and commitment. This will require major efforts in developing management techniques and transferring management skills, and will need to involve funding, training, investment, technology sharing and an increase in the willingness to delegate. It will also require more and better information about the customers, and a continuous staying in touch with the market. Customers today don't just want to be satisfied, they want to be pleased. They look for quality, reliability and service, all for a low price. Unless management understands these dimensions and knows how to take action towards the implementation of measures which produces these dimensions, the competitive outlook of any firm and country, in today's highly fought for markets will be weakened.

It appears, that Turkey has made major strides in the right direction. But being on the right track is insufficient, if the oncoming train threatens to run you over. There is also a need for speed on the right track in order to keep up with and perhaps even exceed the advances of the competition. You all are to be congratulated for the major progress which you already have helped achieve. With further focus on building national competitive advantage you will continue to make rapid progress on the road to prosperity, and you will be able to break down or overcome the barriers which impede international business flows.

Table 1
 Determinants of National Advantage
 The Case of Turkey*

Factor Conditions	
Human Resources	+
Physical Resources	+
Knowledge Resources	+
Capital Resources	-
Infrastructure	+
Demand Conditions	
Segment Structure	+
Nature of Buyers	-
Related and Supporting Industries	
Supplier Industries	-
Related Industries	-
Firm Strategy, Structure and Rivalry	
Management	-
Commitment	-
Domestic Rivalry	+
New Business Formation	+

*Possible positioning of Turkish economy: + = supportive of national advantage, - = inhibiting national advantage

Adapted from: Michael E. Porter, The Competitive Advantage of Nations, The Free Press, New York, 1990.

Figure 1

TYPES OF BARRIERS TO TRADE

NATURAL ENTRY BARRIERS

**DECREASE
(STATUS QUO)**

INCREASE

**GOVERNMENT
IMPOSED ENTRY
BARRIERS**

**DECREASE
(STATUS QUO)**

INCREASE

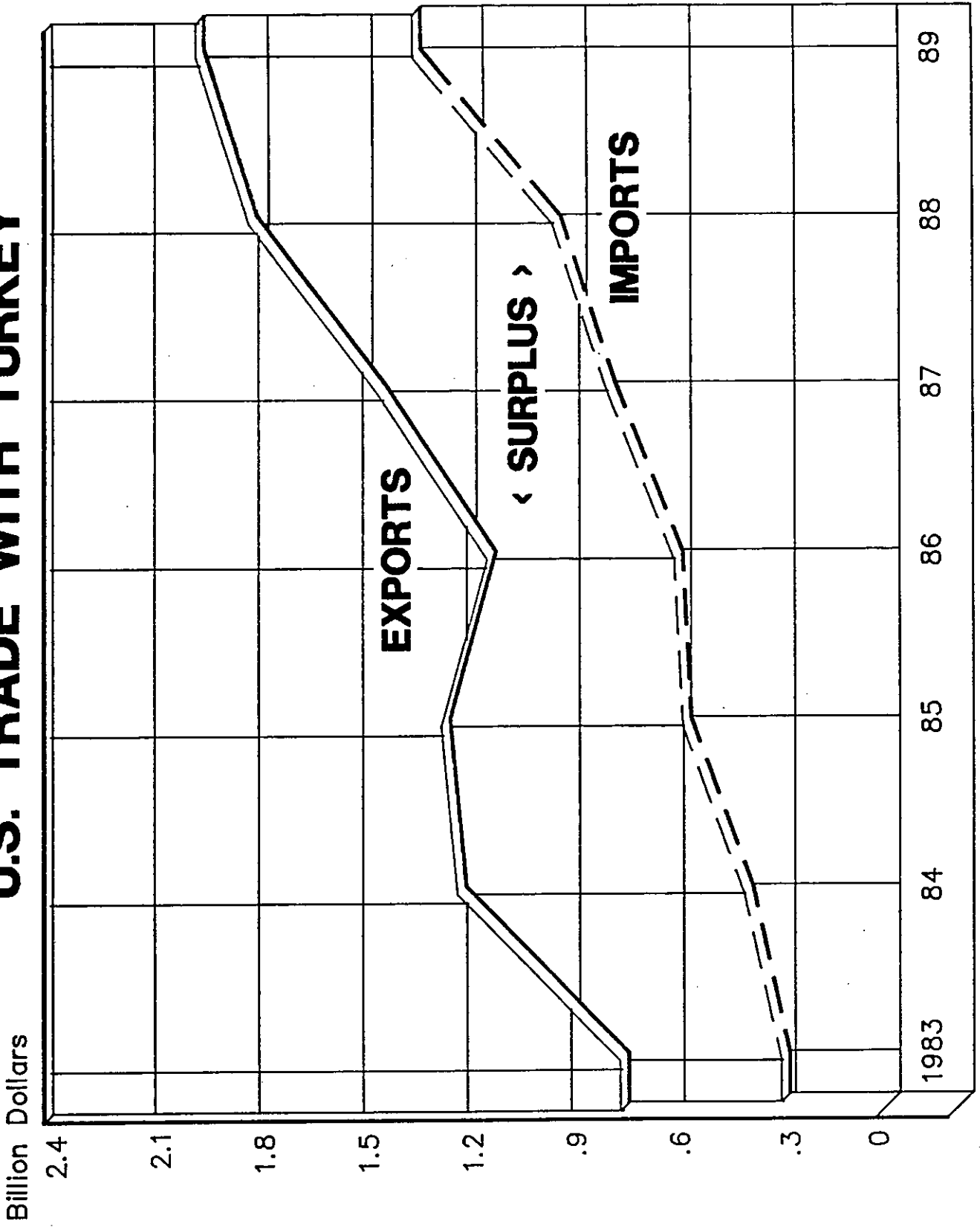
	1	3
	2	4

E17

Source: Rugman and Verbeke, 1990.

Figure 2

U.S. TRADE WITH TURKEY



Source: U.S. Department of Commerce.

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**CREATING A MEANING FOR " MADE IN TURKEY " :
LESSONS FROM THE FAR EAST**

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The Annual Symposium of
Turkish Industrialists' and Businessmen's Association
November 19 -20 , 1990
Istanbul, TURKEY



**CREATING A MEANING FOR "MADE IN TURKEY":
LESSONS FROM THE FAR EAST**

(1990 TüSIAD conference
Istanbul, November 19-20th 1990)

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Historians will probably describe the eighties as the decade of "Metamorphosis". Influenced by an explosive growth in mass communication, mass transportation, and mass automation technologies, the past decade has witnessed dramatic changes in the global economic system. The fundamental political and economic reforms in Eastern Europe are ending the East-West discord that has characterized the post-war globe leading up to a new political order. Similarly the rise of Asia Pacific, the relative decline in the competitiveness of the US and UK, and the unification of European markets are creating new socio-economic order. By the same token the rising influence of Far Eastern, particularly Japanese companies on global business, are drastically redefining the rules of competition, developing a new "business order".

Nothing threatens our sense of economic security more than rapid and discontinuous change. With so much change in the air, the urge to minimize risks, and hold on to status quo is typically high. But it is during these periods of mega changes that great strides have been made, as participating in the process, either by choice or by default,

has often brought the best out of individuals, corporations, and nations at large. Change is a part and parcel of growth, the single most important engine driving wealth creation. The key to successful corporate or national development is not to avoid change but to take advantage of it. The big question we need to answer is what can Turkey do to exploit the currents of change in the nineties?

More than anything else, to meet the challenges of unsettling global political, economic and business orders/structures, Turkish industry, and the economy in general, needs a clear sense of purpose and direction. The leadership needs to be familiar and comfortable with where to invest and in what sequence. The courage to exploit and manage change does not happen by chance. It results from rigorous self examination and a careful allocation of corporate and national resources.

Invigorating a National Ambition:

Recent developments have clearly demonstrated that with the increasing influence of technologies on human life, it is difficult, if not impossible to manage and/or meaningfully participate in the evolutionary process in isolation; on the other hand, it also indicates, if managed and harnessed with care, and if shared, significant and positive changes can be brought about in a limited time frame. Of course to keep up with the demands of this "technology led global

metamorphosis", it is essential that corporate and government leaders alike continually examine how the nations they lead, the corporations they run, should relate with the rapidly changing world outside, and, accordingly, define **new game** strategies.

In the TRIAD(Japan, US, Europe), with the advent of deregulation, the lowering of tariffs, and the force of globalization, companies are now continually experimenting with new ideas to explore how they can come to terms with the emerging competitive dynamics and/or change the rules of the game to their advantage.

Particularly companies head-quartered in the middle income countries like Turkey, which are in the midst of liberalization and modernization, have to deal with even more severe discontinuity, as they are suddenly exposed to the threats of global competition, which itself is in a state of flux. In other words, corporations in developing countries have to deal with a "double discontinuity": discontinuity in terms of the scope of competition from domestic to international, and discontinuity in the character of global competition itself.

For Turkey especially, during the last decade, the liberalization of economic policies and the modernization of the country's infra-structure have raised the general awareness of Industry and Business, and Government and Politicians, to the need of thinking global and

developing strategies which are outward oriented. Given the stage of development the country is in now, with manufacturing accounting for 26.1% and agriculture for 19.2% of the Gross Domestic Product it is clear to move into the next stage of socio-economic development, Turkey will require to make major strides in manufacturing through rapid gains in productivity and employment creation.

To expedite the process of economic development, in particular much of the manufacturing growth has to be achieved in the face of global competition, both in the domestic and overseas markets. Time has now come for Turkey to take a hard look at its competitive ability in its various manufacturing sectors and then decide for which ones it should emerge as a major player in the global markets, much as Japan did in Ship-building, Steel and Textiles in the early sixties, and Consumer electronics and Automobiles in the seventies and the eighties.

In short, as Turkish leadership develops the "will" to exploit the global discontinuities to make its presence felt, it must also commit itself to develop a "true manufacturing culture" which can compete with both the established and the emerging players in the global markets.

Rising to the challenge:

Against this back-drop, the questions that Turkish Industry has to answer are how it should quickly earn the credibility as a

manufacturing nation, and how to determine the meaning its products will carry in advanced markets. The identity of a nation is largely shaped by the products/services it provides to the world and it can be created and managed by its industry. In the fifties Japanese products were well known for their poor quality and low cost, but, within two decades the nation was able to totally renew its image as a high quality, efficient manufacturer of all kinds of products: from automobiles, bicycles, and cameras to yachts and zippers. More than 100 brand names were introduced during this period, most of which stand for quality and are a benchmark of excellence.

Looking ahead, in the same spirit, during the remaining years of this century will Turkish Industry face the challenge of creating a meaning for "Made in Turkey"?

I firmly believe, given its unique location, the experience base that is in place, and a renewed interest within the Turkish leadership to make its presence felt on the global stage, Turkish Industry could successfully meet the challenge; however it will require execution of innovative strategies, and although it will be difficult, it is definitely not impossible.

I do not know whether Mr. Morita, Chairman of the Sony Corporation, could have ever imagined when he founded the company

with his partner Mr. Ibuka in 1946, what "Made in Japan" would stand for in the seventies, let alone in the nineties. Analyses of Japanese corporate development makes one point clear, that the leaderships' will and vision are the two ultimate factors which determine at what speed a nation could make its mark in the global market. Mr. Morita, like Mr. Sochiro Honda founder of Honda Motor Company, Mr. Yoshida of YKK and several other businessmen, felt the need to create a new image, a new identity of Japan, which they accomplished by developing, designing and manufacturing products with the most advanced markets in mind. In his book Made in Japan, Mr. Morita writes "We wanted to change the image of Japanese goods as poor in quality and we reasoned, if you are going to sell a high quality, expensive product you need an affluent market, and that means a rich sophisticated country(like the US)".

Consequently, Japanese businessmen's approach towards technology in the fifties, when Japan was just in the early stages of reconstruction was very different compared to their counter-parts in typical developing countries in the same stage today. Japanese corporations' super-ordinate goal was to quickly learn from the west and develop products which are either superior or more economic, for customers for their own domestic and for markets . This attitude hastened development of corporate IQ and muscles, and in turn economic development.

In contrast, in most of the developing countries who have not been able to manage progress, business leaders have typically borrowed (not necessarily learn and internalize) technology to serve the top 20 to 30%, in some cases even only the top 5% of the domestic market and be content with the margins which government protections could offer. The name of the game for business in such environments has typically been "Instinctive opportunism" which essentially include's managing licenses, and investments in a timely fashion, and ensure that their access to the lead firms in the advanced countries are religiously protected. This approach lacks courage and self confidence, retards corporate growth, and, as a cumulative effect, limits a nation's ability to harness its own latent energy.

In view of the progress made with economic reforms and infra-structure development in the last decade, and given its wide industrial experience, the time has come for Turkish industry to break from its past assumptions on its limits, and develop the courage to compete in advanced markets. Like Japan in the fifties and sixties, and the Asian Dragons in the seventies and eighties, the Turkish manufacturing industry should now consider to develop approaches to participate in the most advanced markets. In a few areas like ready wear, leather, ceramics and glass, it has already earned a considerable presence which Turkey has to now aggressively build on. Recent analyses carried out by TÜSIAD, in conjunction with industry indicates

there are at least a dozen areas in the next 3 to 5 years, and another half a dozen areas in the next 5 to 10 years, where Turkey can become a significant player in the global market.

In this context it is important to recognize that the process of wealth creation will undergo significant changes. For example, in the seventies, and the early eighties for major companies in Turkey, the creation of shareholder's wealth essentially involved timely investments in capital equipment (ahead of competition), superior product management, and earning profits from domestic market. In the future, however, with new forces at work, as industry goes global, competitive management of corporate knowledge and intelligence, corporate image, customer relationship, with a worldwide perspective, will play an increasingly important role.

In the nineties, in view of the mega trends, such as homogenization of customer habits, individualization of preferences, accelerating speed of technological discontinuities etc. Turkish industry will require to develop a global vision of their businesses, build an enhanced flexibility in production, and find ways to take advantage of Turkey's unique geo-political position. In general industry should consider reviewing its strategies to explore how best it could exploit these trends, such that several companies could emerge as a truly global organizations. Given the fact that companies in a few middle

income countries such as Thailand, Indonesia are, also exploring ways to leverage these trends Turkish industry will need to move fast to take full advantage of the available opportunities (before new alignments between developed and developing countries are formed). Probably in the near future, companies in Eastern Europe may also develop as major players in the global market which should further enhance the sense of urgency.

In order to fight competition, it will require corporations to work with new set of principles which might, at first glance, may appear too distant, more risk prone, and difficult to adopt. However if corporate leaders in cooperation with government could nurture in them the will and vision, no challenge is too great to shy away from.

**Adopting the new principles: Lessons
from the Far East.**

Designing superior Global strategies:

The Japanese corporations entry into the global market has followed a set pattern, both in terms of the segmentation dynamics and business system dynamics. While most corporations even in the early stages of development, had the passion to be the best, and measured their performance vis-a-vis the standards of the advanced markets, they typically entered the low-end of the market and graduated up.

During the entry stage, the fundamental focus of management was on production engineering, which essentially involved taking an "Integrated view of cost and quality" and in the process playing "me too" strategies with better and more economic products. The basic strategy was to leverage on cheaper labour, new concepts of quality control(Deming), and wrestles experimentation to "humanize production", to beat the western mass production techniques. In the auto industry for example Japanese productivity levels increased several folds both in terms of machine and labour yields. Take a specific case from the press shop in the automotive assembly line; while the US and European workers took 1 to 2 hrs. to set up German press machines, it took an average Japanese team only 5 to 7 minutes to do the same job with the same machine.

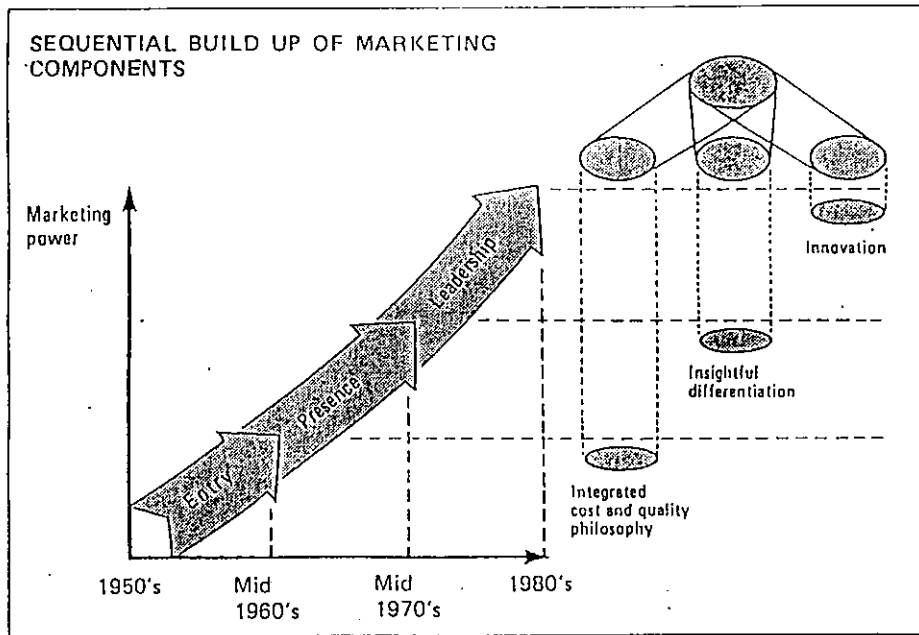
As the integration of cost and quality was mustered, Japanese corporations earned the credibility as serious players in the low ends of different markets, they moved into the next stage of development, characterized by "Insightful differentiation". By the early to mid seventies the focus of leadership shifted towards understanding un-met needs of consumers and satisfying those needs with new product features. During this stage more emphasis was placed on product design, both to improve the speed at which concepts from the drawing boards were taken to the market place, and in the process Japanese

delivery systems became more agile and responsive. For instance the automotive industry which earned its entry into global markets through introduction of fuel efficient economy cars, moved up scale by providing customers with more options, and superior designs. Most importantly they begun changing models at a faster pace compared to their counterparts in the West. This was largely made possible, because Japanese corporations were able to develop products at speeds twice that of their counterparts in the west. As a result, in contrast to Honda's three years, GM requires six to eight years to convert a concept to a product from the assembly line.

"Innovation management" is the next pillar Japanese management placed major emphasis on. Top managements of many companies who begun their career with production engineering, in the late seventies, early eighties started focusing on the fundamentals of products and their functions in society. This nation wide urge to innovate indeed led to series of products like Walkman, Hand-held copiers, Ceramics scissors and knives to name a few. Looking ahead, Japanese industry is expected to play major role in innovations in Artificial Intelligence, Bio-technology, Computers and Communications and several other futuristic technologies related to materials, space and health care.

$I \times I = I^3$ is what I think best describes the $IQ(I^3)$ of Japanese industrial strategy. Exhibit 1 describes how each of the components of

Exhibit 1



the IQ were sequentially developed as Japanese products gained entry, established presence, and secured leadership status in several markets world-wide. This phenomenon is characterized by:

1. Leaderships "will" to participate, compete, and measure success according to yardsticks of the most advanced markets.
2. Top management's hands-on involvement with the fundamentals of the business system, from production engineering to product design and development.
3. Focus, the ability to concentrate resources and energy on one component of business system at a time, and continually maintain the spirit of development.
4. Uncompromising attention to details in understanding the dynamic needs of customers and developing products proactively.

Adapting the Japanese lessons to the emerging rules:

In order to build on these lessons, in a world of increasing global competition Turkish Industry has to develop the IQ(I³) not in sequence but in parallel, and they will need to be developed in a more creative fashion than the Japanese did.

Advanced markets have become significantly more sophisticated and complex. As such, there are no low end segments (there are clusters of different segments) any more, nor, with the advent of robots

and flexible manufacturing systems, advantages in the wage rate could be easily leveraged by countries like Turkey. As a result while the basic principles which Japanese industry followed are still valid they need to be developed and applied in a different fashion.

In this context the South Korean development is worth examining. While the Korean companies essentially worked with similar principles and outward oriented strategies, to expedite the process of development of IQ(I³) they networked intensively with advanced companies worldwide in a give and take fashion not just to serve the domestic market but to participate in the global markets as equal partners. In a period of only ten years Korea achieved, what took Japan almost 20 years to achieve.

Looking ahead, Turkish industry should also prepare itself to take bold steps in building IQ(I³) and to develop creative networking approaches. As the world moves toward a knowledge based competition, Turkey has to, in addition, find ways to create, process and utilize knowledge in a more efficient and effective fashion. As, in the fifties, Japan's entry was driven by its ability to participate in the world of mass production through efficient use of labour, and in the seventies and eighties, Asian NIEs entry was driven by their ability to leverage their low cost work force to design more(options) and faster(more responsive designs) and manufacture cheaper, in the nineties for

Turkey to create meaning for "made in Turkey", it has to, in addition, explore ways to use knowledge faster and cheaper.

In order to make a successful transition towards an industrial structure which is active worldwide, it is important that Turkish industry considers defining and executing strategies which on one-side enables it to attack the weak spots of the well entrenched competitors, while protecting its own weak spots(eg.lack of experience and brand recognition etc.) from them. Building on the experience of successful Japanese and Korean companies a strategic framework which enables a business strategist to decide the scope of the product/service he is going to offer, and the rules by which he is going to play the game is useful, in-turn to determine how best a newcomer could differentiate itself in securing competitive advantage. The framework described in the Exhibit 2, allows a strategist to test four fundamental types of strategies and then decide which particular type will best fit the character of specific business units of a company.

Type 1: More and better of the existing product scope and rules

Type 2: Innovative product scope and same competitive rules

Type 3: Same product scope with redefined competitive rules

Exhibit 2
STRATEGIC BATTLEFIELD

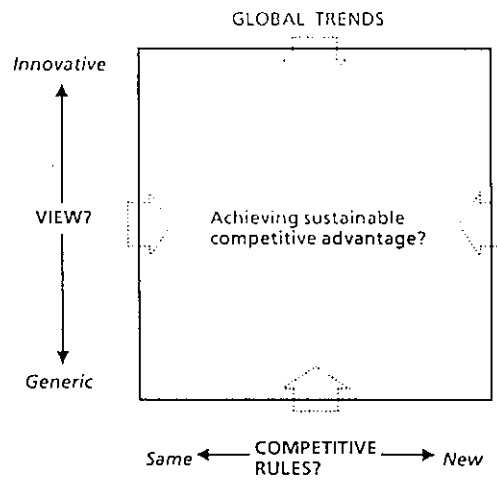
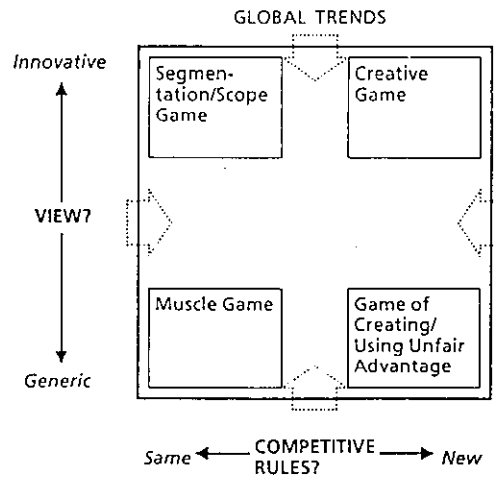


Exhibit 3
STRATEGIC BATTLEFIELD



Type 4: Creative strategy with redefined product scope and redefined rules.

As the Exhibit 3 indicates each corner of this strategic battle field has different implications, and depending upon the competitive ability a company, it should determine the strategic quadrant that will be most suitable for it. Same product could be positioned in all the different segments depending upon how it is packaged, or it could conveniently positioned in any of the quadrants where the company could create maximum competitive advantage.

Exhibit 4 indicates how, for various industries, the Japanese companies used different type of strategies to establish their presence in the global markets. The underlying theme which enabled Japan earn the marketing prowess is its industry's customer orientation. As a result, in contrast to conventional design approaches which are typically "inside-out" Japanese companies have built their products with "outside-in" approaches. Exhibit 5, shows how for example the design process of a commercial vehicle for an inside-out approach takes customer into consideration only during the final stages of the design process. In contrast Japanese approach described in the Exhibit 6, begins the design process with the customers, in turn with product features which customers directly interface with.

In view of the this fundamental difference many US, and European companies are re-deigning their business system to catch up with Japan. By the same token, as a first step Turkish companies to become more responsive to global customers, should begin by reviewing how they should build customer awareness all along the business system. business system, not just in the marketing and sales functions.

In order to gain quick access to world markets and overcome their competitive weaknesses, Korean companies in addition have continuously used collaborative strategies and skills to use consortia approaches in building global businesses.

Korean automotive industry is particularly noteworthy. While the industry concentrated to master assembly technologies and to build up world scale facilities, it sourced designs and components from companies in the US, EC, and Japan in return of lowest cost assembled cars from Korea. Because of this strategy, in less than a decade the Koreans were able to increase their capacity of the automobile industry from 150,000 to 2000,000 units.

As competition becomes more complex in the future, Turkish Industry should also consider answering how it could work with industries from advanced countries, not as their representatives in Turkey or Middle-East, but as equal partners to serve global markets.

Exhibit 4
STRATEGIC GAME BOARD

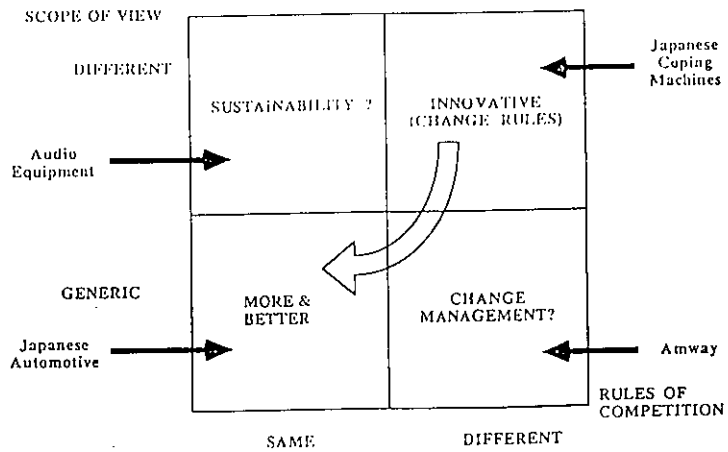


Exhibit 5

TRUCK

Conventional Design Approach

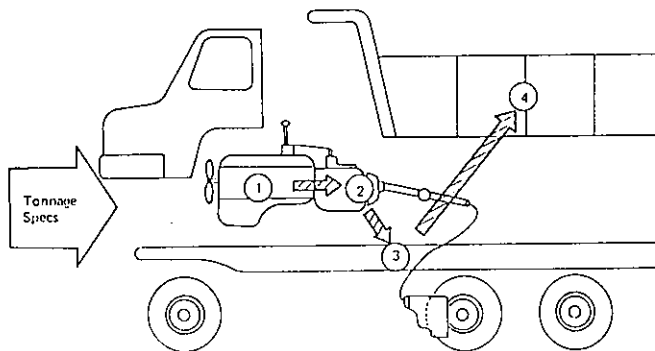
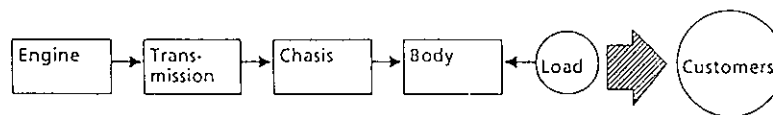
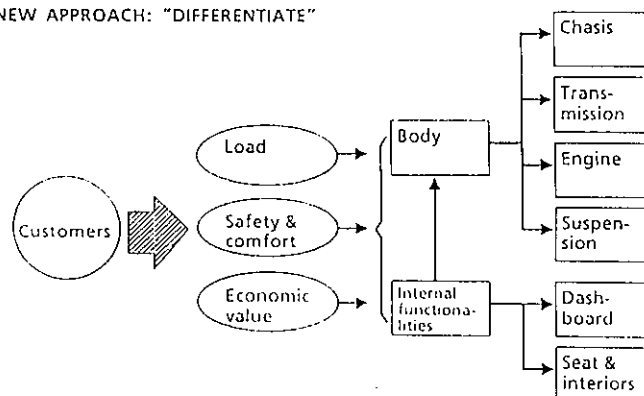


Exhibit 6

CONVENTIONAL APPROACH:
"DO MORE AND BETTER OF THE SAME"



NEW APPROACH: "DIFFERENTIATE"



It is my belief for Turkish companies to make the transition it has to consider establishing "innovative consortiums", particularly with companies which could provide it access not only to efficient production systems, but enable Turkish industry to play a strategic role to strengthen its partners position in world markets eg. EC market access. In that context industry should consider to explore how strategic relationships with companies in the Asia Pacific are established.

**Working with new approaches for
innovative responses**

A substantive switch from being a major player in the domestic market to a relatively new player in the global market is not easy to manage. Particularly in dealing with the speed of change instigated by competitors coming from different backgrounds and competitive advantages, the future organizations have to deal with new requirements.

"Humanizing" the strategic process:

Companies in a knowledge based environment in the nineties and beyond, have to achieve competitive advantage through acts of innovation. Competitors will eventually and inevitably overtake any company that stops improving and innovating. If an organization wants to play the competitive game in the "generic-same-rule" (Type 1

strategic quadrant) it has to be innovative in terms of production and delivery management while on the other hand it could well develop innovative product concepts and participate in the market with totally new rules. As the Exhibit 4 indicates for different product families, lead Japanese companies adopted different approaches to participate in global market.

The management of innovation essentially entails innovative people dynamics. As Mr. Morita Chairman of Sony indicates in his book "Made in Japan".. "the most important mission for a Japanese manager is to develop healthy relationship with his employees and managers share the same fate. Those companies that are most successful in Japan are those that have managed to create a shared sense of fate among all the employees, what Americans call labour and management and the shareholders." He continues to indicate "the emphasis on people must be genuine and sometimes very bold and daring and even it can be quite risky.....To put it more dramatically, the fate of your business actually lies in the hands of the youngest recruit on the staff."

This is the nature of commitment, that Japanese business leaders make to their employees. In the same spirit, for Turkish industry to emerge as significant competitors emphasis on people has to visibly enhanced ,to the degree, that they in turn develop the competitive spirit the industry needs to fight global battles.

At the same time, new organization concepts should be developed so that a company does not settle for status quo after the initial success. Too many companies have been very badly hurt because they have been too attached to the approach which resulted to the first success. As a result, it is important that Turkish companies, as they prepare to participate in global markets, consider adopting innovative organizational schemes which on one hand will continuously force a company to create additional value with no increase, if possible decrease costs within the existing formats. While on the other hand there should be a parallel process at work which will challenge the existing formats to create the new formats. Only through this process a company in the future be able to sustain its competitive advantage. Turkish companies should use innovative schemes to allow the dual process(Exhibit 7) to work effectively side by side.

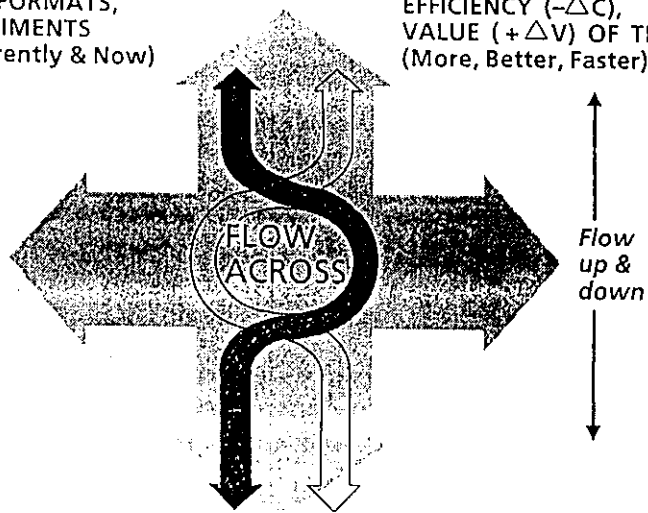
Playing Judo + Rugby simultaneously:

As Turkish industry develops its strategic ability to compete, and humanizes its organization to instill a sense of innovation and ignite competitive spirit, at the operational levels it has to learn to develop the ability to use the networks'(collaborators and often competitors) skills to its advantage much like a skillful Judo player uses his opponent's strength to overcome the opponent. By the same token, the team spirit to fight until victory is another characteristic Turkish

Exhibit 7
ORGANIZATIONS NEED "DUAL FLOWS"

NEW FORMATS,
EXPERIMENTS
(Differently & Now)

EFFICIENCY ($-\Delta C$),
VALUE ($+\Delta V$) OF THE SAME
(More, Better, Faster)



industry must find ways to develop. Similar to game of rugby the ability to rough out a competitive battle as one team is another character organizations have to learn. In the recent years in a some of my clients we have introduced several creative mechanisms like "competitive game playing", "simulation exercises" which facilitate development of such corporate skills.

However the most important factor which truly enables companies to develop this spirit is top management's direct participation in designing and executing competitive strategies. As a first step, Turkish companies should now begin to introduce a strategic management process(SMP) which is managed with a global perspective such that senior management and share holders can every year systematically assess relative competitiveness of different businesses and develop competitive strategies. Some of my clients who have gone through the SMP cycle several times, first develop an unusual amount of self confidence, which is an important factor in succeeding in the global arena.

Instilling new organizational
support mechanisms:

As the basic concepts of new strategies and new organizations are agreed to, it is important that state-of-the-art organizational supports

are also adopted. Below I have highlighted a few of the mechanisms some of my clients have found useful in managing the transition toward a global company.

¶ Organizational IQ management through emphasis on "sensing", "information analyses", and "creativity" functions in an organization, in contrast to the conventional controls and hierarchical power plays.

¶ Organizational responsive/speed management by designing delivery systems which are customer oriented, not driven by internal management's convenience. In a few of my clients we have introduced what we termed "customer circles" to stimulate innovation, delivery speed and communication with the customer.

¶ Next generation TQC to develop organizational disciplines which ensure every activity in the organization is carried out with highest quality and timeliness standards, such that senior management resources are managed in most effective fashion.

¶ In addition new concepts are being introduced at the board level to ensure more creativity and global perspective could be stimulated for top management in the organization. Board room stimulation programs which continually up-date top management with

the latest developments in the world, familiarize them with the latest technologies and management concepts, and force them to draw creative implications for the organizations they lead, could indeed be of major value.

It is crucial, that any company irrespective of its size, examine its organizational processes to ensure that it is tuned to fight the strongest competitors. As in most industries, the toughest competitors are from the east, it is important to recognize the management philosophies and principles the leading oriental companies compete with. Accordingly senior management should consider to have mechanisms in place which are continually identify how their organizations should adopt working methods which will increase their competitive edge.

Role of the Government

It is the industry who will have to take the leadership to create a meaning for "Made in Turkey". However it is the responsibility of the government to create an environment in which initiatives taken by the industry can succeed. Having modernized its economic policies and infrastructure, Turkish Government should now consider to shift its role to become a "strategic mentor" to the industry, and a "marketer" of the nation to the world.

In all the post war success stories on nation building, in terms of economic development, the government has played a very significant role in helping their industry to emerge as global competitor. In Japan, the role Ministry of International Trade and Industry(MITI) plays in the nation's industrial development is well known. MITI's strategic guidance is of immense value to industry. Its strategic vision paper acts as fundamental base on which companies build their strategies. Should not Turkey also think of setting up a think tank which can provide an overall strategic guidance to its industry and in accordance determine the role the government should play to help industry develop competitiveness?

Like Singapore, and more recently Italy, Spain, Portugal and Thailand, Turkish Government must also in concert with the industry find ways to promote several programs which are of national and strategic significance. To name a few, such programs should include:

¶ Productivity stimulation at all levels of society. It is clear that the ultimate meaning Turkey could create in the world will depend the output of each every individual. National Productivity Board of Singapore is an excellent model which Turkish leadership may want to study to promote productivity improvement exercises.

¶ Total quality control should be promoted nation-wide. As a first step, unless it is already in place, TQC infra-structure on a

national basis should be created. This infra- structure should be responsible to build quality awareness, organize training programs and encourage people to participate in TQC by giving visible recognition to good performance.

¶ Technology intelligence function should be created at a national level which will monitor the futuristic technologies and determine how Turkey may consider to harness them for its economic development. It should also build awareness among the people about the significance of new technologies in their daily lives so that on the long-term Turkey could also build a "technology culture" an important ingredient for a progressive society.

In addition, targeted programs to promote certain specific characteristics of the nation need to be developed. Like Singapore, who is now promoting itself to the Multinationals, as a base for the Operational Head Quarters(OHQ) and Regional Head Quarters(RHQ) of the Asia Pacific, Turkey should also consider to market itself, for example as "The First Stock/Capital Market to open in Europe", and /or as the "Manufacturing center of Europe". Such programs could provide a tremendous boost to the nation's initiatives to create a meaning for "Made in Turkey". Determined efforts inside, and awareness building outside is what the government in concert with the industry should aim in organizing to ensure all initiatives are indeed meaningful and are applauded.

* * *

It is my belief in the nineties the emerging trends will provide Turkey several mega opportunities which it must exploit. It will require Turkish companies to think and act global. As economies globalize, the arena and intensity of competition will change significantly. Management must consider to explore new ways to define strategies, new ways to organize businesses, and promote acts of innovation in serving customers world-wide. Strategic alliances with Far-east may help to source ingredients of competitive advantage, and at the same time to secure access to markets which are growing rapidly. Government and Industry must consider to work together to create the conditions which will encourage and enable domestic entrepreneurship to fight global battles and in the process create a "meaning" which every Turkish citizen is proud of.



**MARKET GROWTH OPPORTUNITIES FOR TURKISH PRODUCTS IN EAST
EUROPEAN COUNTRIES AND THE U.S.S.R.**

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INTRODUCTION

In recent years, political and economic structures of all East European countries have undergone fundamental changes. From Poland in the north to Bulgaria in the south, economic changes will lag well behind the recent frenetic pace of political changes. This transformation of Eastern European economies has had profound effects on specific markets and marketing systems of the region. As a result, Eastern European countries have begun to graft on capitalist economic changes. In this process, Hungary has acted as the testing ground for many of the changes. The task is turning stagnant, command-based economies into lively market oriented systems. Despite these pronounced changes, available productive capacity in Eastern Europe is not able to satisfy pent-up demand not even for such basics as food, clothing, and shelter.

With the emergence of the U.S.S.R. and Eastern European countries in world trade in a more active way, it is essential for Western firms and institutions to better understand the market structures of these economies. However, Eastern European economies are fast changing. A very interesting development has been a large-scale privatization and decentralization of production and distribution sectors in response to the current economic reforms taking place. The economic sorting-out process is only now getting under way in Eastern Europe. It is predicted that the move toward privatization of most sectors of Eastern European economies will

even accelerate in the future. For instance, the new Hungarian government plans to privatize 80% of industry in the next few years and is hoping foreign capital will help this process along. In this country, 10% of industrial assets is already in private hands.

In recent years, there has also been a marked increase in the Western countries trade with the U.S.S.R. and other Eastern European countries. However, the size and magnitude of market opportunities in Eastern Europe vary widely by product-market, by country, by sector, and exploiting it requires tremendous managerial skills and perseverance. In this context, four critical issues are identified. First, a key factor in East-West trade is the lack of understanding of Eastern European markets and marketing systems. Second, it is necessary and possible to expand East-West trade for a mutual benefit. Third, there are many barriers to East-West trade which must be overcome for a healthy trading relationship. Finally, there is a growing need for finding and implementing newer and more innovative ways of trading with Eastern European countries.

THE MARKETS AND MARKETING SYSTEMS

Recent reforms and changes in Eastern Europe and the U.S.S.R. have opened up a market place of about 430 million consumers. In 1989, the Eastern European bloc accounted for 17.4% of world gross national product. The combined economies of these countries today represent a gross domestic product of \$3.6 trillion, just

three-quarters of that of the European Community countries, whose populations total 325 million. With potential economic growth rates of 4-8%, the Eastern European bloc is very attractive for Western firms. But the main deterrant to foreign investment and trade lies in practical matters, such as clarification of ownership, banking systems, profit and dividends transfer, stock exchanges, employee motivation, power lines, and infrastructure.

Western countries' sales to Eastern Europe grew by about 10% in 1989 to \$62.7 billion. West German firms captured 34% of the market, but Italian, U.S. and French companies also turned in good results on average. The value of OECD exports to Eastern Europe grew by some 9.9% to \$62.2 billion in 1989 (Table 1). OECD sales to Poland increased in general by some 22%, leaving the country with a trade surplus of \$171 million. Western sales to Hungary and the U.S.S.R. were also well above average. OECD exports to Hungary rose by some 15% to over \$4.6 billion and to the Soviet Union reached \$27.8 billion, some 11.6% higher than in 1988. The biggest disappointment was Czechoslovakia. Overall, Western sales to the country actually dropped by 3.2% to \$3.5 billion. OECD sales to Bulgaria and Romania were lower by 4.2% and 5.7% respectively in 1989, reflecting the continued weakness of those two markets (Baker 1990). In contrast, 66% of the trade amounting to \$171.6 billion was with the Soviet Union and other Socialist economies. During the same year, the European Community

recorded a very substantial \$32.5 billion in trade with Eastern European countries. In 1988, only 1% (\$2.6 billion) of Eastern Europe's total trade was with the U.S.A.

Table 1

OECD TRADE WITH EASTERN EUROPE*
(in \$ million, current prices)

Country	OECD exports to Eastern Europe				OECD imports from Eastern Europe				EE '89 trade balance
	1987	1988	1989	% change over '88	1987	1988	1989	% change over '88	
Bulgaria	2,340	2,424	2,322	-4.2	756	744	792	+6.5	-1,530
CSFR	3,312	3,576	3,460	-3.2	3,492	3,828	4,170	+8.9	+710
GDR	6,643	7,083	7,451	+5.2	6,290	6,614	6,778	+2.5	-673
Hungary	3,900	3,996	4,623	+15.7	3,696	4,104	4,491	+9.4	-132
Poland	3,972	4,968	6,078	+22.3	4,920	5,712	6,249	+9.4	+171
Romania	1,308	1,260	1,188	-5.7	4,068	4,032	3,903	-3.2	+2,715
USSR	20,616	24,900	27,800	+11.6	22,896	23,676	25,780	+8.9	-2,020
Yugoslavia	7,956	8,844	9,786	+10.7	7,812	9,108	10,002	+9.8	+216
Total	50,047	57,051	62,708	+9.9	53,930	57,818	62,165	+7.5	-543

Source: Mark Baker, "OECD: 1989 Was a Growth Year for Exports to EE", Business Eastern Europe, September 3, 1990, p.290.

On the other hand, the share of Turkey in Eastern European trade was \$1.8 billion in 1988 and this increased to \$2.5 billion in 1989, allowing a 72% increase in overall trade. Exports to the Eastern European countries increased considerably to 8.9% of total exports in 1989 from 5.3% in 1988. Whereas imports from Eastern European countries showed an increase of 35.5%; their share increased to 9.5% of total imports in 1989 from 7.7% in 1988 (TUSIAD 1990). Composition of the Turkish exports and imports by country groups as well as with Eastern European countries is shown in Tables 2 & 3. Currently, Germany trades more goods and services with Eastern Europe than any other non-

Socialist country. Austria is second and Italy is third. Table 4 shows market structure and characteristics of Eastern Europe. The U.S.S.R. and some Eastern European countries are still trying to form the appropriate balance between market and state though there is a considerable degree of shift towards the realization

Table 2
Composition of Turkish Exports and Imports By Country Groups
(\$ Million)

Country Groups	EXPORTS				
	1988	%	1989	%	1988-1989 % Change
EC Countries	5,098	43.7	5,408	46.5	6.1
Islamic Countries	3,084	26.4	2,870	24.7	-6.9
Other OECD Countries	1,609	13.8	1,769	15.2	9.9
Eastern European Countries	617	5.3	1,035	8.9	67.8
Others	1,255	10.8	545	4.7	-56.5
TOTAL	11,662		11,627		-0.3

Country Groups	IMPORTS				
	1988	%	1989	%	1988-1989 % Change
EC Countries	5,894	41.1	6,055	38.4	2.7
Islamic Countries	2,935	20.5	2,921	18.5	-0.5
Other OECD Countries	3,343	23.3	3,855	24.5	15.3
Eastern European Countries	1,102	7.7	1,493	9.5	35.5
Others	1,061	7.4	1,438	9.1	35.5
TOTAL	14,335		15,762		10.0

Source: Adapted from The Turkish Economy '90, TUSIAD (Turkish Industrialists' and Businessmen's Association), Istanbul, July 1990, pp: 71 & 73.

of market economy (Mandell 1989 p.473). A long period of economic stagnation under central planning has left countries with heavy debts, under-investment in basic industries, and unfamiliarity with free market discipline. Learning how to proceed with R&D, licensing, and management training will be a

tough task for Eastern European countries. Let us now examine the characteristics of each country.

Table 3
Turkish Foreign Trade With Eastern European Countries

Eastern European Countries	EXPORTS					
	1988	%	1989	%	1988-1989	% Change
U.S.S.R.	271.4	2.3	704.8	6.1	159.7	
Poland	77.6	0.7	71.4	0.6	-8.0	
Romania	76.0	0.7	53.0	0.5	-30.3	
Yugoslavia	68.1	0.6	85.4	0.7	25.4	
Czechoslovakia	35.3	0.3	39.2	0.3	10.2	
Bulgaria	28.1	0.2	26.7	0.2	-5.0	
Others	35.4	0.3	29.2	0.2	118.3	
TOTAL	616.7	5.3	1,034.2	8.9	67.7	

Eastern European Countries	IMPORTS					
	1988	%	1989	%	1988-1989	% Change
U.S.S.R.	442.6	3.1	596.7	3.8	34.8	
Poland	78.6	0.5	98.1	0.6	24.8	
Romania	198.0	1.4	238.0	1.5	20.2	
Yugoslavia	232.7	1.6	375.0	2.4	61.2	
Czechoslovakia	27.8	0.2	72.1	0.5	159.3	
Bulgaria	15.7	0.1	3.3	0.0	-79.0	
Others	14.1	0.1	23.0	0.1	40.3	
TOTAL	1,102.3	7.7	1,493.4	9.5	35.5	

Source: Adapted from The Turkish Economy '90, TUSIAD (Turkish Industrialists' and Businessmen's Association), Istanbul, July 1990, pp:142 & 146.

Hungary

Hungary is the safest bet in Eastern Europe today. The country has been developing a Western type of commercial structure for number of years. Hungary has a market economy, with state participation at similar levels to that in most Western

Table 4
Structural Characteristics of Eastern European Countries

Country	Hungary	CSSR	Poland	Bulgaria	Romania
Area (000 km ²)	93	128	313	111	237
Population (million)	10.6	15.6	37.9	8.9	23.3
GNP (billion \$)	85	144	255	64	138
GNP per capita (\$)	8,360	10,130	6,728	7,124	5,470
Net Growth 1989 %	0-1	1.7	-2+3	5.5	3
Estimated Inflation	17	2.2	900	5	2.2
Black Market Over	1.25x	6x	6x	N/A	N/A
Official Exchange Rate					
Imports (\$ billion)	8.0	8.5	11.1	16.6	8.8
Exports (\$ billion)	8.6	8.4	12.6	17.2	11.8
Trade Surplus/					
Deficit (\$ billion)	0.6	-0.1	1.5	0.6	3.0
Gross debt (\$ billion)	19	5.7	39.2	6.9	2.9
% of Foreign					
Ownership Allowed	100	99	100	99	49
Net Debt (\$ billion)	10.4	3.7	38.6	5.8	2.2
Gross Debt/GNP (%)	67.9	4.7	56.8	6.7	3.2
Foreign Tax Rate	40	40	10-40	33.5	30
Countertrade Pressure	M	H	M	H	H
Profit Repatriation	H	L	M	L	L
Potential					
Political Stability	M	L	L	L	L
	Yugoslavia	U.S.S.R			
Area (000 km ²)	256	22,400			
Population (million)	22.4	287			
GNP (billion \$)	63.1	2,500			
GNP per capita (\$)	2,680	8,700			
Net Growth 1989 (%)	-1.7	1-2			
Estimated Inflation (%)	346	8.4			
Black Market Over					
Official Exchange Rate	N/A	25x			KEY
Imports (\$ billion)	13.2	106.8			----
Exports (\$ billion)	12.6	110.2			H- High
Trade Surplus/Deficit	-0.6	3.4			M- Medium
Gross Debt (\$ billion)	19.8	38.0			L- Low
% of Foreign Ownership					
Allowed	N/A	N/A			
Net Debt (\$ billion)	17.7	23.7			
Gross debt/GNP (%)	N/A	2.8			
Foreign Tax Rate	N/A	20			
Countertrade Pressure	M	H			
Profit Repatriation					
Potential	H	M			
Political Stability	L	L			
(\$ billion)					

countries. In Hungary, foreign trade monopolies are abandoned. The Hungarian government strongly supports the participation of foreign capital and the establishment of joint ventures. Firms already have the right to independent decision making and to import and export directly. For almost a year now, Hungary has welcomed Western investors by letting them repatriate all their profits in hard currency.

Hungary continues to make enviable progress. It will soon put an end to 50,000 laws restricting imports and exports; some industries will get tax-free holidays; interest-free loans are available to Hungarians who start businesses, and a new-born stock market has begun to toddle. At least two-thirds of all state assets will be privately owned within three years.

Poland

Polish government faces many problems; including 900% annual inflation; a \$39 billion debt equivalent to 60% of Polish GNP. Solidarity Government is taking certain measures to correct these problems by freezing wages, selling off state enterprises, re-writing banking laws, overhauling the tax code, and making Polish currency convertible. The aim is to slash inflation by the end of the year and attract foreign investment.

The move to a market economy brings new sales opportunities and economic risks. With 38 million people, Poland is a huge potential market for consumer goods. Western sales to Poland

will grow to \$7 billion in 1990. However, exports will be constrained by a drop in industrial production and bankruptcies. All enterprises in Poland can now freely engage in hard currency trade, making the market technically unrestricted. Companies can expect a proliferation of new customers and sales opportunities. It will become more important for firms to target end users rather than use middlemen. For instance, there are tremendous opportunities for Western businesses in housing, consumer non-durables, and environmental products and services (Eastern Europe 1990).

If the Polish Government implements currency reform and convertibility, reduces rate of inflation and taxes and corrects its distribution problems, and if it can privatize, the best investments will be in firms that buy components from local suppliers. Whether such suppliers can successfully expand will determine the course of Poland's future, and of Western industry's place there (Macrae 1990 p.24).

Bulgaria -----

Certain economic reforms have been undertaken in Bulgaria whose impact will take considerable amount of time. These reforms will stimulate economic performance and promote foreign trade and investment. Key provisions of the reform package permit greater enterprise autonomy in decision-making, allow for creation of joint-stock companies, establish bankruptcy procedures, partially remove the state monopoly on foreign trade, and liberalize the

establishment of joint ventures (Ware 1989 p.17). Near term investment will be focused on modernizing existing plants and improving export quality. Bulgaria reported a rise in economic output of close to 6% in 1989, but growth was uneven and concentrated in only a few industrial sectors.

There are opportunities for equipment and technology to support industrial modernization and hard currency exports. Prospects are good for less sophisticated computers, agricultural chemicals, industrial controls and monitoring equipment. The Bulgarians have also shown interest in alternative energy technology, pollution control and environmental protection equipment, food processing, and management consulting services in the areas of market research and merchandising.

Romania

Romania is already seeing interest from potential Western partners, after being closed for 10 years to imports of Western technology and expertise. The pressure to import will drive the Romanian trade surplus to its lowest level in several years. By 1991, the trade balance could actually fall into deficit as upgrading plants in virtually all industrial sectors becomes a priority. The surplus will be further eroded as Romania shifts away from transferable-ruble to hard-currency trade with some of its Eastern European trade partners, notably Hungary, Czechoslovakia and Poland (Business Eastern Europe 1990 p.104).

In February 1990, industrial centrals (production associations) and cooperatives in all sectors were given the right to conduct foreign trade. A few traditional FTOs have been eliminated or reorganized, although exclusive product line specialization will continue until the end of 1990. Countertrade is no longer mandatory, as in the past, but forces within the economy will ensure that it remains a fixture of Romanian trade. Priority sectors include hotels and tourism, telecommunications, food-processing, packaging, pharmaceuticals, medical equipment, printing, electronics and raw materials.

Czechoslovakia

Radical political and economic changes now sweeping Czechoslovakia will have a profound effect on its major industries. A number of Western firms are already waiting to buy some of the country's best assets as soon as legally possible. Western companies, in addition to taking advantage of the local market, which is among the most sophisticated in the region, established lines of contact set up by Czech firms would be used to penetrate other newly liberalizing central and Eastern European markets (Alperowicz 1990 p.17 & 20).

Western sales to Czechoslovakia should grow by 5% to reach \$4 billion by the end of 1990. New legislation enacted on April 1, 1990 has changed the business environment in the country. Although Czechs make everything they need, but the products are not of good quality, and the supply is very uneven. Of the

products manufactured locally very few of them earn Western currency. The country exports some 80% of its products to other Eastern European countries. Most of the production equipment is 20 or more years old; and a full one third is useless. A government price bureau sets prices at whatever it thinks goods should cost; prices have little relation to the real value that goes into products.

It is anticipated that the demand from Soviet and other COMECON customers will fall, creating excess capacity. Western purchases can not take up the slack in the short term. As a result, many organizations will be granted foreign trade licenses as the trade system is decentralized. FTOs are broken up, but they will still handle the bulk of trade at least in the near future. Officials would like to reduce trade dependency on neighboring Germany and Austria.

Yugoslavia

Despite the sudden emergence of other Eastern European markets, for suppliers in OECD countries, Yugoslavia should hold its place as number two, trailing only the Soviet Union. The 1990 sales projection of approximately \$9.7 billion compares favorably with the figure of \$8.4 billion for 1989. Yugoslav exports to the OECD should also grow at more modest, but still respectable rates. An increase of around 8% should raise exports from approximately \$7.2 billion in 1989 to \$7.7 billion by the end of 1990.

Best sales possibilities for Western companies will largely

depend on the financial health of their Yugoslav partners. Western firms selling to enterprises which perform value-added operations for export have showed excellent sales returns. The market remains clouded for heavy capital equipment, as internal economic problems and financial weaknesses of companies discourage long-range investment planning (Business Eastern Europe 1990 pp:36-37).

U.S.S.R.

For Western firms trading with the U.S.S.R., the new system of enterprise autonomy presents a mixture of advantages and disadvantages. On the positive side, Western firms can trade directly with suppliers and purchasers of products, without the bureaucratic interference of the Ministry of Foreign Trade. That is lines of communication are shorter and contracts can be negotiated more quickly. On the negative side, Western firms that were able to handle their businesses through one large FTO in the past must now identify and serve a larger number of Soviet entities. The emerging autonomous Soviet enterprises face a shortage of qualified foreign trade personnel, but they are more selective in their purchases (Gardner 1989 p.4).

The Soviet central-planning ministry cites survey research showing that 83 % of the population buys goods and services in the vast second economy. This accounts for some \$150 billion a year, which is equivalent to about 11% of the Soviet gross domestic product. In cities almost half the apartment repairs,

and 40% of auto maintenance, a third of appliance repair, and 40% of all tailoring and shoe repair happen in the second economy. In addition, anywhere from 4 to 8 million of the abortions performed annually are done illegally and 15% of all new housing construction- some 170 to 180 million square feet a year- goes on outside official channels. This immense second economy supplements not just Soviet consumption but incomes as well. Something like 20 million people make their principal living in it (Parker 1990).

Growth in Western country sales will ease in 1990 but still show healthy expansion by 6% to reach \$35 billion. It is predicted that Soviet import profile will change to emphasize consumer goods and health products. On the part of Western firms, more new and complex end-user contacts will be needed. Some 10,000 Soviet end-users are registered for direct foreign trade with Western companies. Central FTOs under the Ministry of Foreign Economic Relations remain important, accounting for some 35% of Soviet imports last year. Other ministerial FTOs are acting as agents for single enterprises or group of end-users. Much of the official Soviet retail trade goes on not in the stores but in the factories and offices of giant enterprises that concentrate production in a few hands (the Soviets have something like 700,000 enterprises, as compared with some 17 million in the U.S.). Along with production, these enterprises have been charged with responsibility for everything from providing workers'

housing and food to repairing and replacing tools and equipment. When a Soviet worker buys a new refrigerator, he is more than likely to order it through his enterprise. Nearly half of Soviet meat production passes through factories, schools, and ministerial canteens and shops.

In 1989, significant rise in purchases from the West was not matched by increased Soviet exports, with a resulting deterioration in the trade deficit with the West from \$2.6 billion in 1988 to an estimated \$5.5 to 6 billion in 1989. There have been selective cuts in purchases from the West throughout 1990. These reductions will affect Western sales of bulk chemicals, grain, machinery for the construction sector and heavy industry, ferrous and nonferrous metals, pipe, paper and timber. These cutbacks will permit maintained growth of purchases of inputs for Soviet light industry, in particular the consumer goods, health and food-processing sectors. In the future, it is anticipated that there will be greater emphasis on exports and global marketing techniques, as well as inward investment by means of joint ventures with other countries (Ernst & Whinney 1988).

EAST-WEST TRADE

Expanding trade with Eastern European countries is beneficial to both parties because the countries of Eastern Europe are growing at reasonable rates and are, therefore, becoming more lucrative markets for Western goods and services. The apparent political

dialogue and the improved debt situation could presage higher imports by Eastern European countries as well as more exports from these countries to the Western countries.

The key to selling in Eastern Europe and the U.S.S.R is to go through a country that already has a trade agreement with those countries. In general, Eastern European markets are particularly good for agricultural products as well as for consumer and industrial products. Areas of particular opportunity lie in auto parts, cars, metallurgical coke, electrical controls, fertilizer, instruments, industrial furnaces, iron and steel pipe, tractors, wheat, machinery and materials related to energy, machine tools, and agricultural production. These are on the list of commodities that Eastern European countries want to buy or produce with a boost from foreign investment. The Eastern Europeans also seek chemicals, electronic components, low-end computers, pollution-control equipment, and telecommunications gear. Also Western companies whose products will help the Eastern Europeans improve their airports, highways, railroads, and sewage-treatment facilities should find lucrative markets.

Given that production of basic food materials is an important target area for Eastern European policymakers, there seem to be important opportunities. Use of more-efficient processing aids and high-quality ingredients could lead to local production of export quality food materials that would help generate hard

currency and lay the basis for currency convertibility. Demand for household chemicals, personal-care products, and chemical intermediates in this region could soon be met by Eastern European production but doubts the same can be said for basic and commodity chemicals, which suffer from outmoded technology and will face tough competition from more competitive excessive capacity in Western European countries.

Eastern European countries are desperate for modern factories and production equipment. Profits will not be won; however, without supreme effort. The main difficulty is how to build these market-oriented enterprises into a system that still remains basically centralized. For example, supplies of raw materials and spare parts are strictly rationed. Companies will also have to contend with quixotic pricing systems and massive bureaucratic structures.

Eastern European buyers have trouble paying their Western suppliers in readily convertible hard currencies. As a result, Western firms often must be prepared to cut non-money barter and countertrade deals in order to make their sales. Firms will be well advised to keep close tabs on the products they receive from Eastern Europe. Technology should not be a major problem, but consistent quality and reliable delivery could be (Boudette, McClenahan and Nelson-Horchler 1990). For Western firms allowed to establish offices and factories in Eastern Europe, there is another prospect: a reasonably well-educated, skilled, and

comparatively low-cost work force. Average wage rates range from \$1.35 an hour to \$4.00 an hour compared to \$17.00 an hour in West Europe (Boudette, McClenahan and Nelson-Horchler 1990 p.36).

To be able to assess the market potentials of Eastern European markets, Western companies need to develop a sound understanding of the differences in the business culture and government (legal-political) environments of each individual Eastern European country. These countries offer a number of distinct markets, each with its own unique political, social, and economic policies and trade relationships with the West (Tesar 1977). Can Turkish industry capitalize on the opportunities that lie before it in Eastern Europe? Can Turkish manufacturers creatively contend with tough competition for Eastern European markets? Will Turkish industry stay with investments in Eastern Europe once it commits to them?

BARRIERS TO TRADE

The rise of democratic and free-market aspirations in Eastern Europe is causing many firms to re-examine, or develop their Eastern European business strategy. However, there have been, and still are, many barriers to trade with the U.S.S.R. and Eastern European countries. A major problem facing prospective Western investors is that governments in the region are not firmly in control. Thus no one-businessman or local officials- can be sure about the ground rules for business deals. Second, government systems and industry relationships in these countries have made

it difficult for Western firms, to determine how to initiate contact, and with whom to negotiate. Third, because of the dramatic size differentials, Western exporters have found it difficult to decide which market is appropriate. Fourth, inadequate and unreliable information about these countries have created perceptual and physical barriers. Fifth, significant variations among bureaucratic structures have discouraged and confused many Western exporters (Ray 1966). Sixth, decision-making processes have varied from one Eastern European country to another, making the assessment of market potentials difficult (Lange and Elliott 1977). There are also other barriers caused by the unavailability of credit, political conditions and the like.

The Eastern European countries and the U.S.S.R. share a legacy of some underdeveloped economic and technological characteristics. These characteristics are the result of an inadequate market economy infrastructure. As a result, there are many problems associated with conducting business in the U.S.S.R. and Eastern European countries. First, it is difficult for a Western firm to identify suitable products for the U.S.S.R. and Eastern European markets. Once a product is selected, the administrative structure of the Soviet and Eastern European governments may pose a problem to Western firms through what is characterized as "red tape". It may also be difficult for Western firms to find an experienced agent and/or set up representative offices in Eastern European countries. The most serious difficulty facing Western firms is

the repatriation of profits or payments for work and supplies, since Eastern European firms desire countertrading, essentially barter, rather than expanding their short supply of hard currency (Ernest & Whinney 1988). However, this situation is also changing.

Eastern European countries represent both a marketing and low-cost manufacturing opportunity for Western firms. As such, these countries will need to obtain industrial technology and know-how to upgrade their mostly outmoded manufacturing facilities and build up the necessary infrastructure. Western firms contemplating entry and operation into Eastern European markets must address the following questions (Gelch, Buzzell and Salama 1990 p.376):

- a) In which Eastern European country or countries should a Western firm enter?
- b) What products or services should be manufactured and/or marketed in these countries?
- c) What should be the form of entry in each of the Eastern European market?
- d) What should be the marketing and organizational arrangements?

Western firms can overcome the problem of identifying products for trade by contacting ministries and trading organizations in the countries and asking for lists of products they are currently seeking. The most important industrial areas in the U.S.S.R. economy at this point in time are energy, agriculture, heavy

industry and raw materials, engineering, chemicals, and timber. Follow-up letters should be sent to each of the entities with detailed and technical information, rather than strictly advertising. All information should be written in the country's preferred language. Specialists in Eastern European trade should be sought and contacted concerning elimination of red tape, location of suitable agents to assist with the repatriation of funds. The Commercial Counsellor of the Western country should be contacted concerning the establishment of Western offices in the Eastern European countries.

The U.S.S.R. has an advantage over its Eastern European countries, since it sells \$16 billion a year in oil and gas to the West. The Eastern European countries have no comparable sources of ready cash, since they have monopolistic enterprises that produce shoddy consumer goods and outdated machinery, mainly for the U.S.S.R. market. For instance, more than half of Bulgaria's electronics goods and 80% of the buses produced by Hungary's Ikarus Group go to the Soviet Union. If the Soviet Union is allowed to shop for cheaper, better made goods in this age of change it will do so, leaving the former allies behind (Brady and Schares 1990 p.42).

TRADE OPPORTUNITIES

Until Eastern European countries are completely open to Western-style advertising, trade fairs will continue to play a major role

in marketing of goods and services. Trade shows have been a major outlet for the development of business and a good way to get an introduction to Eastern Europe. They also establish a company's image in the Eastern bloc (Advertising Age 1990 p.45).

The Market for Industrial Products

Dramatic new trade links indicate that Western industrial influences will be used to help Eastern Europe through its economic recovery efforts. In a time of shrinking world markets, the Eastern European countries provide one of the last largely unexploited regions with huge possibilities for expanded trade (Sasseen 1989 p.22). Most businesses, especially where there is a high start-up cost, would be compelled to look for a more immediate return and a way of remitting some of the profit back to headquarters. Finland seems to have solved this problem at a national level by importing oil (Channon 1990 p.14).

Western high-technology marketers face formidable obstacles selling their products to Eastern European nations. Export licenses are difficult to obtain because of tight U.S. export restrictions on products with both civilian and military applications, and creative financing is often necessary for trade. Trade between the Western and Eastern European countries has become a more positively viewed phenomenon, with high-technology products from the West in demand throughout Eastern Europe (Smith 1988).

Marketers of non-military products can benefit from the new 5-year plans recently begun in the U.S.S.R. and many neighboring nations. American marketers; however, face stiff competition entering these markets from Western European and Japanese firms. To be successful, marketers must have a long-term strategy and must market through the state-owned foreign trade organizations in each country. Participation in trade fairs is also beneficial. Marketers will eventually have to travel to Eastern European countries to meet with key trade organization officials (Smith 1988).

The Market for Consumer Products

A Gallup poll was conducted of Soviet consumers indicated that Soviet consumers believe products made outside of their country are better, with the majority having the highest regard for Japanese products. 84% of the respondents ranked the Japanese first in quality, with Germany second at 70%, the United States third at 64%, and the United Kingdom fourth at 61%. 90% of the most educated respondents ranked Japan first in quality of product (Advertising Age 1990 p.46). When asked how important different factors were in helping them judge which products to buy, the overwhelming response was from past experience (79%) and advice from friends (72%). Soviet citizens are not used to responding to advertisements, and for that matter, are not used to advertisements at all. Western producers must expect this acceptance will take time. Although the Soviets expected their

financial situations to be only "a little better" (21%) or stay the same (33%) in the coming years, 43% of the respondents expected to purchase furniture within the next two years, 22% would purchase a washing machine in the same period, and 16% would purchase automobiles, refrigerators and watches.

There are excellent opportunities for turnaround specialists in solid products such as Hungarian salami and porcelain or Czech glass products and linens in the West. Western firms may market these kind of products to third countries in order to get paid for their sales in these countries. Colgate-Palmolive and Proctor and Gamble are currently vying for acceptance in the U.S.S.R. consumer market. P&G has recently aired TV commercials introducing the company and its brands to the Soviet people. The twelve minute commercial spot coincided with P&G's sponsorship of a televised concert in Moscow in conjunction with a tour of the Kennedy Center's National Symphony Orchestra (Giges 1990 p.56).

In the U.S.S.R., Colgate sells Colgate toothpaste, produced by its Indian subsidiary company, and Fab detergent, produced by its Turkish subsidiary company. Colgate receives hard currency from the Turkish subsidiary, which sells the products to the Soviet Union. P&G exports Alo detergent, Crest and Blend-a-Med toothpastes, and Camay soap. Colgate has given away hundreds of thousands of samples of toothpastes to Soviet citizens in the last few years. A colgate executive has noted that his company

believes that Eastern Europe is the first new market to come along in many years with a certain level of sophistication and a pent-up consumer demand. Colgate tested brand names in the Soviet Union and found that the company is better off keeping Western names in Cyrillic letters because a Western name connotes quality (Giges 1990 p.56).

Pepsi is the soft-drink leader in the Soviet Union and much of Eastern Europe, and its trade agreement was modeled on the countertrade system that is familiar to Eastern European countries. Pepsi trades its soft drink for Stolichnaya Russian vodka. It then markets Stolichnaya vodka through its Wines and Spirits International unit (Hume and Winters 1990 p.45). Countertrade allows Pepsi to sidestep the issue of soft currency, and both Coca-Cola and Pepsi have the same type of agreement with other Eastern European countries. Pepsi trades for Polish made furniture that it uses in its Pizza Hut restaurants in the U.S., while Coca-Cola trades with Poland cola for beer. In Hungary, Pepsi trades its concentrate for wine, which is also sold by the spirits unit, and Coca-Cola trades the concentrate for glass bottles, that it then sells to its own bottlers in the U.S.

Newer Forms of Trading

To be able to increase their trade with the U.S.S.R. and Eastern European countries, Western firms have, in the past, heavily resorted to countertrade due to shortages of hard currency.

Countertrade form of transaction is likely to continue for at least the next few years (Milmo 1987).

In recent years, many of the Eastern European firms have entered into joint venture agreements and some are creating consortia. Joint ventures are the most preferred form of Western investment type in Eastern Europe with the U.S.S.R. and Hungary attracting the lion's share. The Eastern European experience is the only yardstick available for the U.S.S.R. since the applicability of Western experience is severely limited by essential structural differences. The U.S.S.R. is encouraging new forms of cooperation with foreign companies, including the organization of joint ventures. A joint venture law passed in June 1987 gave 20 industrial ministries, and 70 enterprises the right to make contact directly with Western firms. Hungary has launched important projects for agricultural mechanization and irrigation, as well as for energy diversification, relying on Western funds and procurement. In Bulgaria, investment plans for the rest of the decade emphasize metallurgy, energy development, chemicals and rubber production, metal engineering and electronics and electrical engineering (Samonis 1990). Through joint ventures, the Soviets hope to reduce their hard currency imports, increase their hard currency exports, and provide a continuing flow of new technology into the U.S.S.R. The following are some areas in which joint ventures will be sought: chemicals, dyeing agents, fibers, and machinery for pulp and paper, consumer, and food

industries (Dunn and Bradstreet 1990 p.1360).

Western firms contemplating joint venture partnerships with Eastern Europe need to be cognizant of tax planning opportunities. The views of Eastern European countries on how to tax their joint ventures need not necessarily concur with those of countries where foreign partners reside. In general, Western countries lack clear understanding of the legal mechanics of joint ventures in Eastern Europe. These countries often offer tax treaties with foreign investors' countries. Eastern Europe's treaty network is favorable to foreign investors. For instance, the Netherlands and Cyprus have favorable treaty networks with Eastern Europe and have domestic tax legislation that makes them "ideal stepping-stones" into the region.

The Soviet Union may even decide to limit the number of joint ventures with Western investors by applying stricter regulations. The country may impose a minimum requirement on the "hard currency" Western partners invest in their joint ventures. These steps are part of a campaign to restrict the formulation of "token" joint ventures that may have been established as a vehicle for Western export contacts (Peel 1990 p.6). In April of 1990, there were some 1400 JVs with foreign partners from 60 countries. Most of them are located in Moscow and Leningrad. About 90 percent of them are with Western firms. It is claimed that only some 6-18% are operating in any manner whatsoever, with

merely several dozen actually making money. Less than ten percent of the firms were involved in engineering, manufacturing or agriculture and food processing. Almost one third of the firms were involved in trade, tourism, and light industry, and another third in consultancy, research and development. Merely, 5% were in engineering manufacturing and only some 4% were involved in agriculture and food processing. Companies from non-communist countries have invested over U.S.\$1 billion which yields an average foreign contribution of about U.S.\$1 million. Chemical industry is the largest investor in dollar terms, followed by energy, automaking, metallurgy, hotels and tourist services. Germans, Finns, and Italians lead the way. Japanese and North Americans are trailing behind. About 24 JVs involve some Canadian participation.

In Poland, joint ventures will proliferate as the economy loosens up, inflation is held in check and confidence grows in the local currency. Small and medium-sized joint ventures will be the most common, although the government will try to encourage larger Western investments. Until a proper capital market is established and the rules for privatization finalized, the joint venture format will still represent the best opportunity for Western investors to secure an interest in Poland's more attractive enterprises. Several Western companies are also exploring joint venture options in Poland's food industry. Some 81% of Polish agriculture has remained private. But the average farm is only 12

acres, which makes it difficult to produce food efficiently. The best bets for Western investors interested in joint ventures with Poland are in labor-intensive industries such as textile, apparel, shoes, furniture, food and consumer industries.

In Czechoslovakia, cooperation, JVs and Western acquisitions are emphasized over aid and loan schemes. Some 60-70 new cooperation deals are expected by the end of 1990, bringing the total number to some 380. Cooperation is promoted primarily in light industry, foodstuffs production and chemicals. The leading organizations for such deals are Transakta, Koospol, and Chemapol. During the last several months, conditions for joint ventures are improved in Czechoslovakia. Most of the new joint ventures are relatively small (\$1-2 million foundation capital). Key sectors for JVs will be food stuffs, household goods, tourism and services.

A new joint venture law in Romania would allow for full Western ownership. This new joint venture law should guarantee hard-currency profit repatriation, Western managerial control and 100% Western ownership. The number of joint ventures could rise to 50 or so this year, up from the current 5. Substantial tax incentives in key investment sectors are also planned. Corporate profit is currently taxed at a rate of 30%, with an additional 10% deducted when profits are transferred out of the country.

Increasingly, Western companies are creating consortia among themselves to develop their operations in the U.S.S.R., instead of establishing joint ventures. The Western firms involved tend to focus on Soviet priority sectors such as agro-industry, pharmaceuticals and consumer goods. Two patterns have emerged, one using exports of Soviet raw materials to generate hard currency, the other drawing on import substitution and Soviet central hard currency funding. Hard currency earnings are generated through the exploration, recovery and export of Soviet raw materials, especially oil and gas; and another which involves business in priority sectors where import substitution allocations may be granted to Western partners. The example of the former is the American Trade Consortium/ATC (US) which signed its agreement with Soviet partners in March of 1989. Since then a French consortium in the agro-industrial sector, a U.S. group in the medical sector and a U.K. consortium in food processing have been announced (Business Eastern Europe 1989 pp: 401-402).

Under the arrangements of the consortium, the Western partners pay a membership fee of several million U.S. dollars and make a substantial upfront hard currency payment to a common pool for investment purposes in the U.S.S.R. The proceeds of these exports are then shared within the consortium. This enables the other consortium members to operate separate joint ventures without the necessity for each JV to generate hard currency to cover repatriation of profits.

CONCLUSIONS

The emergence of the Soviet Union and the Eastern European nations in international trade has presented a clear opportunity and challenge to Western nations. These Eastern European countries have recognized that their centralized systems did not bring economic success to their nations and are working to "catch up" with the rest of the world in technology and productivity.

The infrastructures of these emerging nations must be built up before Western firms can recognize substantial gains from consumer goods, even though the people of these countries are desperate for these consumer products. Distribution and transportation systems need to be developed, factories need to be built and hard currency systems need to be in place. Joint ventures present clear opportunities for Western firms, if they are willing to cooperate with a different type of system.

In view of this changing Eastern European markets, Western firms do anticipate gains from Eastern European investments. As a result, companies must consider Eastern Europe as part of their overall European strategy. Establishing a presence in Eastern Europe can help position a company to move into adjacent markets, such as the European Community and the U.S.S.R. In announcing its deal with Hungary's Tungsram (lighting equipment manufacturer) General Electric focused on Hungary's strengthening relationship with the European Community and its long-established ties in the

U.S.S.R. This was a \$150 million purchase of a 50% stake, with an option to buy a further 20% of Tungstam which gave GE a strong foothold in Europe. In Poland, Asea Brown Boveri added to its spate of acquisitions by taking a majority holding in Zamech, the country's largest manufacturer of power plant equipment (McCauley 1990).

East-West JVs will continue to be perceived by Western firms as merely a foot in the door or a strategic window in the Eastern European and the U.S.S.R. markets. More and more Western firms will come to the realization that they should open this window, because there is now a possibility that it will pay itself off at some time in the future. In this process, they will however avoid committing large amounts of capital and/or executive time. Those firms interested in trading with firms in Eastern Europe and the U.S.S.R. should take the following into consideration.

- a) Prepare a strategic marketing plan for Eastern Europe as well as for each individual market you are interested in exploring.
- b) Do your research at home before you go. Study market characteristics of the country you are going to enter in Eastern Europe.
- c) Decide on the best method of entry into the market.
- d) At the initial stage use Hungary, Czechoslovakia, and Poland as test market places. If proved successful, move to others.
- e) Be imaginative and innovative in your approaches in dealing

with Eastern European markets. What works in Turkey or in other foreign markets may not work in these markets.

f) Develop product-market domain of your firm as far as market opportunities in Eastern Europe are concerned. Try to find a match between market opportunities and your company's objectives and resources.

g) Determine the organizational set up for the firm's involvement in Eastern European market(s).

h) Having tried passive involvement strategies such as exporting, countertrading and licensing, try to establish a JV as a strategic windows.

i) Go step-by-step in developing and exploring the Eastern European markets.

j) At least at the initial stage use standardized product strategies. You may have to make certain modifications in your promotional, pricing, and channels of distribution strategies.

k) Do not invest substantial amounts of capital in the short run. These markets are not certain and may not produce high return on investment at the initial stage of your involvement.

The greatest needs in these countries at the present time are in the form of technology for industrial products and build their infrastructures so that in time, consumer goods will be able to be produced and traded with the rest of the world. It is a fascinating time for Western firms, exploring markets that at one time seemed completely unreachable.

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**COMPETITIVE STRATEGY AND STRATEGIC ALLIANCES :
IMPLICATIONS FOR TURKISH FIRMS**

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Abstract

Turkish firms and their economy face a tremendous dilemma in seeking growth: tremendous structural pressures within the domestic economy and major constraints inhibiting doing business outside the country combined with limited resources enjoyed by the firms. How can this dilemma be resolved? One response is to leverage resources of other firms and create strategic alliances.

The resolution to the internal and external pressures requires access to the following major elements. Economies of scale is needed to gain competitive efficiencies. New entire national markets are needed to support the greater scale. Product lines need broadening to better serve the new markets. And technology is needed at all levels to create the competitive advantage.

Well-designed strategic alliances can yield these types of benefits. However, this response may require a shift in how all managers think strategically. Strategic alliances demand a search for mutual competitive advantage as opposed to individual firm competitive advantage. But the economic situation of Turkey is perfectly fitted for this response. Individual firms can gain the competency needed to compete globally, and consequently, contribute to building their own economy. A robust, highly competitive domestic economy will help fuel global success.

INTRODUCTION

Turkish firms face a great challenge at this particular point in time. Their domestic market is characterized by declining demand, strong competitive pressures, expensive imported components and raw materials, and limited scale economies. But attempts to move out of the domestic market are stymied by a general lack of foreign market information, strong international competition, export restrictions, and a perception of high risks associated with international initiatives (Karafakioglu 1986; TUSIAD 1990).

Failure by Turkey's leading companies to expand their influence and grow will result in a stagnant economy for their nation. Competition from other nations will intensify as these nations' leading firms exploit the changes sweeping Western and Eastern Europe.

Research on competitively strong nations indicates that both national resources and industry resources are needed to fuel economic success (Porter 1990). While the basics of land, labor and capital are among the needed national resources, there are many examples of nations that are poor in basic resources but are presently world economic successes. Beyond these basics, four key resource areas facilitate success: technology, domestic demand, supporting industries to the core industries, and an infrastructure (transportation, communications, etc.). In addition, three key industry characteristics serve to enhance national economic success: strong domestic competition, the goals and strategies selected by individual firms (e.g., growth), and the rate of new business formation. Collections of globally dominant firms can power entire

economies toward national competitive advantage.

There are two generic routes to national competitive advantage (Porter 1990). The first is to spawn firms that have relatively low cost structures for the industries in which they compete. The cost structures are determined by having sufficient scale economies and corresponding markets that can absorb the output. The other route is via differentiated products that achieve their uniqueness through sustained quality and innovation. Both routes frequently depend on technology, either to create process efficiencies or differentiated product features.

In summary, these generic routes to national competitive advantage require *scale* for more efficient plants, *markets* in which to place the products, *scope* of product line to serve the markets, and *technology* to drive both routes. The purpose of this paper is to accomplish three goals: (1) demonstrate the role strategic alliances can play in enhancing firm, industry, and national competitive advantage, (2) explain why Turkey is in an excellent position to exploit the advantages afforded by alliances, and (3) discuss some firm-level guidelines that can be used in forming an alliance.

THE STRATEGIC BENEFITS OF ALLIANCES

Motivation for Alliance Formation

Turkish firms are presently faced with competition from numerous global alliances. Recently, *Fortune* magazine began reporting on the *Global 500* largest firms (*Fortune 1990*). Turkey's three firms on that list are KOC Holding, Haci Omer Sabanci, and Turkiye Petrolleri. Among the firms competing with KOC Holding in the global vehicle and parts industry, is Italy's Fiat, a firm that has exploited the benefits of strategic alliances. Ford Motor Company was interested

in exiting the heavy truck business in the United Kingdom and sought to sell its business to Fiat. Instead, both companies formed an alliance to exploit their combined economies of scale synergies in manufacturing and created IVECO. IVECO is presently a formidable competitor in heavy trucks, serving two firms from two different nations, and enhancing their competitive presence in a third market (Lewis 1990).

Asahi Chemical is a global competitor to textile manufacturer Hacı Omer Sabancı and is a member of a unique type of alliance...a *keiretsu*. The Japanese *keiretsu* is a loose coupling of a number of companies with shareholding connections. The Japanese *keiretsu* companies dominate the *Fortune Global 500* companies and include such giants as Mitsubishi and Sumitomo. The benefits of its alliance has probably contributed to Asahi Chemical's success and being ranked first among the twelve global textile companies listed among the 500.

A significant competitor to Türkiye Petrolleri is British Petroleum, ranked fourth among the 52 petroleum refining firms that made it into the *Global 500*. British Petroleum is part of a development network that includes British Aerospace, Alcan International, Ciba-Geigy, Courtauld, Dunlop, ICI, and Imperial Metal Industries. The objective of this alliance is to pool R&D efforts and create advanced ceramics and sprayed metallurgy (Lewis 1990).

Clearly, the largest firms in the world are exploiting the advantages of strategic alliances. Their motives coincide with the requirements for national competitive advantage. First, many alliances are formed with the purpose of accelerating their globalization strategy. Second, many are formed in order to create economies of scale and/or scope. Third, technologies or markets can be accessed much easier by pooling efforts. A final reason, not implied earlier, is the ability to accrue needed competencies without losing independence.

Alternative methods of gaining competitive strength, such as mergers, may result in loss of corporate identity (Porter 1990; Ghemawat et al. 1986; Ohmae 1989).

Alliances Require Shift in Strategic Thinking

The above strategic benefits can be realized by forming alliances with competitors, suppliers, distributors, customers, universities, and firms from other industries. The traditional legal forms include joint ventures, technology transfer agreements, equity investments, and cooperative R&D. Such alliances should be contrasted with arms length agreements, acquisitions, and internal sourcing of competitive advantage. These latter sources of advantage offer more direct control, more risk exposure, and more self-reliance for needed resources than alliances. Alliances demand mutual control, but offer shared risk and leveraged resources (Lewis 1990).

For many firms, their cultural environment is inherently inconsistent with the general notion of trusting outside firms. This may be especially difficult for Turkish firms to deal with as their economy moves toward the free market system. Self-interest is more natural in a free market economy. And the leading markets' principal rules are set by the tenets of the free market system. However, trust is at least superficially required when a cooperative relationship is expected to produce superior results to the cooperating partners. At a time when Turkish firms must think like free marketers, this paper argues for cooperation.

Self-interest is a natural strategic way of thinking when the market is dominated by pure conflict among firms. Pure competition as characterized by economists is one natural relationship among the firms. As the market matures

and achieves some structure, strategy is more likely to be rewarded. Another natural relationship among firms is characterized by monopolistic competition-non-price strategic competition. In some markets, different relationships have formed due to the need to develop competitive advantage without the benefit of strong national resources. South Korea, for example, has evolved the *chaebol*, a few dominant firms allied with the government (through government-backed capital investment) control a vast portion of the economy. Hyundai, Daewoo, Samsung, Lucky-Goldstar, for example, are responsible for a major portion of the country's GNP. The top four *chaebol* control over 30 percent of Korea's exports (Porter 1990).

In Japan, the dominant relationships among the most competitively advantaged firms are categorized as *keiretsu* (described earlier) and *shita-uke*. The latter form of alliance is characterized by one large firm having strong ties with supporting smaller firms. While the *keiretsu* is most known for its horizontal relationships, the *shita-uke* is noted for its vertical relationships-typically with subcontractors and suppliers. There is free flow of information, rapid service, and great flexibility within this close relationship (Porter 1990).

These latter relationships, characterized by cooperation as opposed to conflict, and trust as opposed to self-interest, does not mean lowered competitiveness. Most significant industries in Korea are represented by several of the major *chaebol*, and competition is cut-throat (Porter 1990). Similarly, simply because a supplier is part of the Mitsubishi *keiretsu* does not mean favored treatment from Mitsubishi manufacturers. The supplier must demonstrate superiority in some aspect in order to win the purchase contract. The point is that cooperation is given in an alliance to build competitive advantage, not to

reduce competition.

The trust and cooperation required in an alliance is not easy to achieve. There are several practical issues that create barriers to an alliance. It is difficult to coordinate the activities of two independent organizations, especially when each is accustomed to operating in their own idiosyncratic way. Even when activities are common between the two, the sequencing of activities may be fundamentally different. It is also difficult to mutualize strategic goals and ways to achieve them. Each firm has inherent biases to what each desire and how to satisfy its desires.

Further, cooperations implies a sharing of profits. Natural instincts are not consistent with surrender of profits. This may be a particularly touchy problem if the partner is a competitor. In addition, there may be a tendency to over-rely on the resources provided by the partner, resulting in a stifling of organizational renewal and innovation (Porter 1990).

TURKISH ENVIRONMENTAL CONDITIONS RIPE FOR ALLIANCES

The General Conditions

The promises of strategic alliances are great enough to exert the effort to lower these barriers. Indeed, the general industrial environment of Turkey seems to fit the conditions under which alliances are most apt to be successful. Coalitions are expected to be successfully created under conditions of moderate resource abundance, moderate industry change rate, and moderate inter-firm connectedness (Dollinger 1990).

An alliance is better nurtured when resource availability is only moderate since there is no inordinate attraction by competitors to the industry, reasonable flexibility in alliance structuring is possible, and there is

reasonable incentive for the partners. If general resources are too low, there is a loss of strategic flexibility. If resources are high, there is no incentive to form an alliance.

Further, a moderate rate of change in industries establishes the need for forestalling competitors' moves, forecasting potential opportunities, and uncertainty absorption--risk sharing. The rate of private fixed capital investment relative to GNP in Turkey has been modest in the past decade, although some slight change in investment interest is suggested by the increase in foreign capital investment permits reported in 1989 (TUSIAD 1990). If changes are too insignificant, there is no incentive for forestalling, forecasting, or uncertainty absorption. If changes are too swift, there will be a perception of greater risk in low payoff and expectations of unpredictable transformations of partner's goals and strategies.

Finally, a moderate degree of inter-firm connectedness is more supportive of alliance formation. Industries that are fast growing have fragmented industry structures and complex patchworks of inter-firm relationships. A large number of firms and support firms are typically present, further complicating alliance formation. This all implies that high inter-firm connectedness resists alliances. In contrast, if complexity is minimal, no incentive exists to surrender autonomy or strategic flexibility by forming an alliance. Moderate complexity makes it easier to track the payoff from an alliance and fewer firms need to be networked to yield good performance.

The Challenge of the European Community

The promises of a single Western European market in 1992 probably have much allure to most TUSIAD firms. Turkey's future economic welfare is likely to be

determined by how its leading firms respond to the Western European market changes. If alliances can be nurtured in Turkish industries, the national economy will benefit over time. From now and for the next few years, it will be relatively easier to achieve individual firm gains through strategic alliances. Partners in alliances will have time to learn and develop their individual strategic competencies while working under the protective umbrella of the alliance. Most of the early competition will be comprised of non-allied individual firms.

Gradually, economic gains will flow to clusters of alliances within industries, and the rate of gains to individual firms will taper off. Industries dominated by clusters of alliances will be the dominant sources of productivity compared to other domestic industries without alliances. In time, these dominant industries can be leaders in global competition. At this point, the greatest beneficiary of successful strategic alliances will be the Turkish national economy. The sources of national competitive advantage are typically found in the successes of a few dominant industries. Germany, for example, controls an estimated 35 percent of world printing press production, and had 50.2 percent of world printing press exports in 1985. Italy's ceramic tile producers offers 30 percent of world production and controls nearly 60 percent of world exports (Porter 1990). Clusters of competing firms are nurtured by the competition amongst them and by their supporting infrastructure. This helps to build the industry. A few successful alliances in industries that create multiplier effects to the economy can spur macroeconomic growth.

HOW TO BUILD BENEFICIAL ALLIANCES

How to Build the Right Alliance

Creating the kind of success exhibited by some of the world's most productive alliances is obviously no simple matter. Some criteria can be offered to guide the partner selection process.

Ideally, *partners should have similar strategic goals but different competitive goals* (Hamel et al. 1989). For example, Kodak and Philips recently formed an alliance to enter the newly developing electronic imaging industry. Kodak will contribute the compact disc image capturing and storage technology while Philips will contribute image display (CD player) technology. For Kodak, the looming electronic imaging technology is a threat to its silver halide traditional film business and it must integrate its traditional business with this new technology. The alliance with Philips allows it an entry without investing in the necessary display technology. For Philips, the alliance gives its competency in electronic display a chance to establish itself as the industry standard with the Kodak label of legitimacy.

Potential partners should also be of modest size and market power compared to industry leaders (Hamel et al. 1989). This provides incentive to both parties, with the alliance creating a meaningful power base. Two small firms allying themselves create a modest foundation for power, while an imbalance of size can cause domination of the smaller partner. Recently, Polaroid and 3M created an alliance whereby Polaroid lent its established photo brand name to the film manufactured by 3M to create Polaroid 35mm One Film. Polaroid had no entry in conventional photographic film, while 3M's entry has had unimpressive results. The alliance allows both to exploit the tremendous growth among users of simple point-and-shoot compact autofocus cameras---users who want 35mm quality

but do not know much about film. One Film is positioned as the brand that satisfies all general requirements of picture taking and does not force the user to choose among different film speeds. This alliance gives 3M an outlet for excess manufacturing capacity while it continues to build its Scotch brand film, and Polaroid has a foothold in conventional photography to position itself for the future.

Any firm forming an alliance should seek highly selective pairings that fill-in only a portion of the total value chain (Porter 1990). In this case, the concern is with finding partners that can provide for only specifically needed portions of value-adding activities. For example, research on alliances across a variety of developed (USA, Western Europe), developing (Middle East, Republic of Korea), and Eastern European countries suggests which portions of the value chain firms in different industries tend to seek from a partner (Ghemawat et al. 1986). Globally, the major purpose for most alliances in the agribusiness, vehicles and textiles industries is to develop further competitive competency in manufacturing and logistics. In comparison, the major purpose of alliances in the energy field is to acquire technology. Since technology and manufacturing are value-adding areas that are at the front-end of the value chain, and marketing and services at the back-end, some interesting patterns are visible. The firms in less developed economies tend to rely on partners for the front-end of the value chain, while firms in the more developed economies seek back-end contributing partners. Turkish firms tend to need the front-end competencies (Karafakioglu 1986; TUSIAD 1990). This suggests that if Turkish firms want to achieve global competitiveness and acquire technology and/or manufacturing scale competence, they should take the route of nurturing the more easily developed skill of marketing (at least in the immediate future). The

marketing skill should focus on exploiting their geographic proximity to the European Community, the evolving Eastern European Countries, and possibly the rebuilding of some of the Middle Eastern countries depending on how the Iraqi crisis is resolved.

Partners in an alliance must believe that each can learn from the other (Hamel et al. 1989). The alliance between JVC and Thompson is an example of a partnership that meets this criterion. JVC has proprietary consumer video technology and wanted to sell its VCR product in Europe but did not know how to deal with the fragmented market. Thompson knew the European market and wanted to enter the VCR industry but did not have the needed technology. The alliance satisfies both their needs. However, Thompson faces an interesting challenge: Can it protect its knowledge of how to market in Europe? This leads to the next criterion.

The firm should assume the alliance is temporary (Porter 1990). While reality may exceed expectations, it is more likely that an alliance will have a short life than a long one due to conflict among the partners and other unforeseen happenstances. The firm should approach the alliance as a student and exploit the short-term relationship. The best and brightest managers should be rotated through the alliance. Every opportunity to obtain intelligence should be seized. For example, one firm demanded fully researched and documented analyses prior to giving approval for expenditures by the partner (Hamel et al. 1989).

The Trojan Horse Strategy

Learning is an important tenet in using alliances as part of the firm's competitive strategy. Failure to learn is a failed alliance. Some firms seem

to use this tenet as a core part of their strategy---called the Trojan Horse Strategy (Hamel et al. 1989). In this strategy, a mature firm with manufacturing and marketing competencies in a developed economy will assign a low value, rough portion of manufacturing to a low cost unsophisticated partner in a less developed or developing economy. The unsophisticated partner succeeds in manufacturing high quality components in a reliable and timely manner. The mature firm then slowly delegates increasingly greater portions of the manufacturing activities to the unsophisticated partner. In time, it becomes obvious to the mature firm that it would be to its economic advantage to have the partner takeover all of the manufacturing. Too late, the mature firm finds itself dislodged from the market by the no longer unsophisticated partner that has built all the competencies necessary to do business on its own.

Maintaining Competitiveness--Not Dependence

Since a strategic alliance requires mutualization, it appears that independence must be relinquished. Strategic alliances should have as their prime objective, the enhancement of competitive advantage. Independence results from having competitive advantage. The long term path to sustained competitive advantage requires attention to the following three maintenance principles: maintain key factor for success (KFS) competency, maintain value-adding activities, and protect critical technology (Lewis 1990).

A KFS is a business area such as technology, manufacturing, or marketing, that leads to sustainable competitive advantage by the firm that possesses high competency in that area. Each partner is apt to have some minimal level of competency in a KFS area but forms an alliance in order to shore up that area and create competitive superiority.

The firm must maintain its KFS competency areas during the alliance period. Over-reliance on a partner for critical competencies can result in deterioration of one's own competencies. An important corollary is to improve the KFS distance with the partner, that is, whatever the level of competency possessed by a firm prior to the alliance, it should (minimally) maintain its competency level relative to its partner. The firm should, if possible, close the gap if it is behind, or increase the gap if ahead. The partner should not be allowed to increase its competency level relative to the other firm.

The second principle of maintaining value-added activities requires that the firm continue investing in and building strengths in those areas that create value, such as engineering and manufacturing. It would be a mistake to allow a partner to subsume those activities in the belief that it reduces risk, is less bothersome, or is more convenient. Research on industries that have been competitively dominant over decades shows that dominance comes about through continued and aggressive reinvestment in the industry (Porter 1990).

The third principle of protecting critical technology reflects the very real possibility that a partner can filch proprietary technology. The firm should carefully consider the implications of technology disclosure. As a corollary to this principle, the firm should attempt to acquire non-critical technology from the partner whenever possible.

The alliance between France's SNECMA and USA's General Electric (GE) illustrates the above principles. SNECMA is a major supplier to the French military jet engine market and a few years ago wanted to enter the commercial market. However, it did not have the full collection of competencies necessary to successfully enter that market. It sought out an alliance with GE. GE similarly is a major supplier to the US military jet engine market but lacked

certain skills to enter the commercial market. The alliance with SNECMA was a good match. GE could contribute its competence in engineering high temperature sections and minimize its financial risk in entering a new market while still serving its USA military market. SNECMA could contribute its competence in high pressure compressor technology while protecting its stake in the French military market. Each could take the shared revenues from the commercial market and reinvest in maintaining its special competency. Each controlled the value-adding engineering and manufacturing activities of critical components. And each protected their specialized technology by shipping their completed portions to a common assembly point. CFM, the result of the alliance, is a powerful player in the commercial jet engine market (Lewis 1990).

CONCLUSION

Strategic alliances have great promise. However, it would be foolish to believe that alliances are a cheap, convenient, easy way to globalize. Nor should the firm assume that alliances are the panacea for its inability to be master of everything---it need only be the master of KFS. Properly implemented, alliances can accomplish a firm's competitive goals.

An alliance is a compromise. It is a short term relationship for long term gain. The prime purpose of an alliance is to allow the firm to emerge more competitive than it was when it entered the alliance (Hamel et al. 1989). While mutual trust is desirable, the firm must be unremitting in its efforts to advance itself. For many firms in Turkey today, a strategic alliance may be the temporary solution to begin economic investment in the changes surrounding its borders.

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**SINGAPORE MODEL OF EXPORT MARKETING : SOME LESSONS FOR
DEVELOPING COUNTRIES**

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SINGAPORE MODEL OF EXPORT MARKETING: SOME LESSONS FOR DEVELOPING COUNTRIES

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ABSTRACT

Singapore celebrated its 25th Anniversary of nation building on 9 August 1990. When it was first asked to leave Malaysia in 1965, the scenario was one of gloom and doom. However, 25 years later, Singapore has been highlighted as a success model for many developing countries. Among other factors, its export-orientation stance has been singled out as an important dimension of the success formula. This paper proposes a macro view of its success, and draws some lessons that may apply to other developing countries.

SINGAPORE'S ECONOMIC PERFORMANCE

Without doubt, Singapore has done very well since its independence in 1965. It has chalked up impressive economic gains over the years. In particular, its economic growth rate averaged 7% per annum since 1980, with impressive rates of 11.1% in 1988 and 9.2% in 1989 (Note: Turkey grew by 3.7% in 1988 and 1.7% in 1989). Even with the slowdown in the world economy, and the current oil crisis, it is still expected to grow by about 6.4% in 1990 and 5.0% in 1991 (see Table 1). In fact, its economic performance, as shown in Table 2 are commendable, and its various indicators of standards of living are also impressive (see Table 3). Its per capita income grew from

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Table 1

FORECASTED ECONOMIC GROWTH RATES OF SELECTED ASIA-PACIFIC COUNTRIES

	Pre-Gulf Crisis Estimate (%)		Revised Estimate (%)	
	1990	1991	1990	1991
Singapore	7.5%	7.7%	6.4%	5.0%
Thailand	9.9	9.2	8.7	6.6
Philippines	5.0	6.2	4.4	4.5
Taiwan	7.2	7.4	6.6	5.8
South Korea	6.3	6.7	5.8	5.3
Malaysia	7.0	7.5	8.3	10.5
Indonesia	6.4	6.5	7.8	9.8

Source: Asia Development Bank

US\$3,830 in 1979 to US\$10,120 by 1989, an increase of 2.6 times. This places it in third position in Asia, after Japan and Hong Kong (Brunei has been excluded). At slightly over US\$10,000 GNP per capita (compare this with US\$1,435 for Turkey), Singapore fares far better than countries like Ireland, Spain, and Portugal, and is closing on the heels of New Zealand, Italy and Great Britain. Its foreign exchange reserves of US\$21.8 billion in 1989 (compared with US\$9.1 billion for Turkey) are only lower than that of Japan (about US\$74 billion) and Taiwan (about US\$70 billion) in Asia, and much higher than countries like India, Australia, and several other European countries.

What have made Singapore so successful? It has no natural resources (it is only self-sufficient in eggs), and has to import almost everything, including food and water). In addition, it has hardly any domestic market, considering its small population of only 2.69 million people (as of 1989) that is contained within 626.4 sq km of land. In fact, when it was

Table 2

ECONOMIC PERFORMANCE OF SINGAPORE

(In Singapore Dollars; S\$1.77 = US\$1.00 as of September 1990)

	1983	1984	1985	1986	1987	1988	1989
GNP at current market prices (\$M)	36,561.1	40,815.1	40,330.4	39,602.5	43,191.6	50,359.3	56,347.4*
GNP at 1985 market price (\$M)	36,537.2	39,572.5	38,923.5	39,641.4	43,387.4	48,223.7	52,678.7*
Per capita indigenous GNP at current market prices (\$)	12,584	13,671	13,547	13,461	14,510.0	16,483.1	17,909.6*
Total external trade (\$M)	105,659.1	112,473.6	107,996.3	104,530.9	128,680.9	167,278.0	183,980.2
Imports (\$M)	59,504.2	61,133.6	57,817.5	55,545.4	68,415.2	88,226.7	96,863.7
Exports (\$M)	46,154.9	51,340.0	50,178.8	48,985.5	60,265.7	79,051.3	87,116.5
Manufacturing output+ (\$M)	37,650.2	41,480.2	38,655.1	37,385.5	46,239.8	56,795.6	63,131.1*
Census value added in manufacturing+ (\$M)	9,855.6	11,122.4	10,709.6	11,908.0	14,480.7	17,932.4	19,751.8*
Net foreign investment commitments in manufacturing sector++ (\$M)	1,269.8	1,334.7	888.0	1,190.6	1,448.0	1,557.8	1,625.4
Commercial bank (No)	122	129	135	133	137	134	139
Assets/liabilities of commercial banks (\$B)	56.5	65.7	70.6	76.8	86.5	96.4	127.2
POSB - amount due to deposits at end of period (\$M)	6,240.9	7,287.3	9,129.4	10,558.6	11,165.3	12,139.8	13,049.7
Official foreign reserves at end period (\$B)	19.8	22.8	27.1	28.2	30.4	33.3	38.6
Balance of payments (overall balance) (\$M)	2,237.7	3,250.6	2,941.7	1,208.6	2,328.5	3,343.6	5,334.2*
Currency in gross circulation at end period (\$M)	4,740	5,033	5,149	5,484	5,886	6,702	7,138
Tourist arrivals#	2,853.6	2,991.4	3,031.0	3,191.1	3,678.8	4,186.1	4,830.0
Tourist earnings (\$M)	4,214.8	3,965.0	3,653.0	3,847.9	4,506.2	5,064.5	5,669.1*
Available hotel rooms (No)	13,549	14,350	16,172	18,858	21,891	22,612	22,675

* Preliminary

+ Include rubber processing

++ Exclude petrochemicals

Refer to gross commitments less projects withdrawn or uncertain as at December 31, 1989.

By air, sea and land

Table 3

MEASURES OF STANDARDS OF LIVING FOR SINGAPORE

(In Singapore Dollars; S\$1.77 = US\$1.00 as at September 1990)

	1983	1984	1985	1986	1987	1988	1989
Per capita indigenous GNP at Current market price (\$)	12,584	13,671	13,547	13,461	14,510.0	16,483.1	17,909.6*
Electricity consumption per person per year (kWh)	3,054.7	3,292.0	3,448.3	3,664.0	4,063.3	4,433.1	4,724.6
Water consumption per person per year (cubic metre)	102.7	104.7	104.0	103.0	107.9	112.2	115.5
Persons per television set	5	5	5	5	5	5	5
Persons per doctor	1,060	1,010	972	930	889	837	790
Persons per dentist	5,739	5,324	5,157	4,917	4,691	4,464	4,176
Persons per nurse	324	323	305	302	300	294	291
Persons per hospital bed	254	261	256	254	257	270	276
Persons per public bus	313	305	293	299	299	297	294
Persons per taxi	234	229	234	242	248	253	252

*Preliminary

separated from Malaysia in 1965, it was then politically very vulnerable, facing serious communist threat, and severe labour union problems. To make matters worse, it has no industrial experience at all. The challenge then was that of economic survival -- how to create enough jobs to feed the people.

AN EXPORT-ORIENTED STRATEGY

To avert economic (and hence political) extinction, Singapore pursued a strategy of gearing itself to the world market system -- an export-oriented strategy. This strategy proves to serve Singapore very well since 1965, and is likely to be pursued in the future. It basically consists of two fundamental dimensions. First, Singapore actively promotes foreign investment by creating all kinds of economic and investment incentives for multinational corporations (MNCs). The Economic Development Board (EDB) was established in 1961 for planning, developing, co-ordinating and promoting investment in manufacturing and related service industries. Today, the EDB has a network of 17 international offices in US, Europe, Japan, and the Asia-Pacific to promote investor interest in Singapore, and to service existing investors.

It must be pointed out that the focus on the MNCs was deliberate in the earlier years (and this is still true today). This is because MNCs, through their investments, are able to bring in jobs, technology, and industrial management experience and expertise. More importantly, these MNCs, by default, are expansionistic by orientation, and they have access to various world markets. Their contributions to Singapore's economic performance are well supported by statistics. For example, as at 1989,

wholly and majority foreign-owned enterprises accounted for only less than 23% of all manufacturing establishments in Singapore, but their share in terms of output, direct exports and employment were about 75%, 86% and 58% respectively.

The second dimension of Singapore's export-orientation strategy is the adoption and relentless pursuit of free-trade. This means liberal import and export of goods and services. Such a policy ensures that not only are the goods and services produced in Singapore remain internationally competitive, but also weeds out the weaker and marginal producers.

To support Singapore's export-orientation policy, there are numerous other institutions who play active roles. For example, the Singapore Trade Development Board (STDB) was set up in 1983 to promote Singapore's exports of goods and services, and to attract foreign companies to use Singapore as their global trading hub. A government-related trading company, Intraco, was set up in 1968 to facilitate trade-related businesses. Singapore is also a regular operating member of the World Trade Centres Association, and its own centre hosts at least 60 international trade and consumer exhibitions every year. Other important institutions that help support the export-drive policy include:

- i. Singapore Institute of Standards and Industrial Research (SISIR), a research and development organisation dedicated to assist industries. Set up in 1973, SISIR works closely with companies and helps them to improve international competitiveness through high quality control, improvement, and technology application.
- ii. Singapore Manufacturers' Association (SMA), founded in 1932,

among other activities, organises regular trade exhibitions and missions abroad for local companies seeking overseas market expansion. Often, it works closely with the various Chambers of Commerce and other associations. SMA also has its own Export Centre that displays not only locally manufactured products, but also fully-computerised information that are relevant to potential trade partners.

- iii. Jurong Town Corporation (JTC), established in 1968, is entrusted with developing, managing, and allocating industrial estates and factories for investors.
- iv. National Productivity Board (NPB), formed in 1972, is tasked with spearheading productivity movement. Its major activities include promotion and measurement of productivity, and provision of productivity training and management to companies.
- v. National Computer Board (NCB), started in 1981, is spearheading Singapore's entry to the information technology (IT) era. Among other goals, NCB's role is to promote the exploitation of IT by all sectors of the economy, and the development of a strong IT industry in Singapore. Its efforts have paid off, and many business and trade-related activities are now computerised, resulting in higher efficiency and productivity.

The results of Singapore's export-oriented policy is very telling. As shown in Table 1, Singapore's total external trade has traditionally been about 3 times its GNP (it was 3.26 times in 1989). Its exports have also been consistently higher than the GNP (it was 1.55 times in 1989). By

comparison, Turkey's external trade and exports were only 34% and 14.5% of its GNP respectively for the same year.

In terms of trading partners, the United States, Malaysia, Europe and Japan have traditionally been major partners. In fact, in 1989, these four markets absorbed about 61% of Singapore total exports (see Table 4). However, it is important to point out that Singapore has made very conscious efforts to reach out to non-traditional markets, and reduce its reliance on US, Malaysia, Japan and Europe. For example, efforts are made to step up trade with Thailand, Hong Kong, South Korea, and Taiwan. In addition, trade with Indonesia has also been intensified, although the statistics have traditionally not been available. With the normalisation of ties with China at the end of 1990, it is likely that trade with the most populated nation will also increase dramatically.

It is important to point out that the large volume of trade with US, Japan and Europe is to a large extent a result of Singapore's policy of partnership with MNCs which originate mainly from these three markets. The manufactured products of these MNCs are generally re-exported to their home countries or find their way to other developed countries.

Table 5 shows the major export categories of Singapore. Note that over the years, Singapore has made conscious efforts to reduce its reliance on petroleum and petroleum-related products as its main export earner. It declined from 31.6% in 1979 to 15.3% in 1989. More significantly, the exports of machinery and transport equipment increased from 26.6% to 49.5% over the same period, and manufactured goods went up to 17.1% by 1989. By moving away from petroleum and petroleum-related products, Singapore has

Table 4

SINGAPORE MAJOR TRADING PARTNERS

	1979	1983	1986	1989
TOTAL TRADE (S\$Million)	\$69,275	\$105,659	\$104,531	\$183,980
TOTAL EXPORTS (S\$Million)	\$30,940	\$ 46,155	\$ 48,986	\$ 87,117
America	16.4%	18.3%	20.7%	22.0
	(17.6%)	(21.1%)	(26.1%)	(25.5)
United States	14.1	16.4	18.9	20.0
	(13.8)	(18.1)	(23.3)	(23.3)
Asia	61.2	63.4	59.7	57.9
	(54.6)	(58.0)	(52.5)	(52.4)
China	1.8	2.1	4.2	3.1
	(1.1)	(1.0)	(2.5)	(2.7)
Hong Kong	4.2	4.2	4.3	4.4
	(6.7)	(6.8)	(6.3)	(6.3)
Japan	13.7	14.2	14.6	15.3
	(9.6)	(10.5)	(8.6)	(8.5)
South Korea	1.3	1.8	1.9	2.5
	(1.6)	(2.1)	(1.4)	(1.9)
Malaysia	14.2	15.9	14.0	13.4
	(13.8)	(17.6)	(14.8)	(13.7)
Saudi Arabia	6.8	7.1	1.8	2.8
	(2.3)	(2.1)	(0.9)	(0.5)
Taiwan	2.1	2.2	3.2	3.8
	(1.4)	(1.5)	(3.3)	(3.0)
Thailand	3.5	2.9	3.2	3.9
	(4.3)	(4.3)	(3.6)	(5.5)
Europe	15.7	12.3	14.0	15.6
	(17.6)	(11.7)	(13.2)	(15.9)
France	1.7	1.6	1.6	1.9
	(2.2)	(1.4)	(1.4)	(1.5)
West Germany	3.5	2.5	3.2	3.6
	(3.4)	(2.3)	(3.1)	(3.7)
Italy	1.2	1.1	1.2	1.5
	(1.3)	(0.9)	(1.4)	(1.3)
Netherlands	1.6	0.9	1.2	1.3
	(2.3)	(1.2)	(2.2)	(1.6)
United Kingdom	3.3	2.6	3.0	3.1
	(3.1)	(2.3)	(2.6)	(3.4)
Oceania	4.6	3.8	3.6	3.0
	(6.9)	(5.5)	(5.1)	(4.2)
Australia	2.9	2.4	2.4	2.3
	(3.7)	(3.0)	(3.1)	(2.9)
Africa	2.1	2.2	2.0	1.4
	(3.3)	(3.6)	(3.0)	(1.9)

Note: Figures in brackets are exports by percentages

Table 5
MAJOR EXPORTS OF SINGAPORE

	1981	1983	1985	1987	1989
TOTAL (S\$M)	\$44,291	\$46,155	\$50,179	\$60,266	\$87,117
Food	4.8%	4.4%	4.4%	4.5%	3.5%
Beverages & Tobacco	0.4	0.4	0.5	0.6	1.0
Crude Materials (Rubber and Wood)	8.3	7.3	5.4	5.0	4.3
Petroleum & Petroleum Products	31.6	27.7	26.8	16.0	15.3
Animal & Vegetable Oils ...	1.8	1.4	3.1	1.3	1.2
Chemicals	3.5	4.2	5.4	6.2	6.6
Manufactured Goods (Wood, Textiles, Iron & Steel, Metal Manufactures)	8.3	8.0	7.2	7.5	8.1
Machinery & Transport Equipment	26.6	31.8	33.0	43.6	49.5
Miscellaneous Manufactured Goods (Clothings, Watches & Clocks, Instruments)....	6.6	6.7	6.7	9.2	9.0

Source: Adapted from Yearbook of Statistics, Singapore 1989

developed a more diversified "exports portfolio" that will be less vulnerable to the prices of oil. The Gulf crisis during this period testifies to the wisdom of such a policy.

LESSONS FOR DEVELOPING COUNTRIES

The success of Singapore's export orientation strategy provides some useful lessons, especially for developing countries. It has shown the world that despite all the handicaps and resource constraints, it is still possible to succeed and compete effectively with other countries economically.

There are several factors that account for the export success of Singapore.

In fact, these same factors are equally applicable for explaining the economic success of Singapore. Without doubt, exports are part of the overall economic strategy of a nation. In the case of Singapore, however, exports are very much an integral part of economic success owing to the export-orientation stance of the nation. Thus, it is only appropriate that in highlighting the underlying factors for success, a more macro view is warranted.

Enlightened Political Leadership

Without doubt, this has to be singled out as the most important factor for the economic success of Singapore. While believing in free-trade, and the free market system, the Singapore government also subscribed to enlightened economic leadership. One outstanding example is that of the 1985 recession which was caused partly by global demand conditions. However, in the case of Singapore, the problem was caused largely by the loss of international competitiveness as a result of escalating operating costs over the years. Many MNCs were thus forced to relocated outside Singapore, and this aggravated the recession.

As an immediate step to restore international competitiveness, the Singapore government took the leading role by cutting wages by 12%, and made many concessions (e.g. reducing rents on industrial and commercial properties, lowering water, electricity, and telecommunication charges, etc.) to companies to help them tide over the recession.

In order avert a similar situation in the future, a comprehensive review of

the economic strategy was undertaken by the government. The Economic Committee, chaired by BG Lee Hsien Loong, Minister of Trade and Industry, outlined new economic directions for Singapore. The objective is to ensure that Singapore can become a developed nation by the end of the century. Based on the economic directions, several major thrusts are now being actively pursued. The following are some examples:

1. Development of Singapore for Overseas Headquarters (OHQ) of MNCs.
2. Development of the Batam-Johore-Singapore triangle.
3. Encouraging MNCs and local large companies to develop capabilities beyond production. In particular, export of services (e.g. on knowledge-based skills, consulting and training) are encouraged.
4. Grooming of local companies to become international corporations.
5. Development of the financial services industry.
6. Building up capabilities in technology e.g. biotechnology, information technology, and automation.
7. Encouraging local companies to invest abroad.

It is important to point out that in Singapore, the government is willing and capable of taking tough decisions largely because of a strong one-party leadership system. This strong leadership has enabled it to enact various laws and regulations, as well as provide various incentives to encourage foreign investments, and export-driven activities. The process is made much expedient with no sectoral politics.

Moreover, it has been able to attract good people into the civil service and politics. While some may still question the government whether it has the brightest, few will deny that those they have in their wings are people of high moral fibre and integrity. The result is a relatively corrupt-free civil service and government. This corrupt-free system is further

reinforced by a relatively high-salary reward structure. In fact, Singapore government Ministers are probably one of the best paid in the world.

Capitalising on Opportunities Provided by the External Environment

Another important aspect to Singapore's success is its ability to capitalise on the opportunities provided by the environment. In the 1960s, many MNCs were looking for sites to locate their overseas plants. However, they were also conscious of their "bottom-line." Singapore realised that its best hope was partnership with these MNCs as they had the technology, markets, capital, etc. Hence, it created all kinds of incentives to lure these MNCs into Singapore, and further encouraged them to export. Today, this strategy has paid off handsomely for Singapore.

At that time, the external environment also favoured Singapore. The countries in the region were not very sympathetic to foreign investor's, and nationalism was high. Moreover, politically, some of these countries were also not very stable. Thus, Singapore was able to benefit, to some extent, by default as a result of such "opportunities."

Recently, Singapore again showed how it was able to use external opportunities to its advantage. Realising that at its current stage of full employment, and having a limited land size and small population, it can only grow economically by climbing the technology ladder and exploiting its knowledge-based industries (which are more productive and of higher value-added) than merely expanding its production output. At the same

time, it has to invest and expand overseas so as to overcome its labour shortage problem. Thus, instead of being threatened by MNCs' moves to relocate plants in its neighbouring countries, Singapore actively participates in the process by exporting its management and engineering skills.

The Singapore government, through its various agencies, even helped to develop the 323-hectare industrial park in Ayutthaya (Thailand) in 1989, and is currently involved in the development of another 498-hectare industrial park on Batam Island (Indonesia). These developments allow Singapore to export its various services, and at the same time to benefit from the growth in these regions.

Developing Physical and Infrastructural Structures

MNCs would not be attracted to Singapore, nor can trade be conducted without adequate infrastructures and physical facilities. The Singapore government fully recognised this. Thus, relentless efforts have been placed over the last 25 years to develop the infrastructures and facilities in Singapore. Today, Singapore has world class facilities in many areas.

The Port of Singapore is the busiest in the world in terms of shipping tonnage. In 1989, it handled more than 430 million gross registered tons (GRT), and more than 39,000 vessels called at the port. It is also the top bunkering port and the third largest oil refining centre in the world after Rotterdam and Houston. In fact, it was voted as the Best Seaport in Asia, and the Best Seaport Terminal Operator in 1988, 1989, and in 1990 at the Asian Freight Industry Awards.

The Singapore Changi Airport, opened in July 1981, has consistently been voted as one of the most efficient, modern and popular airports in the world. In 1989, it handled over 14 million passengers, and 577,549 tonnes of air cargo. Singapore has airlinks with almost every major city and airline in the world today.

Besides air and sea links, Singapore has also very well developed road systems, telecommunication facilities, warehouses and industrial parks and estates. All these infrastructures are designed primarily to facilitate the conduct of business and trade, in particular exports. In fact, supporting the conduct of trade is a myriad of financial institutions, including 139 commercial banks (excluding branches).

Seeking and Developing Competitive Edges

Singapore's limitations in terms of resources, land size and population, have heightened its awareness to seek and develop competitiveness. For example, it has historically been known for its strategic location that facilitates trade. Hence, Singapore developed into an entrepot centre largely because of its origin. However, since 1965, the government has been able to exploit this unique strength into a greater advantage, and build Singapore into a global trading nation.

This advantage is further developed today in the area of countertrade. Making full use of its trading networks, efficient communication systems, and strong financial institutions, Singapore is fast developing into an important countertrade centre in the world.

The various strategic thrusts as mentioned earlier is another example of Singapore's constant efforts to seek niches in the highly competitive world. In fact, Singapore government has realised that it can no longer compete on the basis of low cost. Rather, it has now to compete on the basis of quality, capabilities, and positioning attributes. This realisation has led it to form a Strategic Economic Committee (EPC) chaired by the Minister of State for Trade and Industry. The EPC which draws its members both from the public and private sectors, is tasked with developing longer strategic issues that are likely to impact on Singapore's economy in the next 5 to 10 years. Responses to such likely issues are also to be developed so that Singapore's economic development will not be retarded.

Within the region, Singapore also recognises that its neighbouring countries are narrowing the competitive advantage. These countries are fast realising the benefits of relying on MNCs as engines for growth. And as they are able to provide more abundant labour supply at lower costs, and they are also resource-rich (e.g. on minerals, oil and gas, land and timber), they have been able to attract these MNCs to relocate to their countries. In addition, countries like Malaysia, Indonesia and Thailand have larger populations which provide a sufficiently big domestic markets for all kinds of manufactured good. It is, therefore, not surprising to note that many MNCs have moved their labour-intensive industries out of Singapore to these countries in recent years. The most noticeable industry of these, of course, has to be the electronics industry which has traditionally been an important export earner for Singapore.

However, Singapore has chosen to take the challenge gallantly. This is

because MNCs, by default, will always look for lower cost areas for their plants in order to augment their earnings. It is a conscious price that Singapore has to pay for relying on them to spearhead economic and export growth. What is more important is to learn to stay ahead of its neighbouring countries, and continue to attract higher-technology MNCs.

Human Resource Development

Human resource development features prominently in the overall economic strategy of Singapore. In fact, a lot of emphasis has been placed on training and development. For example, to enable Singapore exports to compete effectively in the world markets, the Economic Development Board (EDB) established institutes of technology in cooperation with the governments of Japan, Germany, and France in the 1980s. The manpower development of EDB focus on four main areas -- precision engineering, factory automation, mechnatronics, and industrial electronics. These training are also designed to make the Singapore firms more competitive in the world markets.

Numerous other training centres are set up to develop the necessary manpower and skills to support the export-oriented industries of Singapore. For example, to assist the fashion industry, a centre for creative arts' was formed for such a purpose earlier in 1990.

To stay ahead of its neighbouring countries, and to sustain its high export-orientation strategy, Singapore has embarked on a deliberate policy to increase its pool of technical, engineering and management expertise.

This is to enable it to support the higher-technology and knowledge-based industries that are fast moving into Singapore. Thus, enrolment at the University and Polytechnics have been stepped up drastically over the years. For example, the enrolment of engineers at the University went up from 643 in 1970 to 1,636 in 1980, and 5,535 in 1989. The corresponding number of graduates were 66, 265 and 1,280 respectively. Similarly, there were only 3,386 enrolment for technicians in 1970. This was increased to 10,401 in 1980, and in 1989 the number was 18,394. Thus, the number of technicians produced to support the various industries rose from 456 in 1970 to 1,759 in 1980, and to 5,230 in 1989.

Facilitating Agencies

To further support and enhance the international competitiveness of Singapore products, there are many government agencies who play this role. The Singapore Institute of Standards and Industrial Research (SISIR) provides a whole range of services designed to help the local companies become more efficient in its use of materials, R&D, and technology. SISIR also helps local manufacturing companies to obtain certification or approval of their products by overseas authorities, as a means to gain a competitive edge in world markets. SISIR has numerous centres, each with specific tasks and missions to assist local firms. For example, the Materials Technology Centre helps local manufacturing companies to select, evaluate and apply different types of materials like metals, plastics and chemicals; while the Product and Process Technology Centre provides basic infrastructural support in process development, promotes and disseminates technology in design and development, food technology, product evaluation, and electronics testing.

Besides SISIR, there are many other facilitative agencies in Singapore. Some of these major ones have been highlighted earlier. Here, it is important to point out that these agencies are set up to facilitate and assist local manufacturers to be more competitive internationally. Their services are not free, and companies needing their services have to pay for them. Hence, no subsidies are given to the local manufacturers, and this would avoid the "crutch" mentality that is so prevalent in some other countries.

To further enhance Singapore's drive towards high-technology, a 109-hectare Science Park is in the process of being built over four phases. Currently, it is at the second phase of development. However, it has already attracted many R&D companies engaged in a broad spectrum of technology, including biotechnology, agrotechnology, microelectronics, marine technology, automation, computer and information technology, etc. from all over the world. As of 1989, 58 R&D firms are operating from the Park.

Besides firms in the Singapore Science Park, research and manpower training are also carried out at the Institute of Molecular and Cell Biology (located near the Science Park and within the National University of Singapore's campus), the Information Technology Institute, the Institute of Systems Science, and the Information Communication Institute of Singapore. These institutions are all designed to facilitate the development of Singapore's international competitiveness, especially in exports markets. Their scope and depth of activities, including facilities, are expected to be expanded in the future.

CONCLUSION

It can easily be inferred that the success of Singapore internationally is the result of concerted efforts on many parties and institutions. There is no doubt that the government played a key role. However, without the cooperation and support of the various organisations and the people, it would also not be possible. In fact, the government has increasingly emphasize that the economic development of Singapore should be everyone's responsibility. In the words of Mr. Philip Yeo, Chairman of Singapore Economic Development Board:

"This responsibility lies not only with the front-line promotional agencies such as the Economic Development Board but with the whole of Singapore -- the government agencies responsible for infrastructure, the workers responsible for labour productivity and the people of Singapore, for social stability."

(Singapore 1990, pp. 5)

To Mr. Yeo's excellent remarks, I would also add that the cooperation, support and collaboration of MNCs and foreign government agencies are also needed.

In concluding, it may be appropriate to address an interesting issue that might have occurred in many scholars' minds. Is the success of Singapore largely attributed to good policies, or is there a cultural explanation to it as well. The answer is important as it would determine whether its success model can be exported to other developing countries. I tend to go for a "qualified yes" that its model is applicable to other countries.

Singapore's strategy, as highlighted earlier, is premised on MNCs as engines for growth and exports expansion. In addition, its strong

education and training systems benefitted largely from the British influence -- both were culturally alien to Singapore's pre-dominantly Chinese culture in the earlier years. In other words, they were imports anyway. Perhaps a more conclusive answer can be provided if we can closely observe the progress of Indonesia, Malaysia, and Thailand. In particular, Malaysia and Thailand have very good chances of making to the NICs league. Currently, they are pursuing policies very similar to Singapore in the earlier years -- relying on MNCs as engines for growth, and have developed good policies to encourage their investment and expansion. If they succeed, then the cultural theory may need re-examination because Malaysia is a Islam-dominant society, while Thailand is a devout Buddhist nation. As it is, if culture is a key determinant, China (where almost all the Chinese from Singapore, Hong Kong and Taiwan originated) should be the first to benefit from economic growth. Yet, few will deny that its present state of affairs have been the result of poor policies in the past, and it is quite obvious that it is re-examining its policies to achieve economic growth.

**THE UNCERTAIN LEGAL STATUS OF GRAY MARKETING ACTIVITY WITHIN
THE EUROPEAN COMMUNITY BY NON-E.C. FIRMS**

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THE UNCERTAIN LEGAL STATUS OF GRAY MARKETING ACTIVITY
WITHIN THE EUROPEAN COMMUNITY BY NON-EC FIRMS

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ABSTRACT

Europe's emerging "common market" encompasses the necessary ingredients for flourishing gray market activity: a large, affluent population which is ready to buy in a market well supplied with established trademarked products which carry widely varying prices in different EC nations, and which cross traditional borders with increasing ease. This paper summarizes the legal status of gray marketing activities in the EC, identifying the most relevant provisions of the EEC Treaty of Rome and reviewing landmark decisions by the European Court, based upon an extensive review of the legal literature. The legal status of a number of parallel importing practices in the EC is clear, particularly regarding importation of trademarked goods in original condition and various property rights related to such goods, and the marketing of "altered" goods, primarily involving re-packaging and the use of different trademarks. Less clear is the legal status of the non-EC firm since the Treaty was concerned primarily with elimination of trade barriers among EC member states. European consumers should benefit from gray marketing practices which should assist in preventing "artificial sealing off of markets" and in offering lower prices for established trademarked goods. However, the EC's concern for avoiding "artificially sealing off" markets of its member states need not suggest "equal" status before the law for firms from Turkey, the United States, or other non-EC nations.

INTRODUCTION

During the past five years gray (or "grey") marketing (or "parallel importing") has been the subject of frequent reports in the business press in

America. This is not surprising in view of the estimated value of gray goods imports into the U.S., estimated at more than seven billion dollars in 1984 (Westerman et al. 1985), and believed to have increased dramatically since that time (Liebeler 1986-87). Similarly, the corporate roster associated with gray marketing litigation is impressive and attention-getting, including Mamiya cameras, Seiko watches, Yves St. Laurent perfume, Mercedes-Benz automobile, Dom Perignon champagne, Baccarat crystal, and Duracell batteries, among others, all brands with reputations for high quality (Knoll 1986). The business and popular press offer many examples of substantial price reductions available to consumers of gray market goods, and resulting consequential market shares achieved by gray market distributors (Liebeler 1986-87; Baugh 1986; and Knoll 1986).

Gray goods may be defined as "commodities bearing an authentic trademark that are manufactured under the supervision of the trademark owner, but diverted outside the trademark owner's designated distribution channel...eventually sold in competition with the merchandise of authorized distributors" (Fogel 1986-87). More concisely Duhan and Sheffet (1988) define gray marketing and "the selling of trademarked products through channels of distribution that are not authorized by the trademark 'holders,' whether within a domestic market or across international borders." Such goods should not be confused with counterfeit goods. Rather, they are genuine goods which bear authentic trademarks (Curry 1986). Litigation and legal commentaries in the U.S. generally can be group around two positions. First, as noted by Dahl (1986), trademark owners claim that they should be able to control the quality of goods and services under their marks and be able to prevent confusion on the part of consumers regarding warranties. By extension some trademark owners claim that "gray market goods take a free ride on the investments made by

U.S. trademark owners and reduce the returns to manufacturers and trademark owners" (Knoll 1986). On the other hand, consumer advocates and others claim that parallel imports benefit domestic consumers by providing them with foreign-made trademarked goods at prices below those set by the multinational owners of the trademark, and that various federal regulations sanction parallel imports (Gorelick and Little 1986).

In spite of a substantial body of law and judicial decisions, the current legal status of gray marketing in the U.S. is unclear, complicated by the viewpoint that "courts have reached conclusions supporting each side of the debate" (Baugh 1986). And while gray marketing is an issue of increasing concern in Canada, Australia, New Zealand and Japan (Barrigar 1985a and 1985b; Hayhurst 1986; and King 1989), its legal status is not resolved in those countries.

PURPOSE OF THE PAPER

Less explored by American marketing academicians and practitioners is the legal status of gray marketing in the European Community (EC), an emerging "Common market" comprised of twelve member states with a total population of nearly 325 million. Western European economic integration raises a variety of gray marketing-related issues which warrant our attention. For example, how well are gray marketers likely to fare in the EC, given its member nations' previous often protectionist stance? Will EC's gray marketing policies apply to member- and non-member nations alike? What are the prospects for firms domiciled in the United States, Turkey, and other non-EC member-states involved in gray marketing activities within the EC? And will EC law discriminate against the American, Turkish or other non-EC trademark owner who attempts to protect his mark within the EC countries against domestic firms' actions?

This paper does not attempt to provide definitive answers to each of these questions. Indeed, the legal status of gray marketing in the European Community

is still evolving, although in many ways its status seems clearer than in the U.S. While a definitive analysis of gray marketing legislation and judicial decisions within the EC has not yet been produced, this paper represents the author's attempt to summarize the most significant EC legislation and court decisions, thereby providing an informed basis for further speculation concern these and related issues. The author's research focused largely on review of the legal literature, and in particular on the works of Kersten (1988) and Moxon (1988).

RELEVANT PROVISIONS OF THE EEC TREATY OF ROME

The EEC Treaty of Rome (Treaty) of 1957 established the European Economic Community and defined its aims: to establish a common market for goods, services, labor and capital between the national territories and to effect the progressive coordination of each country's economy (Moxon 1988). All member states are required to adhere to the treaty. Its most relevant provisions relating to gray marketing are identified below:

- (1) Elimination of duties and restrictions on the movement of goods originating within the EEC is required. [Article 3.]
- (2) Member states must take appropriate measures to ensure fulfillment of the Treaty's aims. [Article 5.]
- (3) Discrimination against goods on the basis of their country of origin is unlawful. [Article 7.]
- (4) Quantitative restrictions on imports and all measures having equivalent effect are prohibited between member states. [Article 30.]
- (5) Quantitative restrictions on exports from one member state to another are prohibited. [Article 34.]
- (6) The Treaty's provisions, specifically Articles 30 through 34, do not preclude prohibitions or restrictions on imports, exports, or goods in transit

justified on the grounds of the protection of industrial and commercial property, although such prohibitions or restrictions must not constitute "a means of arbitrary discrimination or a disguised restriction on trade between Member States." [Article 36.]

(7) "Agreements between undertakings, decisions by associations of undertakings, and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction, or distortion of competition within the Common Market," in particular those which share markets or sources of supply, are prohibited. [Article 85 (1).]

(8) Agreements or decisions which are prohibited by Article 85 (1) are declared null and void. [Article 85 (2).]

(9) The European Commission is empowered "to exempt agreements, decisions or concerted practices made known to it from the prohibition in Paragraph 1 under certain conditions." [Article 85 (3).]

(10) Enterprises may not abuse a dominant position within the Common Market or within a substantial part of it. [Article 86.]

(11) National courts may submit cases to the European Court of Justice in Luxembourg for a preliminary ruling if a question of law of the EEC Treaty is decisive for the case. [Article 177.]

(12) The EEC is required to maintain relations with the United Nations and the General Agreement on Tariffs and Trade (GATT) with regard to future policy. [Article 229.]

As noted by Kersten (1988), Articles 30 and 36 of the Treaty are included in Part Two, Title I, Chapter 2 of the Treaty, titled "Elimination of Quantitative Restrictions Between Member States," and they are addressed to authorities of the individual nations, including the national courts. The antitrust provisions of the Treaty are found in Part Three, Title I, Chapter 1, titled "Rules

on Competition," and they impose restrictions on the behavior of enterprises.

SOME LANDMARK GRAY MARKETING COURT DECISIONS IN THE EC

As noted by Kersten (1988), some thirty years after its formation the EC is still far from being a common market in many respects. One example particularly relevant to the practice of gray marketing is that vastly different prices are paid for the same goods in different EC countries due to the currency differences and/or the obstruction of free pricing by national authorities. Kersten observes that where such price differences exist, there will always be the exporters and importers trying to profit by making gray market deliveries. Further, he notes that the terms "re-imports" and "parallel imports," rather than "gray market imports," are customary in the legal debate within the EC.

It is not possible within the space limitations of this paper to present a comprehensive overview of the course of gray marketing cases through European courts. However, a review of several landmark decisions should assist American, Turkish and other non-EC marketing academicians and practitioners in better understanding the legal status of gray marketing in the EC. At the minimum this review should provoke closer legal analysis by the non-EC marketer who either is considering gray market deliveries to the EC, or who wishes to protect intellectual property within the EC.

Centrafarm v. Sterling Drug, and Centrafarm v. Winthrop

Kersten (1988) states that "the case law of the European Court on cases where the re-importer or parallel importer imports goods in original condition put into circulation in an EC State by the owner of the trademark or patent or by a third party having his approval, can be regarded as established," in large part by two cases: Centrafarm v. Sterling Drug [ECR 1147, 1168 et seq (European Court October 31, 1974)] and Centrafarm v. Winthrop [ECR 1183,

1199 et seq (European Court October 31, 1974)]. As the owner of parallel patents for a drug in the United Kingdom (UK), the Netherlands, and elsewhere, Sterling Drug granted a manufacturing and distribution license to Sterling-Winthrop Group Ltd., its UK subsidiary, and a distribution license to Winthrop B.V., its Dutch subsidiary. The Dutch firm bought the drug from the UK firm. Also, the two subsidiaries owned the trademark "Negram" in their individual home countries. "Negram's" price in the Netherlands was double the UK price.

Centrafarm B.V., a Dutch company, purchased "Negram" in the UK from Winthrop/Great Britain, and sold the drug in the Netherlands. Sterling Drug then invoked its patent, and Winthrop B.V. invoked its trademark in an attempt to halt Centrafarm's sale of "Negram" in the Netherlands. As provided in Article 177 of the EEC Treaty, the Dutch court requested a preliminary ruling from the European Court.

In its decision the Court made a distinction between the "existence" of commercial property granted by authorities of a member state, which is guaranteed by Article 36 of the treaty, and the "exercise" of that property, which could be affected by prohibitions in the Treaty. More precisely, the Court ruled that Article 36 "only allows restrictions on the free movement of goods to the extent that they are justified to safeguard the rights constituting the 'specific sub-ject matter of this property.'" "Specific subject matter of a trademark" was defined by the Court as "to give the owner the exclusive right to put a product into circulation using the trademark, and to protect him against competitors wishing to take advantage of the status and reputation of the trademark by sell-ing products illegally bearing that trademark."

The Court's decision in the Centrafarm cases was that, with regard to trademarks and patents, the free movement of goods provision of Article 30

of the Treaty could be obstructed by the trademark or patent owner's preventing the importation of these goods into his home country. As Kersten observes, "A deviation from the principle of free movement of goods could not be justified if the product has been legally marketed by the owner himself or with his approval in the Member State from which it was imported."

Deutsche Grammophon v. Metro

The Court's distinction between the "existence" and the "exercise" of trademarks and patents is also reflected in its decision in the case of Deutsche Grammophon v. Metro [ECR 487, 502 et seq (European Court June 8, 1971)]. Deutsche Grammophon, a phonograph record manufacturer, attempted to defend itself against parallel imports by invoking its exclusive distribution rights for works of music protected in Germany under German copyright laws. The Court's position is summarized by Kersten as follows: "The Court ruled that it would be irreconcilable with the objectives of uniting the national markets in a Common Market if the owner of a national proprietary right similar to a copyright were allowed in the EC Member State concerned to forbid the distribution of goods put into circulation by himself or with his approval in another Member State."

Essentially the same principle was upheld in other significant cases, including Musik-Vertrieb and K-tel v GEMA [ECR 147, 166 et seq (European Court January 20, 1981)], and Dansk Supermarked v. Imerco [ECR 181, 196 et seq (European Court January 22, 1981)]. Clearly, "the simple importation of such goods legally put into circulation in another Member State could not be regarded as an impermissible or unfair trading practice."

EMI v. CBS

The European Court's rulings in cases related to Articles 30 and 36 of the Treaty have opposed the artificial "sealing off" of markets of EC countries

through the exercise of intellectual property rights by firms within the Common Market. However, these articles were not intended to eliminate trade barriers between EC and non-EC countries. The EMI v. CBS action [ECR 811, 852 et seq (European Court June 15, 1976)] provides a case in point.

CBS, an American firm, produced records in the U.S. under its registered trademark, "Columbia." Some of these records were imported into the UK by CBS's British subsidiary. In addition, the subsidiary produced "Columbia" recordings in the UK. However, due to historical complexities (Kersten 1988), the "Columbia" trademark conflicted with the British "Columbia" trademark owned by the EMI company, which also had parallel trademarks in other EC nations. The issue was referred to the European Court by the High Court of Justice in London, which requested clarification of questions related to Articles 30 and 36 of the Treaty.

EMI's claim to trademark rights in opposing the importation of CBS's records and/or their manufacture by the British subsidiary of CBS was upheld by the Court. Even though EMI's action might have the equivalent effect of a quantitative restriction, the Court reasoned that it "could not impair the free movement of goods between Member States and was, therefore, not subject to the prohibitions of Articles 30 and 36." In short, these Articles were intended to safeguard the unity of EC, and this unity was not compromised by EMI's action.

In a similar case, Polydor v. Harlequin [ECR 329, 351 (European Court February 9, 1982)], the Court again supported this principle. In that case even the existence of provisions in the Commerce Treaty between Portugal and the EC of 1972 promoting the free movement of goods was not sufficient to apply the same principles as for trade within the EC.

Roche v. Centrafarm

As noted earlier, gray market goods are authentic, not to be confused with counterfeit goods. However, there are conditions under which both "authorized" and "unauthorized" sellers/importers find it expedient to alter the original goods in an effort to adapt them better to the marketing situation within a given country. Some of the causes are differences in language, customary package size, methods of presentation, and consumer protection legislation. Alteration of original goods frequently takes the form of re-packaging or the use of different trademarks. Roche v. Centrafarm [ECR 1139, 1168 et seq (European Court May 23, 1978)] provides an illustration of a re-importer's re-packaging of goods for the purpose of improving marketing opportunities being opposed by a manufacturer claiming infringement of trademark rights.

Roche/Switzerland registered its "Valium" trademark in West Germany and the UK. In those countries the local Roche subsidiaries manufactured packs of different sizes (in Germany, packs of 20 and 50, sold in quintuple packs of 100 and 250 tablets; in the UK, packs of 100 and 500). The price in the UK was considerably lower than in Germany.

This pricing situation provided Centrafarm with the opportunity to buy "Valium" in the UK for resale in Germany, after repackaging the product in the Netherlands in packs of 1,000 tablets. Centrafarm included on the new packs the words "Valium" and "Roche," the German Federal Health Office registration number, and reference to Centrafarm as the drug's importer. Also, German language instructions for the product's use, bearing the "Roche" name and again identifying Centrafarm as the importer, were included on the pack. Claiming infringement of its trademark rights, Roche/Switzerland and its German subsidiary sued.

The case was referred to the European Court by the regional court in Freiburg. The Court's decision turned on the point that "the main function

of the trademark was to offer a 'guarantee of origin,' on the basis of which consumers or end-users could be sure that a labelled product offered to them has not undergone any alteration by a third party which might affect the original condition of the product at an earlier marketing stage without the approval of the owner of the trademark." In short, the Court ruled that "the right granted to the trademark owner to oppose every use of the trademark which could falsify this guarantee of origin" was part of the specific subject matter of trademark rights.

From a marketing perspective, however, the Court offered additional guidance. The Court noted that a trademark owner could not base defense of trademark rights on a "disguised restriction of trade between Member States" in the sense of Article 36 of the Treaty. That is, the trademark owner could not market the same product in different packs in different countries if the owner's purpose in doing so was to prevent re-packaging by third parties, where this could be done without impairing the product. More precisely, the trademark owner would be viewed as disguising restriction of trade between EC nations and contributing to artificial sealing off of EC markets if he took legal action against a re-importer who altered only the outer pack when the inner pack was unaffected, or who re-packaged the product under supervision by an authority in order to guarantee the good's perfect condition.

The Roche v. Centrafarm case was continued in the German Federal High Court, which found that the different package sizes and prices of "Valium" in the UK and Germany were "based on objective, external market conditions to which Roche was subject and was therefore not 'artificial' in the sense of the decision of the European Court." Specifically, the German court cited "requests of the different national health insurance services and the erosion of individual currencies...[and] government imposed price regulations for

drugs."

Perhaps most significant was the interpretation of the ruling given by parallel importers, who viewed the court's references to external re-packaging as a judicial invitation to take that course of action. In a subsequent case involving similar re-packaging issues, Pfizer v. Eurim-Pharm [ECR 2913, 2928 (European Court December 3, 1981)], the Court ruled in favor of the re-importer of the drug "Vibramycin," who only replaced the outer packaging of the drug, while not altering the inner packaging. Under these conditions the re-packaging involved no risk of alteration to the drugs, and the customer or end-user could not be misled as to the drug's origin, which was clearly indicated on the package. Pfizer was not entitled to use its German trademark to prevent Eurim-Pharm's importation into Germany of "Vibramycin" re-packaged in this way in the UK.

Centrafarm v. American Home Products

A firm's use of different trademarks on the same product in different EC countries represents another legal question for parallel importers, as is illustrated by Centrafarm v. American Home Products [ECR 1823, 1843 (European Court October 10, 1978)]. American Home Products owned the trademark "Serenid D" in the UK, and "Serestra" in the Netherlands. These products were identical therapeutically, but not quite the same in taste and some other aspects of composition. The products were manufactured and marketed by subsidiaries of American Home Products in the UK and the Netherlands.

"Serenid D" was bought in the UK by Centrafarm and imported into the Netherlands where it was re-packaged as "Serestra." The new package identified Centrafarm as the importer, and provided other information as required by Dutch regulations. American Home Products claimed infringement of its trademark rights in the Rotterdam court, which requested a preliminary ruling from the

European Court.

The Court held that American Home Products was correct in defending its Dutch trademark, based upon "the specific subject matter" of the trademark which gave its owner the exclusive right to use the mark when putting a product into circulation for the first time. As observed by Kersten, "This guarantee of origin would be threatened if a third party were allowed to apply the trademark to the goods--even if they originated from the owner of the trademark--or in the event that the manufacturer owned two different trademarks for the same product, to apply one of the two trademarks to a random part of production or to change the trademarks applied by the owner on various parts of production."

However, the Court indicated that in such cases it was necessary to establish "whether the use of different trademarks in different EC Member States for the same product was based on legitimate reasons, or whether this practice was part of a distribution system designed by the owner of the trademark to seal off the markets artificially."

Antitrust Regulations

The Court's finding of violation of the ban on conspiracies in restraint of trade in Article 85 (1) "requires a concerted effort of at least two enterprises, which is likely to affect trade between the EC Member States and which has as its object or result the restriction of competition within the Common Market." As Kersten notes, typically such a concerted effort is lacking regarding the application of trademark rights to prevent undesired imports. Neither the existence nor the exercise of this right by the trademark's owner constitutes "agreement" or "concerted practice" within the meaning of Article 85 (1).

Various Court decisions have set aside forbidden agreements reached by

firms involving actions such as transferring trademark or other proprietary rights in different countries to different persons, and mutually restricting themselves in order to seal off national markets or to divide them among them-selves. More recently the Court has changed its approach in resolving conflicts between national proprietary rights and the principle of free movement of goods, basing its decisions on Articles 30 and 36 of the Treaty, and foregoing application of Article 85 (1).

"Dominant market position" is a related antitrust concern. In general the "abuse" regulation of Article 86 of the Treaty cannot be applied to the use of national proprietary rights to prevent parallel imports. The Court has repeatedly stated that trademark rights do not as such give trademark owners a dominant market position in the sense of Article 86.

Less clear is the role played by Article 85 (1) in situations in which enterprises attempt to use trademarks and other property rights to prevent undesired parallel or re-imports. For example, it is unclear whether a trademark owner who grants exclusive licenses to companies in other countries, restricting them to individual territories allocated to them, can succeed in legally restricting licensees from exporting the product back to the trademark owner's country. Similarly it is unclear whether a trademark owner can succeed in his own name (or by authorizing an injured licensee to initiate infringement proceedings in that firm's name) when a licensee exports the product to the exclusive territory of another licensee. A broader question is whether every license granted to a firm in a different EC nation automatically authorizes the licensee to sell the product within the entire Common Market.

Whereas the European Commission views exclusive licenses generally, and exclusive distribution licenses for trademarked products covering a limited territory in particular, as a violation of Article 85 (1), the European Court

has taken a different position. It has found that "the mere obligation of the licensor not to grant any further licenses for the same territory and himself not to compete with the licensee in this territory--referred to by the Court as an 'open exclusive license'--did not violate the ban on agreements in restraint of trade contained in Article 85 (1)." In effect, the Court has ruled that the licensor "can contractually bind himself to refrain from exporting the licensed product to the territory of the licensee or from granting additional licenses in this territory," thus granting exclusive distribution licenses for the product within a limited territory. However, it has not yet been established whether a licensee can be prevented from selling in territories reserved for the licensor or other licensees.

CONCLUSIONS

Europe's emerging "common market" encompasses the necessary ingredients for flourishing gray market activity: a large, affluent population which is ready to buy in a market well supplied with established trademarked products which carry widely varying prices in the Member States, and which cross traditional political borders with increasing ease. Both opportunities and difficulties abound for domestic EC enterprises as they learn to cope with the "new Europe." Perhaps surprising to American and other non-EC marketing academicians and practitioners, the legal status of a number of aspects of gray marketing is clear, having been clarified and sharpened by a series of landmark decisions by the European Court over the subsequent years.

Most consequential litigation has addressed marketing practices by firms domiciled within the EC Member States, relating to Articles 30 and 36 of the Treaty and addressing the importation of trademarked goods in original condition and various property rights related to such goods. There has also been substantial litigation related to the marketing of "altered" goods, primarily involving

re-packaging and the use of different trademarks.

Substantially less clear--and of particularly greater concern to American, Turkish, and other non-EC firms--is the legal status of parallel imports into the EC from non-EC countries. Clearly the Treaty was concerned primarily with the elimination of trade barriers among the EC Member States. EC's concern for avoiding "artificially sealing off" the markets of its Member States need not suggest "equal" status before the law for American and other non-EC firms.

For example, as noted previously in the EMI v. CBS decision, the elimination of trade barriers existing on the basis of industrial and commercial property rights between the Common Market and non-Common Market countries is not the purpose of Articles 30 and 36 of the EEC Treaty. Since the distribution arrangement in question did not impair the free movement of goods between Member States, the unity of the Common Market which was intended to be safeguarded by Articles 30 and 36 was not compromised. Even so, it will become increasingly difficult to control the flow of imports as the transfer of goods among EC states becomes easier. Once goods are imported into an EC state from a non-EC country, they can be transferred into other member states with relative ease. Consequently, in the near future laws and court decisions of individual member states may more directly address gray marketing activities by non-EC firms, further discouraging such distribution practices.

Meanwhile, the practice of gray marketing appears to offer an important means for preventing "artificial sealing off of markets," at least among EC nations. European consumers should benefit in the form of lower prices for established trademarked goods, except in instances where prices for certain goods are administered by local governments.

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**COMPETITIVE STRATEGIES IN INTERNATIONAL SPECIALIZATION :
LESSONS FOR THE TURKISH ECONOMY**

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COMPETITIVE STRATEGIES AND INTERNATIONAL SPECIALIZATION :

LESSONS FOR THE TURKISH ECONOMY

International trade by corporate enterprises operating in the market economy is the area in which one finds confrontation with the systems of production in place in different national territories. For a country like Turkey, it would be interesting to learn from the examples of the competitive strategies applied during the last twenty years by the most dynamic national economies.¹ The examples of Japan and of the Newly Industrialized Economies of Asia are, therefore, very instructive in this regard, but one must keep in mind their context and their limits.

1) The most efficient national strategies

Since the end of the 1960s, international competition has been profoundly transformed by the spectacular growth of an increasing number of countries, all located in Southeast Asia. This movement originated in Japan, which began to industrialize toward the end of the nineteenth century following the Meiji era, and which has already surpassed the most advanced country - the United States - in certain areas of high technology. It appears today that Japan has played the role of a precursor since the industrial development of the Far East is characterized by successive waves of "Newly Industrialized Economies."

The first wave of the NIEs is composed of those which are universally referred to as the "four dragons"; their economic level is about eight to ten years behind that of Japan (for Hong Kong and Singapore) and about twenty years behind (for Taiwan and South Korea). The second wave includes Malaysia,

¹ Cf. G. Lafay, C. Herzog, L. Stemitsiotis and D. Unal (1989) : "Commerce international: la fin des avantages acquis" (Economica, Paris).

Thailand and the Philippines, which lag behind Japan by about 30 to 35 years. But the movement also affects the demographic giants - Indonesia, China, Pakistan and India - with are about 50 years behind Japan.

When one examines the shares of world trade of each of the major geographic regions, the gains of Japan and the whole of developing Asia are quite spectacular between 1967 and 1988 (chart 1). In exports, Japan advanced from 4.8% to 9.3%, a gain of four and one half points; developing Asia, meanwhile, advanced by six and one half points (from 5.8% to 12.2%). With the exception of Western Europe considered as a whole², which advanced only through trade among these countries, all the other regions lost ground, including the United States, the whole of CANZAS (Canada, Australia, New Zealand, South Africa), Latin America, Eastern Europe, developing Africa and even the Gulf which fell below the level which it occupied prior to the two oil crises of 1973 and 1979.

In imports, most of these same zones were also in retreat, with the exception of the United States, whose share increased by three points (from 12.3% to 15.2%), a manifestation of the serious trade deficit experienced there since the beginning of the 1980s. During the same period, Western Europe was nearly stable, about 44%, while Asian gains were more modest than in exports: Japan's share of world imports rose by little more than one point (5.8% in 1988) and that of developing Asia by three and one half points (attaining 11.1%).

The strategy of the Japanese corporations was perfectly orchestrated to increase their market shares in international trade. At first, they relied upon the comparative advantage conferred spontaneously in countries where labor was abundant and cheap, i. e., they selected activities demanding unskilled labor. Then the economic development of Japan produced a gradual increase in salaries; as the levels of qualifications grew, the demands for increased

² Western Europe includes, here, the EEC, EFTA, Turkey, Yugoslavia, Israel, Cyprus and Malta. The trade among the countries of this zone grew from 27.1% to 31.6% of world trade during this same period, while that with the rest of the world was in retreat, from 15.3% to 12.8% in exports, and from 17.0% to 12.2% in imports.

wages were satisfied by increasing productivity, and the development of the country necessitated the extension of the domestic market to products of mass consumption.

Not only were the Japanese corporations not opposed to this legitimate evolution, they also supported it with gradual changes in their areas of specialization, i.e., by a permanent renewal of their strong points and their comparatively weak points following the method of the "flight of the wild geese"³. The spontaneous comparative advantages which - following the neo-classic theory - flow from the macroeconomic endowment of countries in production factors, have given way to the dynamic creation of comparative advantages. This has led to microeconomic innovation by corporations, in their products as well as in their processes of production.

To create these new comparative advantages, the Japanese corporations first bet on those products where reductions in cost could be obtained through mass production (economies of scale), either through basic products such as steel, or through consumer goods susceptible to rapid increases in demand. They therefore gave first priority to the broadest markets in order to acquire the dominant position. The competitive poles thus constituted benefitted the entire industrial complex and allowed access to other links, in moving upstream or downstream in the chain of production, and in developing increasingly sophisticated engineering equipment.

This competitive strategy of the Japanese corporations produced spectacular results in the national economy, results which other Asian countries produced in turn. This phenomenon is illustrated by charts 2 and 3 which depict, respectively, textiles and electronics. For each of the nine major regions previously defined, these charts represent the evolution of the balance

³ Cf. K. Akamatsu (1961) "A Theory of Unbalanced Growth in The World Economy" (*Weltwirtschaftliches Archiv*, Band 86 Heft 2). The Japanese strategy was earlier described by the CEPII in 1976 in "Une économie à la recherche de la spécialisation optimale: Japon "1960-1980" (Librairie du commerce international, Paris, November, 1976).

of trade (exports minus imports), depicting it as a percentage of world trade of the corresponding chain for each year. Relative surpluses are found above the zero line; relative deficits are below the zero line.

In the textiles chain⁴ (chart 2), Japan was again in the lead in 1967, at a time when the wage rates remained relatively low. With a relative surplus of 10.3%, it outstripped the rest of Asia in development (+8.3%) and the whole of Western Europe (+7.8%). The Japanese corporations willingly retreated from this chain, in particular from clothing where the cost of labor played the principal role. Quite rapid until 1973, the retreat slowed at the point where the national economy was seriously affected by the oil crisis. It began again in 1984 so that the Japanese textile balance showed a deficit (-3.5% in 1988). The first place has been held so far by developing Asia (+27.9%), with the "four dragons" leading the way until 1984, when they in turn began to lose their place to less developed countries.

In the electronics chain (chart 3), Japan has been in a growth phase since its relative surplus, (which only reached 10% in 1967), has surpassed 20% since 1983. It has thus managed to attain world supremacy in the key sector of the third industrial revolution, surpassing the competition of the United States and Western Europe. A closer analysis reveals, moreover, a renewal of the comparative advantages in the interior of this chain, since the Japanese economy lost ground in low grade consumer products even though it gained in component parts, computer products and telecommunications equipment. However, the other major regions of the world, with the exception of developing Asia, have all produced deficits. This zone, even though importing massive amounts of high technology components and products, has in effect attained a surplus (+3.1% in 1988), within a division of labor with Japan. Here also, the four most advanced NIEs are moving from low-grade low value-added products, to higher-grade and higher value-added products.

⁴ The word used in French is "filière", which has no real equivalent in English and including an idea of sequence as well as grouping.

From a sectoral point of view, the specialization strategies used by Japan and in the Newly Industrialized Economies of Asia are therefore particularly instructive: they rely upon a permanent renewal of comparative advantages, by means of corporate activity which utilises the trump cards which the national economy offers at any given moment. The economic progress, which generates increases in wages, simultaneously offers the nation the means to improve its human resources (educational effort) and its material resources (total equipment), which permits it to subsequently reach more advanced levels of industrialization. Each nation may therefore attempt to find inspiration in such experiences in adapting them to their own situations.

2) Conditions of access to foreign markets

A nation's international insertion depends not only upon its sectoral specialization, but also upon its geographic situation. Japan and the Asian NIEs could never have reached such results had they not been able to benefit from a wide access to vast markets. Only the possibility of selling their products on a very large scale permitted them to create and to renew their comparative advantages, in putting into place the most effective methods of production. In this respect, the United States market - which remains the largest and the most open in the world - played a crucial role.

This role is illustrated by chart 4 which shows, in percentage of total American imports, the respective shares of Japan and the first wave of the Asian NIEs (the four dragons). For the Japanese economy, the share of the United States market progressed very rapidly until the first oil crisis, then again during most of the 1980s; it now has passed 20%. The progress of the Asian NIEs is even more spectacular, because the figure which they had attained in 1967 (3%) was only one fourth that of Japan (12%). But the increase of the "four dragons" has been very steady, so that their share of the American market (all products combined) has exceeded 15% since 1987.

Because Japan and the NIEs, are largely devoid of raw materials, their results are even higher when one considers only manufactured products. It should be kept in mind, however, that achievement of these rapid advances posed serious problems for the American economy for two fundamental reasons: the concentration of efforts and the trade imbalance.

First of all, the attack by Japan and the Asian NIEs was concentrated on a limited number of products, which constituted the favored targets of their specialization strategy (steel, automobiles, electronic consumer goods, clothing, shoes, etc.). In a certain number of cases, the breakthrough was so rapid that the American authorities were forced to respond with protective measures (quotas, voluntary export restraints, and multifiber agreements in the case of textiles). Attacked in turn, the European countries did the same, but it should be mentioned that the American market remained more open in regard to Asian nations. In recent years, these protective measures - along with the falling dollar - have, moreover, induced the Japanese corporations to begin producing even within the United States.

The most serious difficulty, however, relates to the trade imbalance (chart 5). During the 1980s, the American economy sustained a profound trade deficit, which resulted principally from its macro-economic situation (revival of growth, fostered by a significant budget deficit, and accompanied by a fall in the household savings rate). The trade deficit grew rapidly until 1986, when it began a continuing recovery. Nearly two thirds of this deficit is due to relations with Japan and the four major Asian NIEs, whose imports have not matched the rate of growth of their exports. This situation has been produced, on the one hand, by an under-valuation of the currency which has long characterized these countries, and, on the other hand, by the narrow opening of their domestic markets (except for cities like Hong Kong and Singapore). Serious commercial tensions have thus arisen between the United States and its partners situated on the other side of the Pacific.

Is the experience of Japan and the Asian NIEs relevant to Turkey? The geographic situation of each country determines its relations of proximity⁵. In the case of the Turkish economy, the nearest markets are evidently those of Western Europe, as is illustrated by the geographic structure of its exterior trade distributed among the nine major regions (chart 6). In exports as in imports, the Western European share represents more than half: exports, after having fluctuated, returned to about the same percentage in 1987 (54.7%) as in 1967 (54.4%); imports experienced somewhat of a decline (50.3% from 58.9%), but this figure rebounded after the backslide related to the oil crises of 1973 and 1979.

The relative shares of the eight other zones are much smaller, the decrease being particularly significant for the United States and Eastern Europe. Only the Gulf and developing Africa have seen increases in their shares in the exterior trade of Turkey due to, in the case of imports, its dependence on energy, and in the case of exports, their geographic proximity. However, these are unstable markets, subject to the hazards of political developments and the price of oil, and on which it is, consequently, difficult to construct a lasting strategy for industrialization.

Western European markets, and particularly the EEC which makes up its core, present quite a different situation. In regard to Turkey, these markets could play, in this decade, a role similar to that of the United States vis-à-vis their Asian partners. Indeed, during the last fifteen years, the member states of the European Economic Community have poorly adapted to the shocks, and the unemployment which they have experienced has often led them to adopt very restrictive positions. But economic stabilization and renewal of growth, with the creation of the single market and the liberalization of

⁵ Cf. G. Lafay and D. Unal-Kesenci (1990) "La polarisation géographique des échanges internationaux" (Working paper of CEPPII, n°90-02, July).

the nations of Eastern Europe, are going to change the outlooks for European integration.⁶ If the Gulf crisis is overcome, the Community will be able to be much more receptive to imports from nearby countries in the years to come.

What then will be the conditions required for development of trade between Turkey and the other European states?

Turkish exports of manufactured goods towards Western Europe are essentially concentrated in the textiles chain. In this chain the exports represent more than half of the national production and encompass the entire product line. The low level of the cost of labor, the local production of nearly all of the inputs, and significant investment efforts are the principal reasons for the continuing progress of the Turkish market share in this sector since 1980.

The textiles chain thus represents a competitive pole in Turkish international trade. However, the preponderant importance and growth of this sector likewise constitutes a weakness in the industrial structure of this economy and poses a serious problem regarding its insertion in the world economy. In effect, contrary to the case of the Asian NIEs, Turkey has not attempted to diversify its exportations in a wide range of products whose composition still requires high labor intensity. Yet, since the middle of the 1970s, the share of the textiles chain in the totality of exports of high labor intensity products, from developing countries to their industrialized partners, has relatively diminished as the importance of products such as some electrical materials and electronic goods has increased.

Because of strong protections, and because the domestic market is still insufficient to create economies of scale and thereby produce certain intermediate goods or equipment at reasonable cost, the competitive capacity of Turkish corporations in other manufacturing sectors remains limited. A wider opening of the Turkish market to imports from Western Europe would be

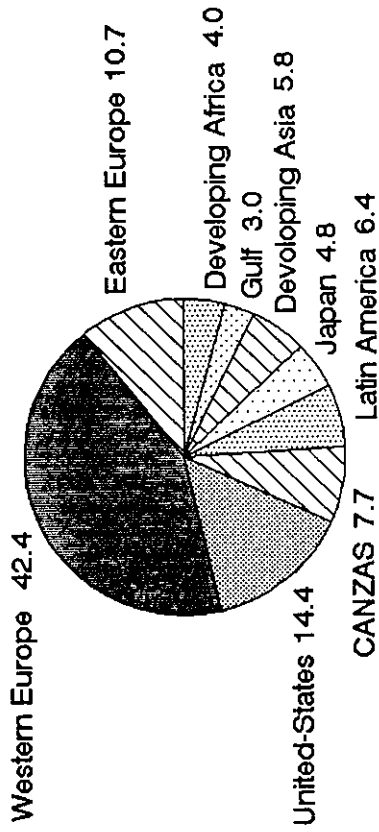
⁶ Cf. G. Lafay and D. Unal-Kesenci (1990) "L'intégration européenne: bilan et perspectives" (Bibliothèque d'économie internationale, n°11, Economica, Paris).

a good means of obtaining competitive prices in these sectors. The resulting reinforcement of mutual exchange between the partners will help to discourage potential protectionist behavior by Western European nations vis-à-vis Turkish products.

Chart 1 : Geographical Breakdown of International Trade

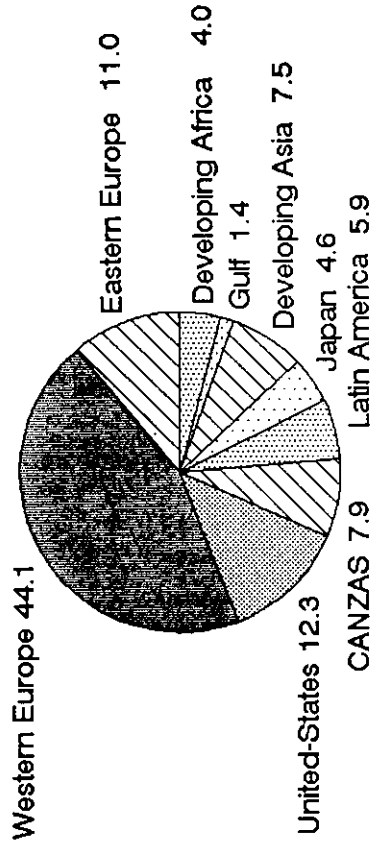
(percentages of total world trade)

A. Exports



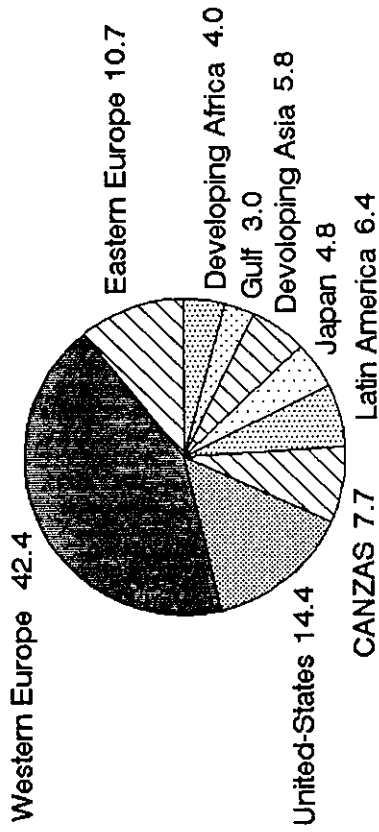
1967

B. Imports



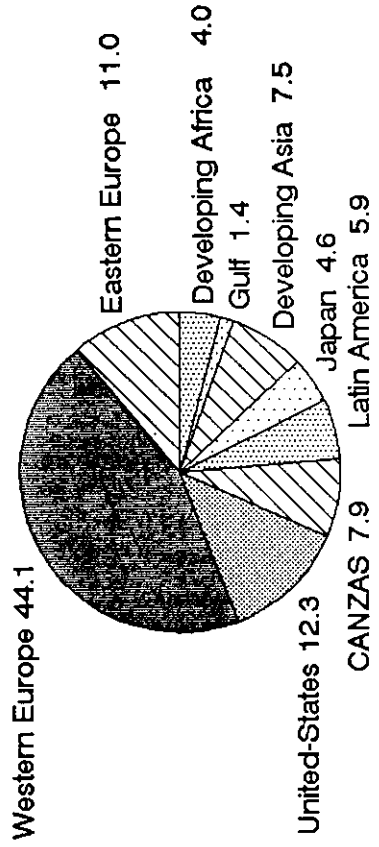
1967

A. Exports



1988

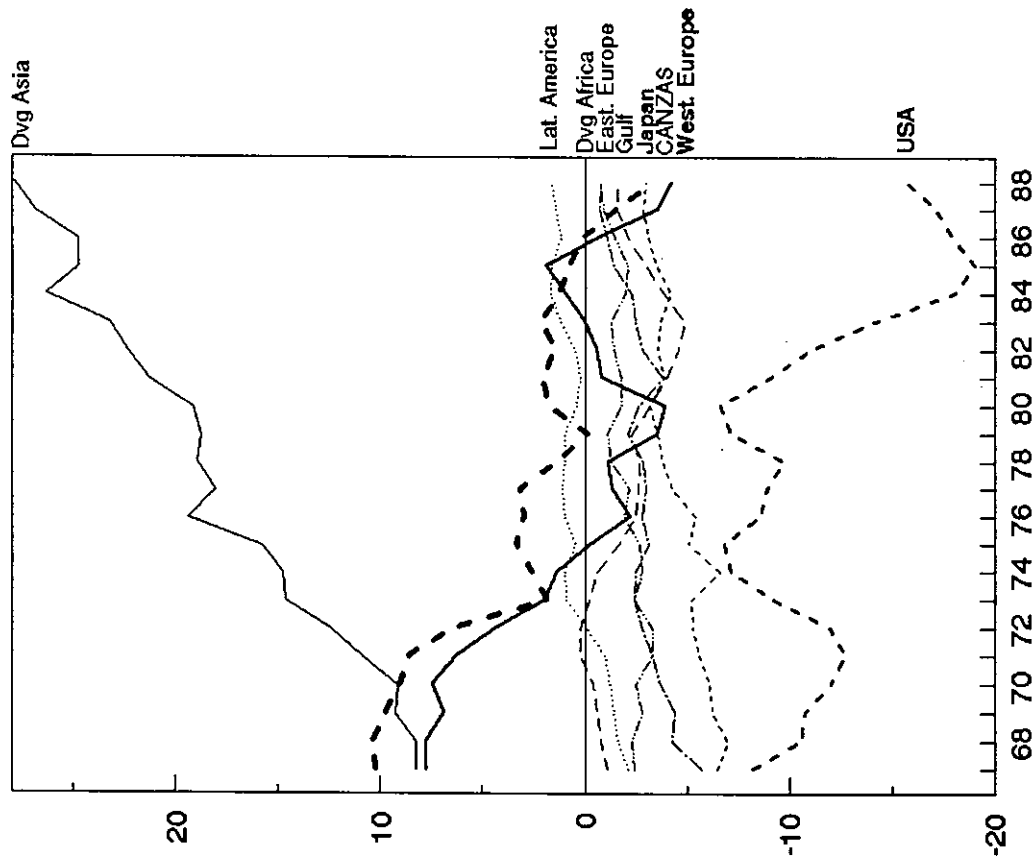
B. Imports



1988

Source : CEPII, CHELEM-International trade data base

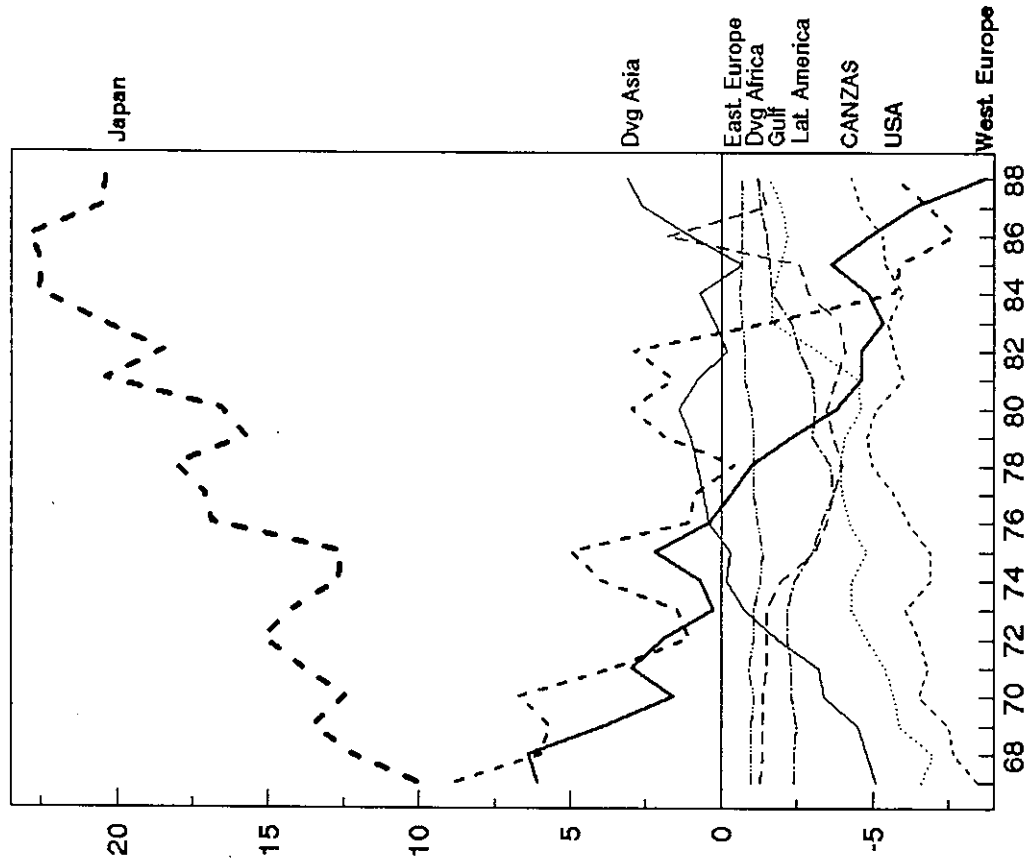
Chart 2 : Positions of the major regions in the textiles chain*



Source : CEPII, CHELEM-International trade data base

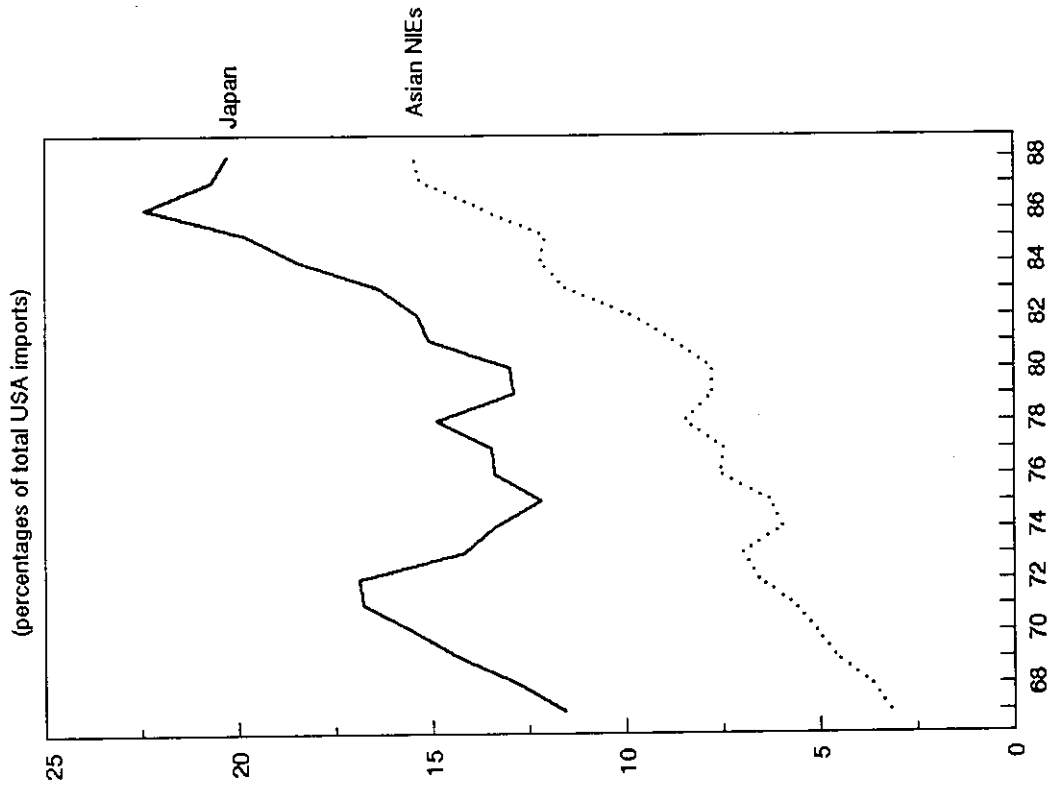
(*) Balances expressed as percentages of the corresponding world trade

Chart 3 : Positions of the major regions in the electronics chain*



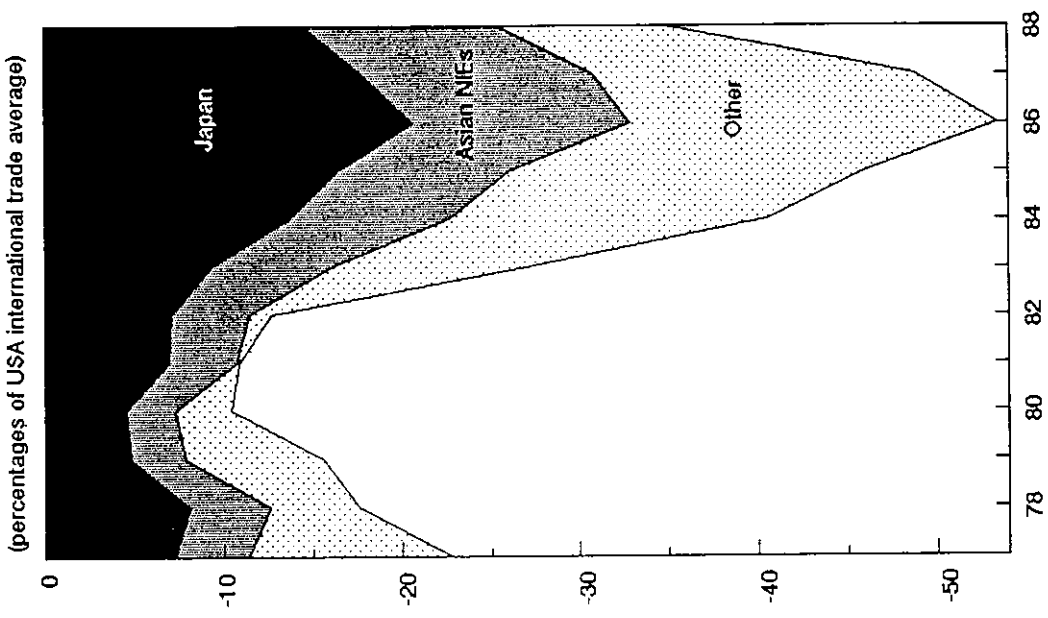
Source : CEPII, CHELEM-International trade data base

**Chart 4 :
Shares of Japan and Asian NICs in USA imports**



Source : CEPII, CHELEM-International trade data base

**Chart 5 :
Geographical breakdown of the USA deficit**

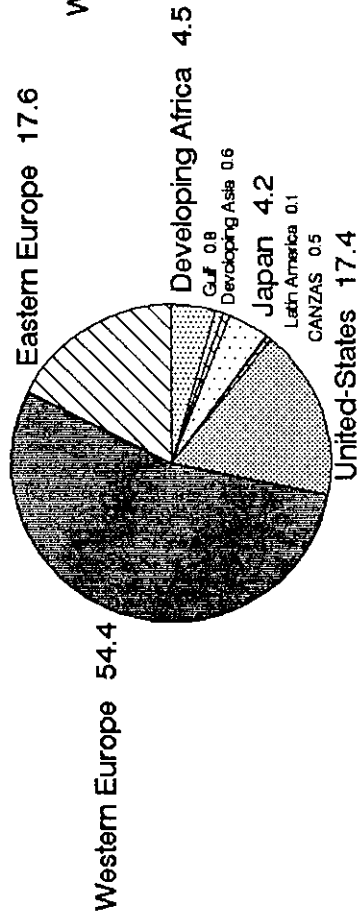


Source : CEPII, CHELEM-International trade data base

Chart 6 : Geographical Breakdown of Turkish International Trade

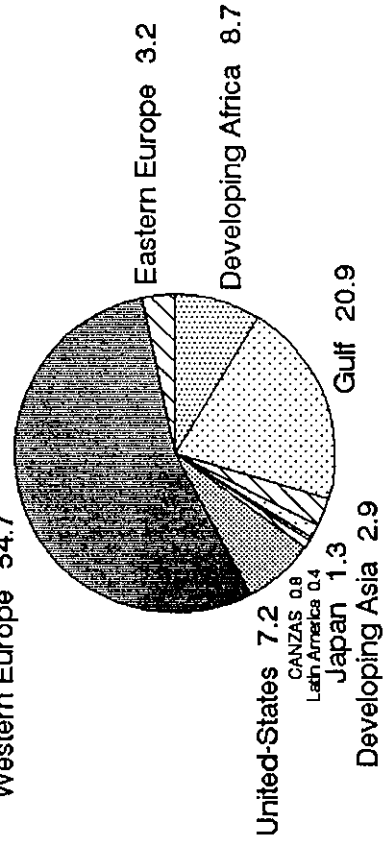
A. Exports

(percentages of total Turkish exports)



1967

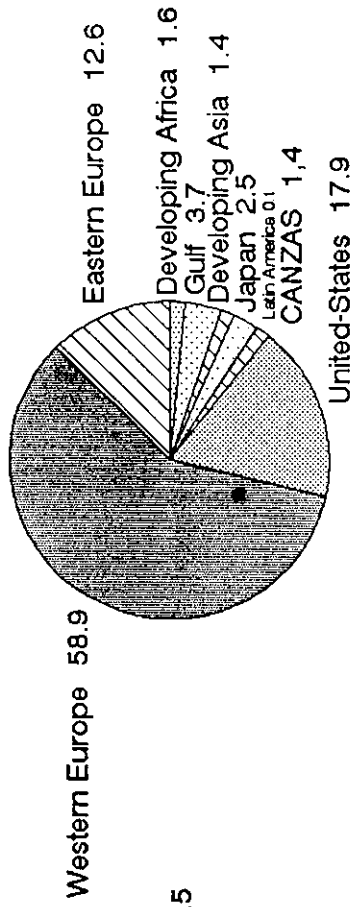
Western Europe 54.7



1987

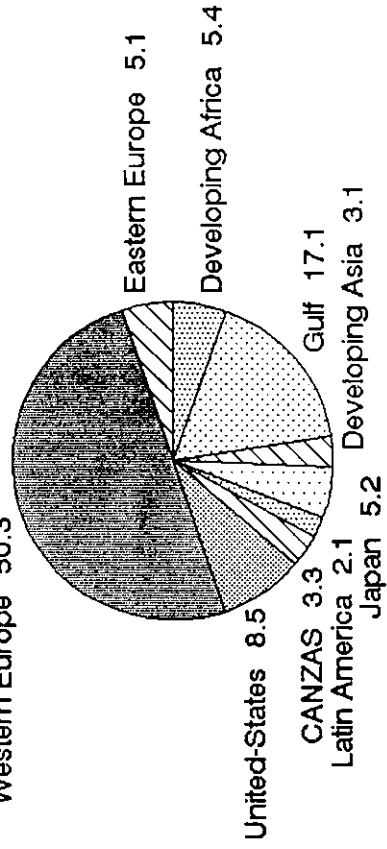
B. Imports

(percentages of total Turkish imports)



1967

Western Europe 50.3



1987

Source : CEPII, CHELEM-International trade data base

