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Exporting and Export Dynamics Among South African Firms

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ABSTRACT

According to the National Development Plan increased exports, particularly among small and medium firms, are an important job-creation strategy. Yet much of the South African debate on exporting occurs in an environment based on anecdote and prejudice rather than fact. This paper examines both the international and South African evidence on exporting at the level of the firm, in order to draw policy lessons for the promotion of exports and exporting in South Africa. Three key themes emerge. First, export participation is related to the size and productivity of the firm. Hence enlarging the pool of exporting firms requires an increase in the number of enterprises with export potential. This requires policies which encourage growth and increases in productivity. Second, the bulk of South Africa's exports come from a small number of firms, yet many existing exporters export only a small proportion of their output. To increase South Africa's export volume requires existing exporters to export more, most likely to markets similar to the ones to which they currently export. Third, the destination of exports and the characteristics of the firm, including the type of workers it employs and the type of product it exports, are related. Generally, South African firms export to two distinct markets – the high-income markets of Europe and North America and the lower-income markets of Africa, especially SADC countries, although exports to non-traditional markets such as India and China seem to be increasing. Firms exporting to developed countries have high levels of productivity, produce high quality products, employ highly skilled workers and pay high wages. They are also more likely to specialise in exporting. Those exporting into Africa have productivity levels similar to firms that produce only for the domestic market, employ lower skilled workers and pay lower wages. There is little overlap between the two – Africa is not a stepping stone to other markets. This suggests that the most viable export markets for smaller firms, which must be of the requisite size to become successful exporters, are in Africa.

ABOUT THE AUTHOR

Neil Rankin is an applied micro-economist and associate professor in the Department of Economics, University of Stellenbosch. His current research work examines the links between company performance and labour demand in an African context; the impact of international trade and trade policy on prices, competition and firm level outcomes; and the potential impact of active labour market policies on employment of young South Africans. He has conducted survey work and research in a number of African countries including Ghana, Kenya, Nigeria, South Africa, Rwanda and Tanzania and is currently the principle investigator on a number of impact evaluation projects.

ABBREVIATIONS AND ACRONYMS

NDP	National Development Plan
NPC	National Planning Commission
SADC	Southern African Development Community
TFP	Total Factor Productivity

INTRODUCTION

One of the key policy aims outlined in the National Development Plan (NDP) is that of increasing exports. There are a number of reasons why this is a sensible objective. In the first place, participation in international markets increases the potential overall market size for South African producers, allowing for specialisation and economies of scale which in turn can lead to a reduction in the cost of production. Secondly and importantly, higher output through exporting can also lead to job creation. In addition, exposure to international competition encourages innovation and leads to improvements in product quality or production techniques, and can also reduce risk, provided export markets are diversified. On a macroeconomic scale, exporting generates foreign exchange which then can be used to finance imports. Finally, almost every country that has achieved rapid and sustained high levels of economic growth over the last century has accomplished this through exports. For all these reasons increased exports must be part of any economic strategy that aims for large scale job creation and higher levels of economic growth in South Africa.

Much of the South African debate on exporting, however, occurs in an environment devoid of fact, based on anecdote and prejudice. Cross-sectional data from South Africa show that at the level of the firm, South African exporting shares similar characteristics with that of other countries.[1] In South Africa, exporting generally is unusual and most firms derive only a small proportion of their revenues from exports. This in turn means that a relatively small number of exporters (1% of the total) account for the bulk (79%) of South Africa's export value,[2] a relatively high proportion set against an international standard of an average 55%. One reason for this marked concentration is South Africa's traditional reliance on mineral exports, but it is reinforced by other aspects of the country's economy – for example, many sectors are characterised by low levels of competition and entry, and growth of new firms is limited. These low levels of dynamism, added to tariff barriers, other regulations and high transport costs, mean that more productive firms often do not enter the market, nor grow sufficiently to become exporters. This limits the capacity of the South African economy to compete with products from lower-cost and more competitive countries; which in turn makes government more sympathetic to trade barriers to protect jobs – a process that further entrenches uncompetitive companies.

A second stylised fact about exporting at the company level is that exporters are generally different from non-exporters. They are larger, pay higher wages, produce more per worker and have higher overall productivity, even after adjusting for size.[3] This is also true of South Africa, where the destination of exports is another strong influence. Studies indicate that firms that export beyond the Southern African Development Community (SADC) are more productive than those which export only to the sub-region or produce only for the domestic market.[4] Furthermore, in the wages that firms pay there also seems to be a hierarchy based on their export behaviour and the destination of exports – firms that export outside Africa pay more to individuals with similar observable characteristics, than those which produce only for the domestic market, which in turn pay better than those exporting only to the region.[5]

Third, international studies indicate that in general, firms are more productive before they enter the export market, although some firms in some countries may increase their level of productivity afterwards.[6] It follows that only firms that have reached a certain productivity threshold can become exporters, which in turn suggests that increased export participation requires a pool of potential exporters with the requisite productivity levels, which may begin exporting if conditions are favourable.

A proper understanding of export behaviour requires data that tracks firms over time. No such information is currently available in this country and therefore very little is known of the dynamics of exporting in South Africa. This paper provides one of the first investigations into recent South African exporting at the level of the individual firm. In the course of compilation 149 companies were interviewed in 2009 and 2012 and asked specifically about their export behaviour; 82 of them were present in both years, which allows for investigation of changes in export behaviour. Given the specific interest in exports, the sample enterprises were more likely to be exporters than other, similar, firms. In 2009, 68% of the sample participated in export markets, against 64% in 2012. The group of firms present in both years were more likely to be exporters – 71% in 2009 and 76% in 2012. Given the way the sample was selected, we must be cautious in drawing conclusions for the broader population of firms in South Africa. These results are indicative more of the behaviour of small- to medium- sized exporters.

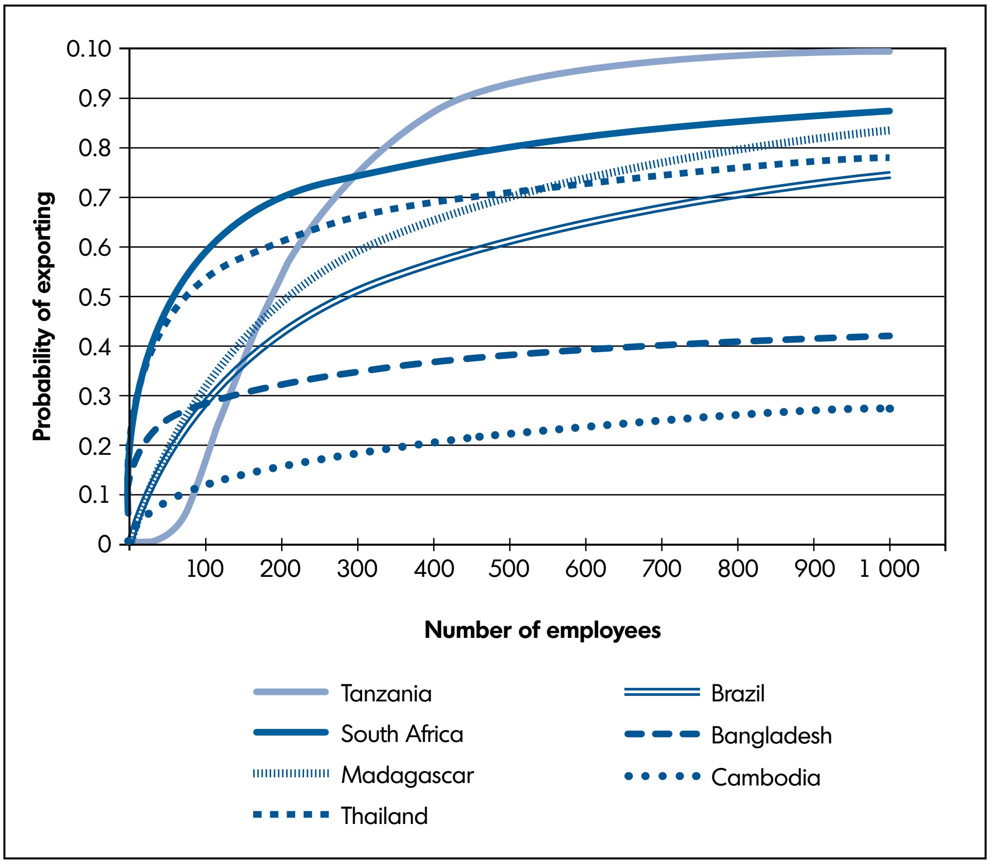
In order to design policies for increasing exports in line with the vision of the National Planning Commission (NPC) we need to know more about the export behaviour of firms. We need to know whether it makes sense to encourage more firms to enter the export market, or to increase exports by existing exporters, or to do both. We need to consider whether smaller firms in practice are capable of sustaining an export programme. In addition, certain specific areas, such as regional markets, may or may not prove stepping stones to other, bigger export destinations. We also need to consider the factors which constrain export participation.

In this paper we consider four specific areas. The first is the consideration of exporters' characteristics, the second looks at the dynamics of exporting, the third at constraints facing exporters and the final section considers what these results mean for policy.

CHARACTERISTICS OF EXPORTERS

In most studies of exporting at the level of the firm, two characteristics emerge that are strongly associated with participation in the export market. The first is the firm's size, most commonly measured by the number of employees. Higher levels of employment allow for specialisation in roles within the company, including those in administration. Exporting can be an administratively intensive activity and requires dedicated people to liaise with foreign clients, track shipments and engage in other export-specific tasks. Higher levels of production, which also require more employees, can lead to economies of scale and a reduction in average unit costs. Companies generally face fixed costs, such as those associated with plant and machinery or research and development, which do not vary with production volumes; hence higher production means that these fixed costs can be spread across more units, reducing unit costs and making the firm more competitive. There are also potential 'sunk' or irrecoverable costs arising from entry into international markets. These might include changing products to meet local or national standards, establishing a distribution network, or once-off advertising programmes on entry. Larger firms are better able to bear these costs. Domestic market conditions can also help explain the relationship between a firm's size and its export participation. Companies which face small domestic markets need to export in order to increase the size of their market. Exporting can also be used by bigger firms to entrench their dominance in domestic markets. Larger enterprises able to set prices in domestic markets may sell additional output in international markets rather than locally, because taking the latter course may reduce prices and profit in their domestic market. This appears to be the case for SADC where market concentration, export participation and export destination are linked, and SADC firms seem to use the regional market as a 'vent-for-surplus'.[7]

Figure 1: The probability of exporting and firm size



NB: These probabilities are those predicted for the 'average' firm in each country. A probability of 0.51 means that the average firm has a 51% probability of participating in the export market: ie it is slightly more likely to be exporting than not.

Source: Anjinho N & NA Rankin, *Exporting and size: Comparisons between developing countries*. Johannesburg: University of the Witwatersrand; World Bank. 2008.

Figure 1 shows that when compared with those in other developing countries South African manufacturing firms seem to enter the export market when relatively small. South African companies with 100 employees have more than a 50% probability of being exporters (they are more likely to be exporting than not), higher than for similar sized firms in countries such as Brazil and Thailand. One explanation for this is that many firms of this size are exporting to the regional market, which includes Namibia, Botswana, Lesotho, Swaziland and Zimbabwe.

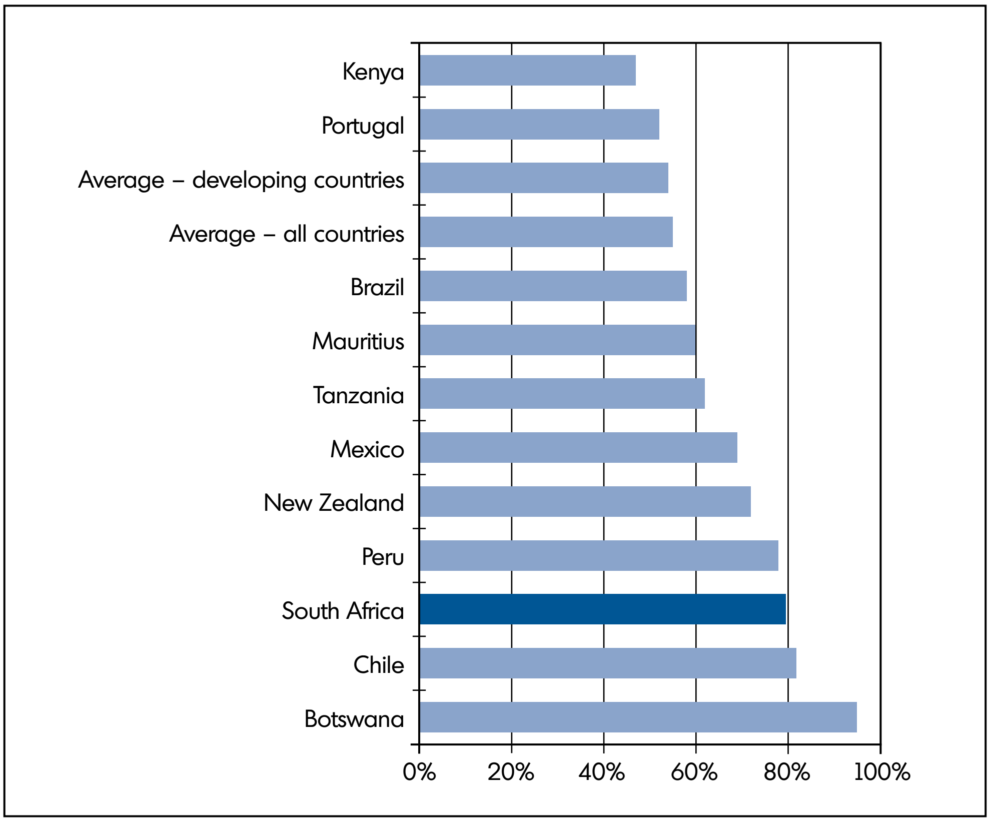
The relationship between size and exporting has important policy implications in the South African context. One of the export promotion policies of the Department of Trade and Industry is to encourage smaller firms to become exporters. The results presented here suggest that this policy may be misplaced because smaller South African companies already seem more likely to be exporters than similar companies in peer-group countries. Furthermore, export success is correlated with size so firms that have not reached a certain size threshold are unlikely to be able to remain in the export market even if they manage to enter it. This is borne out by ample anecdotes from smaller exporters able to secure export orders but very often unable to fill them, given they lack the scale to produce for, or manage the logistics associated with, the export market. A more sensible policy would rather be to establish conditions which facilitate an increase in the pool of firms around the size threshold for entry into exporting. The evidence from South Africa suggests that this threshold is somewhere in the 50–100 employee range.

The second firm-level characteristic strongly associated with export participation is productivity. International markets are generally more competitive than the domestic market and companies must overcome transport costs and other entry barriers in order to participate. This introduces an additional productivity hurdle to overcome. Levels of Total Factor Productivity (TFP) among exporters in the US are more than 5% higher than similar sized non-exporters in the same industry (TFP is a measure that takes into account all inputs into the production process, including factors such as technological dynamism).[8] The fact that statistics on South African firms are limited makes a similar comparison difficult but what information is available suggests that beyond-SADC exporters have TFP (measured in revenue terms) levels approximately 10% higher than SADC-only exporters, or firms that produce only for the domestic market.[9] The failure to reach a higher productivity level by firms participating only in the SADC market may be ascribed to lower competition than in the wider, more competitive, international market. Furthermore, in the sub-region distances are shorter, transport costs are lower and markets generally more familiar, which means that firms need not change their products much; hence 'sunk' costs associated with entry are reduced.

The identified relationship between productivity and exporting, and the fact that it differs by export destination, together carry at least two implications for policies designed to encourage exports. The first is that an increase in the number of companies participating in international markets outside SADC requires average productivity levels to rise. Moreover, reducing transport costs and other barriers that make exporting more costly could lead to a concomitant reduction in the productivity threshold needed to become internationally competitive. Increased exporting is therefore an outcome of policies that make doing business in South Africa generally cheaper and simpler. The second is that the SADC offers an obvious export market for those firms that have not reached the productivity levels required to export outside the region. Facilitating trade within SADC is therefore in the interests of South Africa's general trade policy. However, expansion of South African firms within the region can be, and often is, met with hostility by local producers and other governments – a concern the South African government needs to take cognisance of.

Participation in exporting is atypical because it demands higher productivity levels; the export market therefore is often dominated by a small number of relatively large exporters. As Figure 2 shows, the top 1% of South African exporters produce almost 80% of total exports. This concentration of exporting is relatively high compared with other countries where data is available, for which the average is 55% of the total. One reason for South Africa's high concentration of exports is the dominance of minerals exports; the bulk of Peruvian, Chilean and Botswana exports are similarly accounted for by a small number of companies.

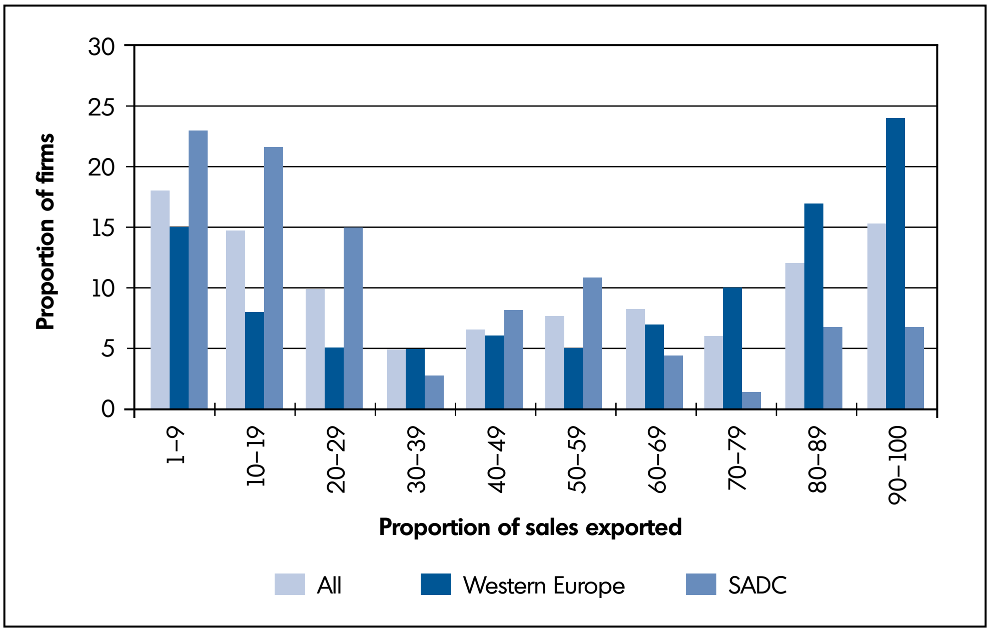
Figure 2. Share of exports by top 1% of exporters



Source: Cebeci T, Fernandes AM, Freund C & MD Pierola, *Exporter Dynamics Database*, Washington DC: World Bank, 2012.

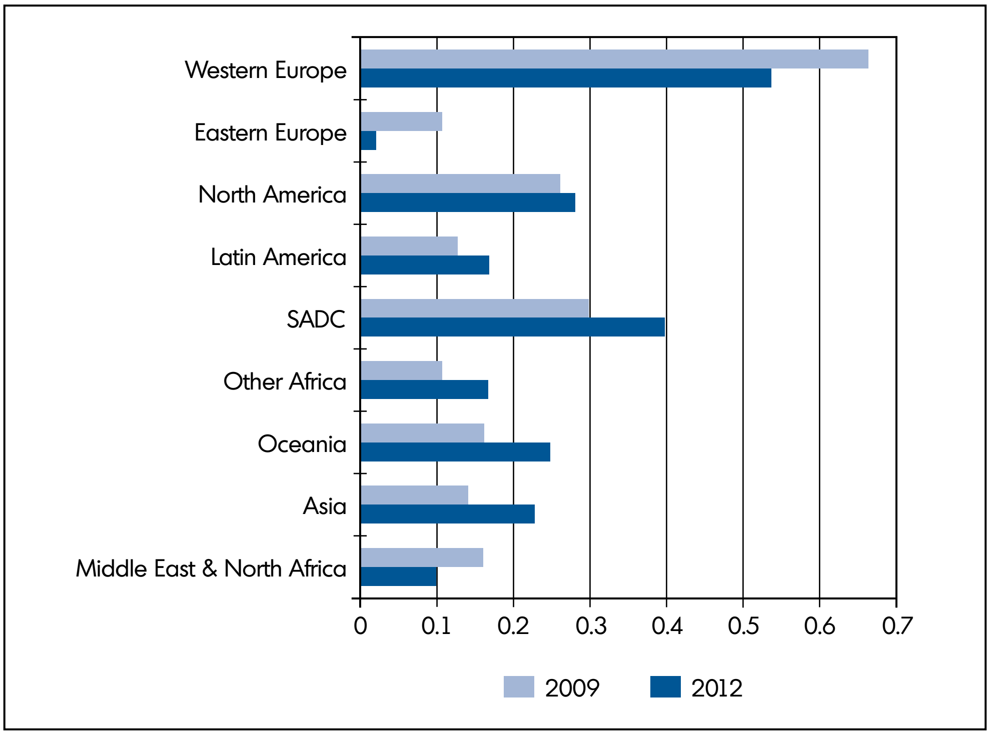
Specialisation in exports differs according to destination. Figure 3 shows the proportion of sales exported for the sample of surveyed firms. Across all exporters, this distribution is bimodal – most companies export less than 20% of their output but a significant proportion export more than 80%. Most exporters to SADC, however, are non-specialist and export only a relatively small proportion of their output. Companies which export to the EU are much more likely to specialise and export the bulk of their output.

Figure 3: Proportion of output exported



Source: Author's calculations.

Figure 4: Proportion of firms exporting by destination



Source: Author's calculations.

Figure 4 shows how the destination of exports has changed. Western Europe is the most common destination for the firms interviewed in both rounds of the survey, although the proportion exporting to this region has fallen since 2009. SADC is the next most common export destination and the proportion of firms exporting there has increased by almost 10 percentage points between the two rounds. Exporting to less traditional markets including the rest of Africa, Oceania, Asia and Latin America has also increased over the past three years. These results suggest that diversification has been occurring towards less traditional and growing markets, such as India and China.

World Bank research suggests that average South African exporters market to 3.6 different countries.[10] For firms in the sample under review the average is six, a number that did not change between the two years. It is worth enquiring which regions or countries an exporting firm is most likely jointly to trade with, in order to get an indication of those regions where existing exporters might expand.

Table 1: Correlation between export destinations

	Western Europe	SADC	North America	Oceania	Asia	Latin America	Other Africa	Middle East & North Africa	Eastern Europe
Western Europe	1.00								
SADC	-0.60	1.00							
North America	0.29	-0.30	1.00						
Oceania	-0.03	-0.18	-0.02	1.00					
Asia	0.07	-0.21	-0.06	-0.07	1.00				
Latin America	-0.12	-0.14	-0.07	0.19	0.08	1.00			
Other Africa	-0.26	0.38	-0.22	0.05	-0.09	-0.08	1.00		
Middle East & North Africa	0.09	-0.12	-0.08	0.05	0.11	-0.12	-0.09	1.00	
Eastern Europe	-0.12	-0.01	-0.05	0.04	0.11	0.10	-0.08	0.01	1.00

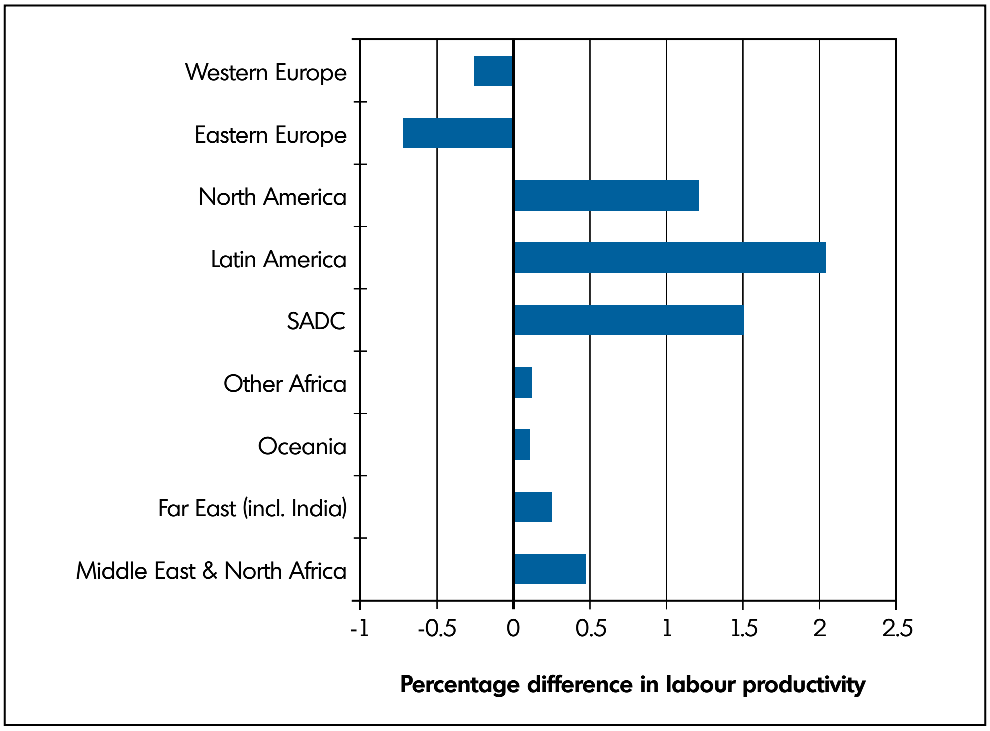
Source: Author's calculations.

The correlations in Table 1 indicate that exporters are likely to participate in markets with similar characteristics. Exporting to the developed countries of Western Europe and North America are positively correlated; however companies which export to these markets are less likely to export to SADC and the rest of Africa. All other export destinations show little correlation. These results indicate that export markets are distinct and exporters face at least two types of market – on the one hand those of Western Europe and North America, and on the other, SADC and the rest of Africa. These markets are likely to require different types of products. This finding suggests that different regions attract different quality South African export products – the higher income regions cited require relatively high quality products compared with SADC and the rest of Africa, which are markets for relatively lower quality products.[11] This indicates that different export markets require specialisation and that regional markets are generally not a stepping stone to export markets outside Africa. South African trade policy thus needs to be responsive to these differences.

This evidence also suggests that the optimum type of export path for small and medium firms is through SADC and the rest of Africa. The evidence also indicates that entry into a new export region may be as difficult as first entry, and may involve significant challenges: in other words it is easier to expand into new countries within the same existing regional market. Policies aimed at increasing exports among existing exporting firms therefore will be at their most efficient if they help existing companies enter new markets within a region to which they already export.

Exporters are also different from non-exporters in terms of their production technology, including relative capital intensity and the skills composition of the workforce. Empirical research indicates that exporters generally employ more capital than do non-exporters.[12] One way this is reflected in the data is through higher levels of output per worker (because each worker has access to more capital equipment). This is also the case for the sample under review, in which exporters produce more than double the output per employee ('labour productivity') than non-exporting companies.

Figure 5: Labour productivity by export destination (relative to non-exporters)



Source: Author's calculations.

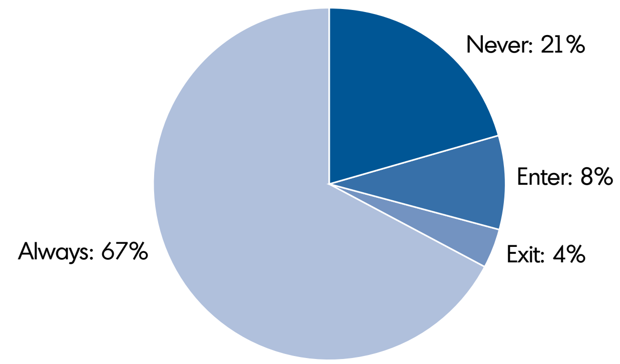
This factor differs by export destination. Figure 5 reflects relative labour productivity compared with non-exporters, by export destination. Firms exporting to all destinations except Europe have higher levels of labour productivity than non-exporters. This is especially the case for those exporting to North and Latin America and SADC. While this evidence makes sense for SADC – capital is relatively cheaper in South Africa than in the sub-region – it is less obvious why it is the case for the Americas. One explanation may lie in the types of goods exported to these regions, which may be on average relatively capital- and skills-intensive compared with products for the South African domestic market. What is clear from the figure is that exporting the current range of goods to all regions except Europe is unlikely to create the types of jobs which South Africa's unemployed could fill. Firms with higher labour productivity hire more skilled people and pay more, whereas South Africa needs to create jobs for the low-skilled, which would pay relatively less. Differences in capital intensity across destinations provide further evidence that export destinations are distinct and that a company that successfully exports to one international market will not necessarily be able to export to another.

As in most other countries, exporting from South Africa is not typical of business generally and most of the country's exports come from relatively few large exporters. Export participation is related to both size and productivity: for a company to enter the export market successfully it must attain a certain threshold in both these measures, compared with a number of similar countries. However, smaller South African firms do tend to be more likely to export. One explanation for this is that many smaller firms are already in the regional export market, which does not seem to require higher productivity than the domestic market. Involvement in the SADC market is becoming more common and firms that participate in it are also likely to trade in the broader African market. Firms exporting to SADC are also less likely to be specialist exporters than those selling to Western Europe. The African export market differs from that of Western Europe and North America; companies marketing to Africa are generally more capital intensive but also pay lower wages. Given this, and the fact that there is no productivity threshold to overcome, SADC and African markets offer a natural expansion path for South African companies and constitute the most likely avenue for export-led job creation. The distinctive nature of the various regional export markets, however, makes it unlikely that the regional market can act as a stepping stone to the broader international markets.

THE DYNAMICS OF EXPORTING

Overall, export participation in the two years of the survey dropped from 68% to 64%. For those companies in both rounds of the survey, however, it increased from 71% to 76%. Figure 6 shows that firms that took part in both years of the survey were classified into four groups: never exported (not exporting in either year); always exporting (exported in both years); entrants (not exporting in 2009 but exporting in 2012); and leavers (exporting in 2009 but not in 2012). Almost 70% of the firms recorded in both years of the survey participated in the export market in both years; 21% of firms never exported and proportionally more firms entered exporting (9%) than left (4%). This result possibly underestimates the number leaving exporting, which is likely to correlate with an exit from business in general and thus from the sample.

Figure 6: Export dynamics 2009–2012: Proportion of firms in each category



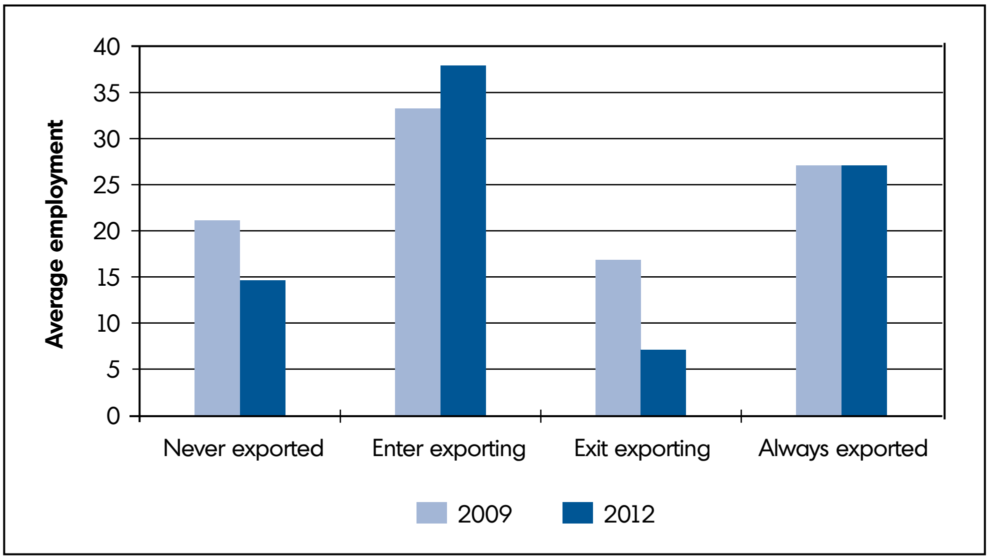
Source: Author's calculations.

The median entrant into foreign markets is exporting approximately 35% of total sales. The median firm exiting exported 60% of its output in 2009, compared with 50% for firms which exported in both periods. This suggests that exit from exporting is not characterised by a slow reduction in the proportion exported. Entry is, however, associated with a low initial proportion of exports which may grow as the firm becomes established in the international arena. Firms entering the export market export to fewer destinations (3.5) compared with those which exit (six) and those which are continuous exporters (eight), an indication that firms grow bigger as they export. Increasing the overall volume of exports therefore requires government policies which support current exporters and allow them to remain in the export market and expand.

Firms which entered the export market were already larger than other companies in the sample. They also increased employment marginally with entry. In contrast, those exiting were smaller than other firms in the sample and decreased in size by almost 60% on exit. This further suggests that exit from the export market is associated with other, marked negative changes for the company concerned.

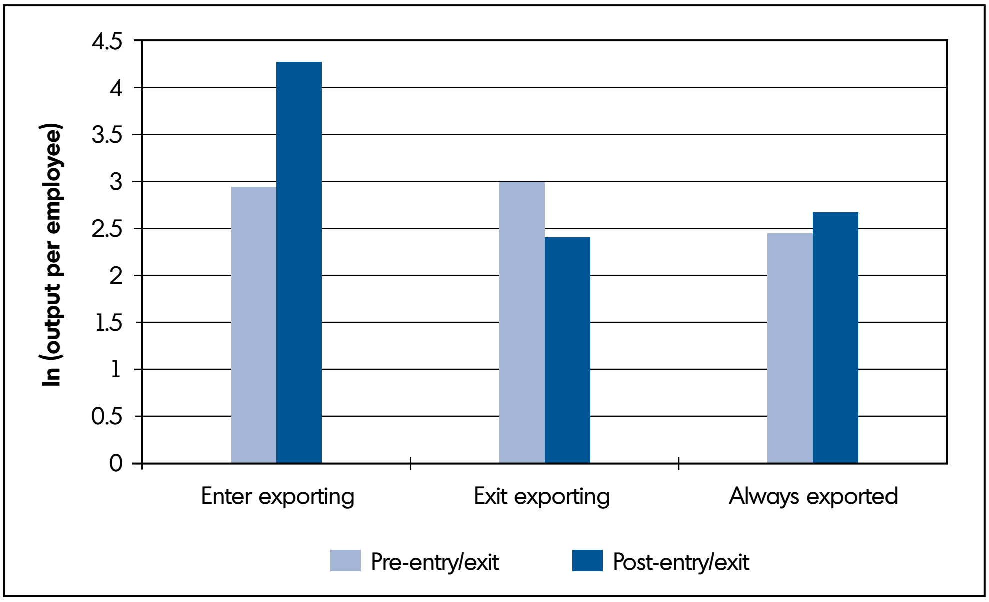
Firms that enter the export market initially have higher levels of labour productivity than others. Labour productivity also increases with entry. Although entry into exporting initially is associated with only a 15% increase in employment, it is also associated with a substantial increase in labour productivity, which increased by almost 300% for those firms in the sample that entered the export market. This suggests that firms beginning an exporting programme have spare capacity and are able to increase output significantly as they enter the market. They may also have added production capacity, including staff, in preparation for exporting. For those exiting, output per employee fell by approximately 45%. This is less than the fall in employment and suggests that firms respond to leaving the export market by cutting employment drastically but attempting to maintain output. Given that firms which exit were exporting to six destinations on average, this indicates that exit is not driven by the loss of one big client or one big market (unless they sold to one client across all six markets) but rather that exit from exporting may be driven by factors common across markets and thus likely to be firm- or South Africa-specific. These are most likely to be factors that make the company uncompetitive in the international market; they could include adverse movements in the exchange rate, or increases in transport or production costs. Alternatively, exit may also be associated with a shock which hits all markets simultaneously, such as the current international financial crisis.

Figure 7: Firm size by export dynamics



Source: Author's calculations.

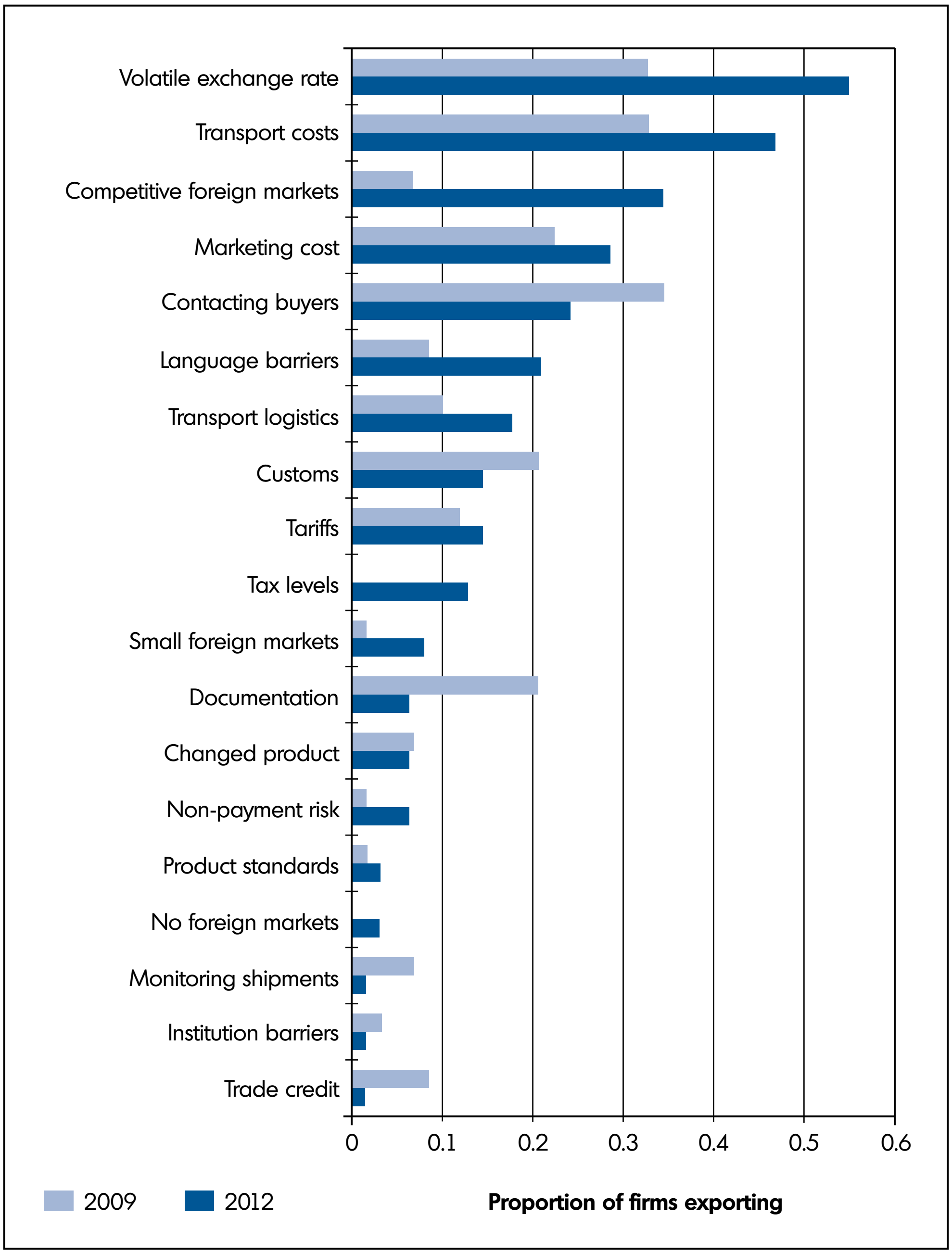
Figure 8: Output per employee by export dynamics



Source: Author's calculations.

CONSTRAINTS ON EXPORTING

Figure 9: Constraints to exporting

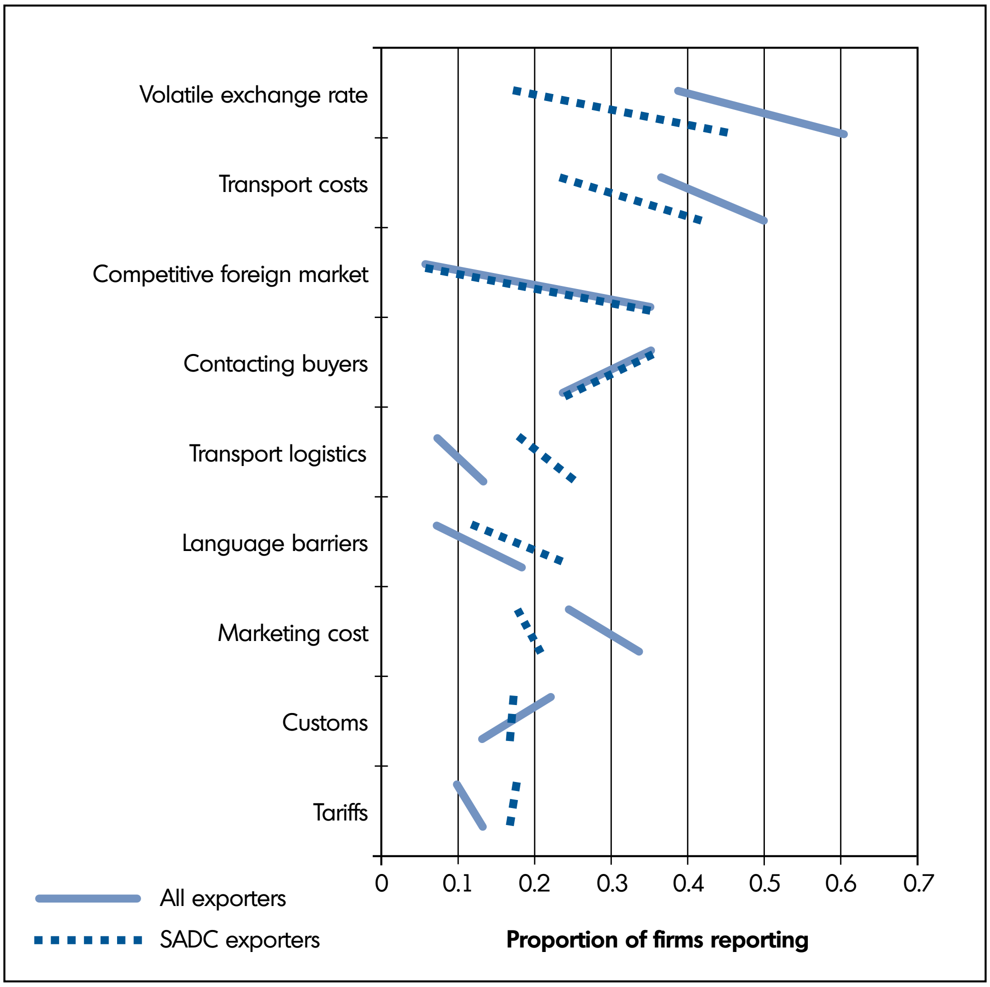


Source: Author's calculations.

Figure 9 shows the proportion of firms reporting certain issues as constraints to exporting. The volatile exchange rate was the most commonly mentioned constraint in 2012 – more than half of the exporters list it as a major constraint, up from one-third in 2009. Transport costs are the second most common constraint and the proportion of firms reporting this has increased since 2009. Transport logistics are ranked as the seventh most common constraint, which suggests that transport-related issues are an important factor affecting export behaviour. The proportion of firms mentioning competition in foreign markets as a constraint has increased substantially between 2009 and 2012, with about one-third of exporters now regarding this as a serious issue. Although perceptions of constraints has increased across most categories, exporters now seem to find contacting foreign buyers, dealing with customs and the process of getting export documentation easier than before.

SADC exporters rank constraints similarly to those of general exporters. Although fewer SADC exporters report the volatile exchange rate and transport costs as constraints, this gap has closed since 2009. SADC exporters are more likely than others to find transport logistics and language barriers as constraints and the number of exporters mentioning them has also been increasing. Disturbingly, SADC exporters were more likely to mention customs and tariffs as constraints in 2012 compared with those which exported to other regions.

Figure 10: Changes in constraints, SADC exporters against other exporters (2009–2012)



Source: Author's calculations.

In general the major constraints facing exporters – a volatile exchange rate, transport costs and competition in foreign markets – seem to be getting more onerous but the scope of government departments such as the DTI for limiting these problems varies. The volatility of the exchange rate is the outcome of the South African exchange rate regime, monetary policy, perceptions of South African economic policy in general, capital flows and other factors, including perceptions of sovereign risk. Without a major change in the way the exchange rate is managed, controlling this volatility is difficult if not impossible. A reduction in transport costs requires a more efficient transport infrastructure, including rail and port facilities. Current government spending on infrastructure projects may improve this but arguably the institutional structure of the transport sector also needs to change.

There is very little South Africa can do to influence increased competition in foreign markets. The best response is to increase the competitiveness of local firms, which will not only make them better able to compete in foreign markets but also improve their domestic competitiveness. Keeping costs of production low and improving the domestic business environment are paths to this end. Within the SADC region, trade facilitation reforms such as harmonisation of regulations related to transport and trade, improving customs procedures and reduction of tariffs are also likely to benefit South African firms which export to the region or are likely to do so.

THE ROLE OF POLICY

Increasing South African exports is a key policy goal endorsed by the NPC, for the many good reasons adumbrated at the outset of this paper. The exporting process and the dynamics of exporting are, however, more nuanced than is generally acknowledged, even in documents such as the NDP.

The first question which any export promotion strategy must address is whether higher volumes of aggregate exports should be driven by more firms participating in the export market or by higher export volumes from existing exporters. Aggregate South African exports are already dominated by a small number of exporters, a situation that arises in part from historical reliance on mineral exports but also from relatively high concentration ratios in other, non-extractive industries. It therefore seems sensible to encourage both an increase in volumes for those currently exporting a relatively small proportion of their output, and the entry of new firms into exporting. Most South African exporters export only a small proportion of their output, which leaves scope for the first option. Encouraging new exporters depends on the characteristics of the target market and on whether a pool of potential exporters exists of the requisite size and productivity levels to meet these particular characteristics. The policies needed to meet both expansion of existing exporters and the entry of new exporters are related to the second question that any export promotion strategy needs to address: this is the segmentation of different export markets, and the associated issue of whether firms that penetrate one market can use it as a stepping stone to another.

Companies evince different characteristics and display different export behaviour based on the destination of their exports. South African firms face at least two main distinct, and different, export destinations. The first is the higher income markets of Western

Europe and North America. Exporting to one of these regions is positively correlated with exporting to the other. Firms exporting to these regions are more likely to be specialists exporting a high proportion of their output. They generally pay higher wages, produce higher quality products and are more productive than those producing solely for the domestic market. They are relatively sophisticated and technologically advanced and are operating in competitive markets. Given this sophistication and the higher wages they pay, these enterprises are unlikely to create the large numbers of the unskilled jobs required to reduce unemployment in South Africa.

The second distinct market is SADC and the rest of Africa. Participation in those markets is negatively correlated with exporting to Western Europe and North America. Firms exporting to African markets, although relatively more capital-intensive than those producing only for the domestic market, produce less sophisticated products, pay relatively lower wages and exhibit no productivity premium over domestic producers. Generally they export only a small proportion of total output. The African market thus offers an expansion path for firms currently producing solely for the domestic market because the characteristics of companies and their products are more similar in these two markets than are the European and American markets. Furthermore, since many firms already exporting to the region export only a small proportion of their output, they may be able to increase this proportion through entry into other countries within the region.

There are three aspects to the challenge of targeting the SADC region as a market for increased South African exports. The first is that market size within the region may be limited, and there are significant administrative costs involved in entering a number of diverse countries, each with specific requirements. For this reason it is in South Africa's interests to pursue regional integration in terms of trade regulations and administrative processes, and to encourage infrastructural development which opens markets within the region.

Secondly, in the regional market South African firms are likely to be competing directly with imports from countries such as China. Even if they are able to become very successful in the regional market, it is unlikely that South African companies will be able to use this as a stepping stone to the more sophisticated markets of Europe and America. The characteristics of these markets and the firms which serve them differ too widely to make this transition possible. There is also little correlation between those two distinct markets and other export destinations in Latin America, Oceania and Asia. This suggests that the various markets are distinct and that penetrating each of them may be as difficult as first embarking on exporting: expansion is much easier within, rather than between, regions. Thirdly, South African expansion into the region needs to be sensitive to local circumstances and sentiments – some constituencies within the region already view South Africa expansion as neo-colonialism. South Africa cannot be seen as arrogant in regional negotiations, and concessions by other countries in the region will have to be balanced by South African concessions.

The third question which an export strategy needs to consider is the role that the size of firms and their productivity plays in the export process. Exporters are generally both bigger and more productive than non-exporters. Aiming to get smaller firms into the export market, especially the international market beyond SADC is not a sensible policy. Moreover, larger firms are likely to be already participating in the export market if they have reached the required productivity threshold. This suggests that policies aiming to push firms into exporting may also not be the most efficient approach. Instead, policy should be aimed at developing a pool of potential exporters of the requisite size and productivity level to be competitive in the international market. Policies that encourage competitiveness, reduce costs, improve the business environment and facilitate entry and growth of enterprises will help this process. Reducing transport costs associated with exporting should also increase export participation to the extent that it makes South African products more competitive in international markets.

Increased export volumes are as much an outcome of a series of polices aimed at improving the business environment as they are of policies aimed at specifically increasing export participation. An improved environment for business, efficient transport infrastructure, lower costs of production and a reduced regulatory burden will all help business in general and exporters in particular. Improved trade facilitation, cheaper ports and cargo handling, and more efficient customs clearance, particularly in the region, will also help South African exporters. It is tempting to conclude that export-led job creation is a way out of the South African unemployment conundrum but it is no panacea. The process of exporting is nuanced; for South Africa to create large numbers of jobs in export industries requires internationally competitive enterprises. This in turn demands an economic environment that enables existing companies to become more competitive, or that encourages such enterprises to establish themselves in South Africa.

ENDNOTES

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