EMERGING EXPORTERS: AN EVALUATION

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The recent report, *Emerging Exporters: Australia's High Value-Added Manufacturing Exporters*, by McKinsey & Co. for the Australian Manufacturing Council has focussed attention on whether Australia has a future engaging in the trade of manufactured goods. It is the latest report in a series investigating Australian manufacturing.

> [This Report] represents the completion of a research program initiated some years ago with the Australian Manufacturing Council's major report, *The Global Challenge: Australian Manufacturing in the 1990's*. This research program has been directed at understanding the pattern of industrialisation of Australian manufacturing firms through the 1980's and 1990's. The other major report emanating from this program was *Going International: Export Myths and Strategic Realities*, which focused on Australia's large multidomestic manufacturers. The current study is a direct outcome of that report (1993: i).

The earlier reports had observed that Australian 'multidomestics' (firms with production facilities in a number of countries) tended to locate production offshore rather than produce in Australia and export final commodities. This raised concerns about the prospects for employment growth and for increases in net exports which could redress the current

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account deficit. As a result of this observation, the AMC decided to analyse another group of firms, the so-called 'emerging exporters'.

The research upon which *Emerging Exporters* is based was exploratory in nature: it sought to determine whether there was a substantial group of manufacturing firms who were increasing their share of exports, and to analyse the reasons for their export success. The criterion was to select all firms who are currently exporting between $2-50 million. Through AUSTRADE data, the CSIRO, government departments, industry associations, and the media, about 700 firms were identified as fitting the criterion of exporting between $2-50 million in value. From this population a survey was distributed, yielding a response rate of 44 per cent (310 firms). The questionnaire responses provided the bulk of the research information, which was backed by a series of 56 interviews on firms classified as 'high-growth exporters', 'moderate-growth exporters' and 'non-exporters', as well as focus group discussions with chief executives. The research found that most of the firms in this category are small-to-medium sized establishments (SME's) which employ highly skilled workers engaging in elaborately transformed manufactures (ETM).[1]

It will be argued below that *Emerging Exporters* conflates two alternative approaches to industrialisation. The dominant outlook is that export success depends on the existence of a stock of leadership - entrepreneurs with the vision and courage to take the risks involved in exporting. This approach essentially raises entrepreneurial skill to the status of a fourth factor endowment, alongside land, labour and capital, in discussing a country's comparative advantage. The second view argues that it is the institutional and technological structure of the economy which generates firms that can export, and to which government policy should be addressed. The personal element is important, but it must be seen within the context of the environment in

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1 The original sampling criterion, based on total value of exports, also includes large domestic firms in the initial phase of an export drive or who are primarily domestic oriented but export a small share of their total product for various reasons. It does not appear that the Report carefully distinguishes between these two types of firms in the presentation of the results and often gives the impression that the *only* firms in its sample were small ETM firms.

which 'entrepreneurs' operate. This second perspective appears the most appropriate for understanding the Australian economy, but because it is submerged by the dominant theme of leadership, *Emerging Exporters* hasn't fully addressed the major structural issues confronting economic development.

These two competing world-views have a long history. For example, they both appear in the work of Joseph Schumpeter. In *The Theory of Economic Development* (1934) Schumpeter focused on the role of the entrepreneur who brings about 'gales of creative destruction' through technological innovativeness. In this view the entrepreneur has to overcome the barriers placed on his creativity by existing institutions and habits. In his later work, *Capitalism, Socialism, and Democracy* (1942), Schumpeter replaced the entrepreneur with the research departments of oligopolies and monopolies, which can achieve the minimum efficient size needed to devote resources to the pursuit of technological breakthroughs. In this view, institutions harness and nurture creative instincts and capabilities (Coombs *et al*, 1987: 94-96). These two traditions also permeate much of the North American business school culture, out of which McKinsey and Co. specifically emerged.[2]

Leadership and Company Specific Analysis

Emerging Exporters identifies three factors which distinguish successful exporters (1993:19):

- leadership and commitment to export;
- ability to compete on value and quality terms rather than just price; and
- strong customer orientation.

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2 See for example, the work of Chandler (1977, 1990) and Williamson (1975, 1985) for work emanating from business schools which is consistent with the structuralist approach described below.

Of these three factors, the question of leadership is given the highest status in the Report, making the personal element the critical factor in the decision to export. At times it gives the impression that there is nothing between many Australian firms and export markets other than an heroic entrepreneur armed with a fax machine. The significance of this view to the ensuing research is critical. By elevating this factor as the key variable in export success, and down-playing structural features, the Report has been able to skirt around issues of general industry assistance and manufacturing policy in the broad. The development of an 'export culture' on the other hand is given much greater prominence.

This focus on the personal element leads the Report to argue that export success *is not a characteristic of industries, but rather a characteristic of firms*. It depends on the distribution of "will and skill" (1993: 2, 18) and the vision of individual entrepreneurs, whose distribution is likely to be random across industries. Any need to focus on industrial groupings is conveniently avoided. This theme recurs consistently in *Emerging Exporters*, and overshadows another view which might suggest that 'will and skill' is itself the result of a specific process of development which can be cultivated on a broader industrial level.

In fact, the Report's entire argument is based on a misrepresentation of the data. Only one piece of evidence is provided to justify the argument that "Australia's 700 emerging high value-added exporters are spread across all manufacturing industries (Exhibit 2.1)" (1993: 9), and which led to the argument that success in exporting is not peculiar to certain industries, but is a feature of individual companies.[3]

There are two problems here. The first relates to the industry classification system that has been used in the Report. Initial inspection suggests that the various categories which McKinsey uses are in accordance with the Australian Standard Industrial Classification. At its broadest level the ASIC separates the economy into a number of Divisions such as Agriculture, Forestry, Fishing and Hunting; Mining;

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3 The following discussion is based on a list of 315 firms and the ASIC codes attached them by AMC/McKinsey themeselves, as supplied by AMC/McKinsey.

Manufacturing; and Construction. It then breaks these down into Subdivisions with 2 digit codes. For example, manufacturing is broken down into Subdivision 21 - Food, Beverage and Tobaco; Subdivision 23 - Textiles; Subdivision 24 - Clothing and Footwear; and so on. Each one of these Subdivisions is broken down into 3 digit codes (called Groups), which are then refined even further into 4 digit Industry Classes, such as Man-Made Fibres and Yarns (ASIC 2343). Each level of classification represents a smaller and more refined industry definition. However, in the table contained in Exhibit 2.1 of the McKinsey Report, the choice of whether to classify industries at the 2, 3, or 4 digit level is made to distort the real distribution of respondents. Categories which had a relatively small number of respondents are collapsed together, while others which had a high number of respondents are split into more refined categorisations. This is most noticeable with category 33, Other Machinery and Equipment, which is split into four sub-categories, including one at the four digit level. This four digit classification, Electronic Equipment (ASIC 3352), is a sub-classification of Appliances and Electrical Equipment (ASIC 335), which is treated separately in the table. Table 1 indicates category labels that were used in *Emerging Exporters*, the number of respondents in each, according to McKinsey, and the ASIC codes that define these lables.

The consistent rule used seems to be to amalgamate small groups, and to breakup classifications with a high number of respondents into smaller groups. It is difficult to see that this could have occurred for any reason other than to deliberately create the impression that export success is spread across all manufacturing industries.

The second problem with the presentation of Exhibit 2.1 in the Report is a matter of omission, rather than misrepresentation. The total number of respondents is 294. Yet there were 315 firms which, according to the information supplied by the AMC, all had ASIC codes at the 3 or 4 digit level. Sixteen of the missing 21 firms come from Other Machinery and Equipment (ASIC 33), 14 of these from Appliances and Electrical Equipment (ASIC 335). Exhibit 2.1 indicates that ASIC 335 only had 10 respondents when in fact it had 24. The Report leaves out information that was in the possession of the

AMC and McKinsey. This error of omission reinforces the first problem of misclassification, because it further reduces the proportion of respondents in Other Machinery and Equipment industry (ASIC 33).

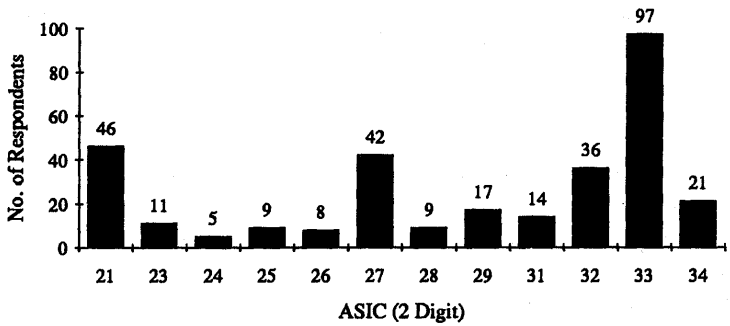
Table 1: Manufacturing Industries

McKinsey Label	ASIC Code	Number of Respondents
Food, Beverage, Tobacco	21	45
Textiles, Clothing, Footwear	23, 24	16
Wood, Furniture, Paper	25, 26	17
Pharmaceuticals/Veterinary Products	2763	16
Chemicals/Petroleum	27	26
Nonmetallic Mineral Products	28	9
Basic Metal Products	29	16
Fabricated Metal products	31	14
Motor Vehicles/Parts	323	21
Other Transport Equipment	324	14
Photographic, Professional, Scientific Equipment	334	16
Electronic Equipment	3352	14
Appliances and Electrical Equipment	335	10
Industrial Machinery and Equipment	336	41
Leather Products	345	9
Rubber and Plastic Products	346, 347	10

When all firms are tallied, and when we consistently define categories at the 2 digit level, then a different picture than that presented in the Report emerges. Emerging Exporters do seem to be concentrated in certain industries and not in others, most noticeably in Other Machinery and Equipment within which 31% of respondents fell. This is crucial for the discussion to follow, since an alternative theory to that which dominates the Report argues that capital goods producers have a different process of evolution and relationship to the rest of the economy than industries which produce final or intermediate goods. The following graph shows the proper spread of respondents when respondents are consistently classified at the same ASIC level, and which clearly illustrates the concentrations. It appears that the

fundamental premise of the Report is not supported by its own information.

Graph 1: Distribution of Respondents by ASIC (2 Digit)



The focus on the entrepreneurial and leadership aspects of industrial development has one other major implication. The Report argues that small ETM firms are actually part of a new wave of operations which are likely to replace traditional mass production operations, precisely because they are more flexible and innovative. The either/or nature of traditional mass production and ETM firms is implicit in the following statement:

> Achieving economies of scale by expanding small enterprises is a fundamental idea of economics. There has therefore been the expectation that small enterprises would, over time, make up a decreasing proportion of the economy. Until the mid-1970's this was the trend and the small business share of employment declined in many countries. But this trend has not continued. Rather, the evidence from both Australia and overseas suggests that a reversal has taken place (1993: 3).

Similarly, the Report comments that "the larger firms in our survey rated production capabilities as critical to success - in contrast to

smaller firms who rated unique product as critical to success" (1993: 21). The implication is that the smaller firms, which give greater scope to entrepreneurial initiative, are also more innovative and in tune with market developments and can pay greater attention to quality. This notion echoes the work of the post-Fordists, such as John Mathews, who is cited in the Report's 'Select References'.

There are two identifiable aspects of the Report which emerge directly from its argument that export success depends on personal factors such as leadership and "will and skill". First, there is the argument that the focus of analysis should be on firm-specific characteristics rather than industry groupings. Second, small firms represent an alternative to the traditional large-scale mass production manufacturers. However, from a structuralist perspective, both of these conclusions break down and for related reasons. Such small firms are more likely to arise in the capital goods sector, rather than in consumption goods; and these firms are likely to be an *outgrowth* of the development of large mass production operations.

The Context of Entrepreneurship: A Structuralist Perspective

Whereas the rhetoric of the Report emphasises the characteristics of individual firms and their leaders, the content of its research suggests an alternative view. This alternative approach does not deny the importance of the three factors identified by the Report as leading to export success. However, it does not identify these as natural or endowed characteristics peculiar to some firms and not others. Rather it sees them as part of a cumulative process of development that emphasises the structural linkages between different activities and industries.

The issue of leadership, for example, needs to be put into institutional context. The decision to export is often not the result of entrepreneurship involving some special psychological attributes, but instead the result of a long period over which skills, ideas, and expertise are accumulated. *Emerging Exporters* rightly emphasises the

importance of critical people such as company founders, but the source of their inspiration often comes from objective and identifiable factors rather than personal features. For example, the Report describes the story of ANCA, a 'born global' firm which produces numerical control systems for machines and complete specialised machine tools. This firm was also highlighted by the *Business Review Weekly* in a recent report championing the cause of small scale ETM firms (Forman, 1992). Yet the two founders of the operation developed their ideas and knowledge of computer control systems while working with such equipment in a government munitions factory. Similar connections between large mass producers and machine tool firms exist throughout the Australian machine tool industry (Argyrous, 1993). The other major producer in Melbourne, for example, was founded by someone who had developed expertise while working in the tool shop at General Motors. Evidently, 'entrepreneurship' does not emerge from innate qualities but is a product of a general manufacturing sector out of which some individuals accumulate expertise that can form the basis of their own establishments.

The same process gives rise to the other two factors which *Emerging Exporters* identifies as leading to export success: the ability to compete on value terms rather than price and a strong customer orientation (Rosenberg, 1976). *Emerging Exporters* argues that demand at the consumption end has become fragmented, due to changes in consumers' preferences. Yet it has always been a characteristic of the relationship between large mass production firms (catering to large and stable mass markets) and the firms producing equipment for them (c.f. Eatwell, 1982). These factors are the result of a process of 'learning by using' which is the outgrowth of a process of technological change. Through an on-going process of puzzle solving, firms develop the technical solutions to specific production problems which then allow them to break into new markets and spread technology from one sector to another. Critical to this process are the demands placed on capital goods producers to solve technological problems created by mass production industries. Specific problems that arise in one industry are solved through the development of new machinery and equipment, and this solution can then be applied and adapted to similar activities in other industries. This process relies on a close connection between

equipment makers and the firms which use this equipment. It is not purely the case that some firms happen to find themselves better able to adapt to customers' needs and some don't. It is a question of the structural linkages with key consumers of machinery and equipment which can give rise to this kind of 'learning-by-using'.

Cumulative Causation and Industrial Development

When issues of leadership and non-price competition are not taken as natural endowments, but viewed as outcomes of an evolutionary process, a vision of the world based on 'comparative advantage' gives way to one based on 'cumulative causation'. It may be worth elaborating this model of trade and development before analysing *Emerging Exporters* further. Although this notion has a long history (Veblen, 1898), its modern version derives from the work of Nicholas Kaldor and Gunnar Myrdal (c.f. Eatwell, 1982; de Ridder, 1986; Ricoy, 1988; Anthony, 1993).

Cumulative causation focuses on manufacturing as the engine of growth. The reason for the focus on manufacturing is that it is susceptible to the division of labour to a greater degree than is possible in mining, agriculture, and other forms of economic activity. As aggregate demand expands, activities which were once performed within a firm have a sufficient base for them to splinter off and be carried out by independent operators. This vertical fragmentation of the production process raises productivity as a result of the specialisation that is synonymous with the division of labour. This in turn generates more demand, further division of labour and specialisation, and so on. Hence the notion of cumulative causation - change propagates itself in a cumulative way. Just as there can be a virtuous cycle of growth, there can also be a vicious cycle if the chain of cause and effect breaks down.

Whether a country will find itself in a virtuous or vicious cycle depends on its ability to tap into a growing source of demand and on whether it has built, self-consciously, a coherent set of social institutions which buoy market processes in an expanding direction. In the early stages of

development, domestic demand will provide expanding markets, but as home markets are exhausted, the ability to find external sources of demand in foreign markets becomes crucial.

This reasoning led Kaldor (1966) to construct a four-stage model of development in which a country initially produces consumption goods, first for the home market, and second for export. The third stage is defined by the development of a domestic capital goods sector as the division of labour spreads further down the production process. Finally the fourth stage is attained when these capital goods producers export their products. This last stage can be explosive because it provides an internal source of demand to fuel continued expansion. This is because capital goods provide demand for their own output - machines are used to produce more machines. "A country becomes a growing net exporter of capital goods; it is at this last stage that 'explosive growth' is likely to be encountered - *when a fast rate of growth of external demand for the products of the 'heavy industries' is combined with the self-generated growth of demand caused by their own expansion*" (1966: 114, emphasis added). At this highest level of development, reliance is switched from an external source of demand to one which evolves with the process of cumulative causation itself. This internal source of demand:

> ... originates in capital investment. It is the peculiarity of a highly developed industrial sector that it largely provides the goods on which capital expenditure is spent, and thereby generates a demand for its own products in the process of supplying them. Once a country attains the stage of industrialisation at which it largely provides for its own needs in plant and machinery and not just in consumer goods the rate of growth of demand for its products will tend to be stepped up very considerably, since the expansion of capacity in the investment sector itself raises the rate of growth of demand for the products of its own sector, and thereby provides the incentives, and the means for further expansion (1966: 114).

To this discussion of the *quantitative* aspects of demand expansion can be added the earlier story of 'learning-by-using' and the importance of

capital goods producers in the *qualitative* process of technological change.

Cumulative Causation and *Emerging Exporters*

There are two implications which emerge from this theory that directly challenge the basic arguments of *Emerging Exporters*. The first is the idea that small specialised firms engaging in ETM are an alternative to traditional mass production activities. The Report makes this argument on the basis that these firms do not themselves exhibit increasing returns to scale. *But this is a problem that emerges from its company-specific bias.* As Allyn Young noted in 1928, "increasing returns is a macro-phenomenon ... At any one time, there are industries in which economies of scale ceased to be important. They may nevertheless benefit from a general industrial expansion which should be seen as a interrelated whole". Although these firms do not exhibit increasing returns themselves they exist because of a generalised process of vertical disintegration throughout manufacturing. Thus the re-emergence of small-scale establishments is a natural consequence of the division of labour.

An understanding of the cumulative causation process also raises concerns for the argument that a sectoral approach to industrialisation and exporting is not needed. First, a distinction needs to be made between firms producing capital goods and those producing consumer goods. This process of development sees the emergence of a capital goods sector as temporally following the development of a consumer goods industry. Why shouldn't specialised capital goods producers spring up simultaneously with the development of a consumer goods sector? Rosenberg (1976) argues that because individual items of machinery and equipment can be used to produce thousands of units of final commodities, the size of the market for these final commodities has to be extremely large before it filters back as a market large enough to justify independent capital goods producers. For example, Kirby Engineering, also the subject of *Emerging Exporters*, suggested that although the Chinese market for refrigerators was expanding at rate that

would ensure the sale of hundreds of thousands of refrigerators a year, the total world market for Kirby's machines, which make the compressors for the refrigerators, is unlikely to exceed 300 by the end of the century (Argyrous, 1993). Second, and for similar reasons, it is precisely in the production of capital goods that one is likely to find the type of small scale ETM firms that *Emerging Exporters* champions. A band of SME's is complementary to the existence of a band of large sale mass production firms, and this distinction is likely to align itself with the distinction between capital and consumption goods industries.

Further evidence from the operations of ANCA captures many of these points. During an interview at this firm's plant, ANCA's flat management structure and multi-skilled workforce were highlighted, factors which were important in ensuring the adaptability of the company's product to customers' needs. But the form of organisation characteristic of its leading customers were almost the opposite of ANCA. ANCA had in production a packaging machine for a large food processing firm. The client firm had been complaining that workers on its production line were able to interfere with the hydraulics of the existing machines and thereby slow down the production line, reducing the efficiency of the machines to around 80 per cent. The new machine, on the other hand, could be set by the line foreman and the computer controls locked with a key which is then removed. Although the machine itself was produced using a flexible process with an emphasis on quality and incorporating highly skilled workers, it was to be used in quite the opposite working environment.

The irony is that embedded in the Report there is substantial evidence to suggest that structural linkages are very important, especially those between small capital goods producers and large firms further on in the production process. The Report describes Cryofab, a producer of cryogenic storage vehicles. The significant factor in this firm's development, according to McKinsey's own account, is its link to a large manufacturer, CIG (1993: 4). Similarly, it cites a study of engineering firms in the US and Europe which analysed the effects that developments in electronic control systems for machinery had on the flexibility of these *engineering* firms. Again, these examples come from capital goods producers. Similarly, the Report frequently

mentions the notion of 'parenting' by large firms of small. Parenting relates to the special relationships which large firms form with small capital goods suppliers, especially in the areas of finance and technology. This ensures that they have quality suppliers who can meet their specific needs. "Many of these firms ... are subsidiaries of larger firms ... these parenting relationships bring real benefits to these firms in terms of finance, marketing, technology access and management skills" (1993: 2). In other cases it notes that "... there needs to be more focus on developing networking between these [SME] firms and larger companies, for example through supply chains" (1993: 42). However, even on these occasions, the Report does not go beyond such descriptive analysis of the firms to draw out the implications regarding patterns of linkages. A large section of the questionnaire is devoted to the question of linkages between SME's and the rest of the economy, but the results of this section are not included in the final Report.

'Born Globals'

The focus on 'will and skill' leads to one of the more curious aspects of the Report. It identifies a group of 66 firms which it labels "Born Global". These are firms which export a high proportion of their output in a relatively short period of time, on average after 2 years of operation. Subsequent information from the AMC indicated that three criteria were used to determine which firms were 'born global': they achieved an export propensity of 50 per cent of output; they achieved this within five years of operation; and they tended to use technological innovativeness as their comparative advantage (although these criteria were often relaxed in special cases). Very little discussion is provided as to the detailed history of these firms, apart from the short descriptions extracted from some of the interviews. This leaves the impression that the difference between these firms and others which have taken a longer time to achieve significant exports, or have not exported at all, is their preparedness to bear the risks or possess the vision required. It leads the Report to argue that there are many other small firms in Australia which could export more but are held back for want of initiative.

However, subsequent analysis of the 39 'born global' firms that were prepared to be identified in the Report revealed some troubling results. First, there were three firms who had not met the minimum criterion of having exported more than fifty per cent of their output. Similarly, there was one instance of double-counting whereby both the parent and subsidiary are included in the list of born globals. Second, the remaining firms often had lengthy gestation periods within the womb of large firms. Exicom, for example, was originally part of AWA before an employee buy-out saw it emerge as an independent entity. Third, the date of birth used by the McKinsey Report seems to have been chosen as the last change in ownership. For example, Multistack International actually started producing refrigeration units in 1985, before being bought out by Creslan in 1990 and changing its name to its current one. If the earlier year is chosen as the birth-date then it took this firm seven years rather than two to achieve 50 per cent export propensity. From a structuralist perspective it is more relevant to choose the first date of independent operation, since this is when the evolutionary process of acquiring expertise begins, rather than some change in legal control, which is really a part of a subsequent process. When birth-dates are recalculated for the born global firms who were willing to be acknowledged in the Report, the number of such firms shrinks from 39 to 25. It would appear that lengthy development time is something that even entrepreneurship cannot always overcome.

As a final point on this group of companies, independent research has shown that even after these firms are established the ability to export often involved significant contact with larger firms. It is here that a change in ownership is usually important because it provides finance, marketing resources, and distribution networks to enable large scale export, given a preceding period of development. The life-cycle of QPSX provides a good illustration. This firm originated with two academics from the University of Western Australia receiving a grant of $250,000 from Telecom to develop a prototype of communications equipment that was still in the design stage. Once the prototype was built, Telecom entered into a partnership arrangement with these two academics and the University of WA. Telecom was able to get this firm's product accepted as the North American standard, and because of this, acquired a major contract with Bell Atlantic. Once this was also

adopted as the European standard, QPSX found itself unable to meet world-wide demand. It therefore entered into a licensing arrangement with Siemens and Alcatel, both of which are large producers of communications equipment, whereby these firms produced for the European and North American markets and paid QPSX a licensing fee, while QPSX catered to the Asian market. Without the specific arrangements it entered into with the larger players in the communications industry, most notably Telecom, it is clear that QPSX would not have achieved its current level of export success. The identification of 'born global' firms, therefore, does not provide the rationale for neglecting the domestic market by showing that foreign markets are easily tapped into.

The Implications for Government Policy

The tension that exists within *Emerging Exporters* manifests itself in its discussion of government policy to achieve increases in export. The range of policies it discusses are centred around specific assistance measures to companies. In the Chapter entitled "Building a More Pervasive Export Culture" the policy recommendations include:

- The need for the government to adopt a "vision for Australia's economic future", similar to in nature to that adopted by the Business Council of Australia and the Committee for the Economic Development of Australia which incorporates "high-value added manufacturers as a core export industry" (1993: 40).
- Explore the relationship between foreign outward investment by Australian firms and of exports.
- Target the Australian Best Practice Demonstration Program more directly toward SME's.
- Pursue reductions in non-tariff barriers which exist in APEC countries.
- Extend the 'Buy Australia' campaign to overseas markets.

In terms of providing "A 'hand up' for Exporters" (Chapter 6), the recommendations include:

- "Systematic, transparent and ongoing comparisons between Australia and the relevant East Asian countries in relation to their potential as places to do business from an investor's point of view" (1993: 49).
- Specific adjustments to two current programs, ITES and EMDG, as means of overcoming some of the cash-flow problems faced by SME's. *Emerging Exporters* recognises the crucial importance of financial constraints as a major barrier to the development of SME's (1993: 49-50). Beyond this, it simply suggests that "all relevant parties ... need to be gathered together to work out this agenda for change" (1993: 52).
- Government funding specific business school projects aimed at dealing with "management transition issues" that arise when SME's expand rapidly.
- Dissemination of the experience of export firms through the establishment of the Top Exporters Club.
- Improving the take-up rate between current government programs and SME's.
- Forging links between SME's and research institutions, and facilitating joint ventures between emerging exporters and Asian partners.
- Improving the "information environment through greater firm networking and ... more accessible information provision" (1993: 64).
- Streamlining and integrating government service delivery.

These policies are obviously of relevance to the development of successful exporters, especially the issue of finance and cash-flow assistance. However, that they do not deal with issues of general

assistance to manufacturing or to major sectors within it. The notable absence in the Report is any discussion of the possible role of tariffs, subsidies, bounties, and general sectoral 'industry plans', and whether this debate may need to be reopened. Other research has indicated that for small capital goods producers, such forms of assistance have been very successful in generating export success and allowed them to move to the specialised end of the market (BIE, 1990).[4] One gets the impression that the Report did not want to touch on these sensitive issues, and its company specific focus on issues such as leadership and vision provided the rationale for this evasion. Apparently, a chapter was developed which dealt with government assistance and its effect on emerging exporters but the AMC excluded it from the final report.

From a structuralist perspective, issues of general assistance to manufacturing become paramount. Without a domestic base that is significantly diverse and contains within it large mass production and heavy engineering industries, the kinds of processes out of which SME's emerge lose a vital component. The existence of such a base is the most critical factor in determining whether the 90 percent of SME's who are not exporting (1993: 38) actually make the transition. The Report implies that these firms have not adopted the right vision. Yet it may be more the case that as Australia's manufacturing base is eroded by policies which cause its heavy industries to contract under the weight of foreign competition, the learning processes and financial supports which also give rise to exports will become weaker. If one looks at the emergence of exporting firms as part of an interrelated whole, then Kaldor's early stages of growth, which are built on general demand expansion locally, cannot be by-passed. Government macroeconomic policy must provide the necessary domestic expansion, before foreign sources of demand can be tapped into.

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4 This report by the BIE provides another case where ideology can lead to conclusions that are incongruous with the research. Despite the fact that the BIE found that bounty assistance to this industry had achieved what it set out to, it concludes that there is no reason why such an industry should be singled out for special treatment, and that all forms of assistance to manufacturing should be reduced.

Such considerations also raise questions as to whether the existing stock of emerging exporters will retain their domestic production base. As the Report notes, "Firms often try to develop local representation as soon as possible. One of the reasons why firms establish offshore production is to build a local presence, allowing them to get close to customers while being able to spend more time at home" (1993: 22). Further, "[O]ur study revealed that 13 percent of the firms surveyed had already set up offshore production facilities, and our interviews indicated that over 50 percent were considering offshore production in the region in the near future" (1993: 31). However, the Report also found that 59 per cent of their surveyed firms increased their exports from Australia even after setting up off-shore facilities. It argues that this reflects the regional approach of many transnationals, whereby the production process is splintered across regional areas that cut across national boundaries (interestingly this is an extension of the aggregate division of labour and economies of scale, which the Report earlier stated was of less importance). The problem that arises for an individual country is to ensure that the right balance is struck so that it gets its share of an increasingly distributed production process. The conclusion the Report reaches is that:

> Australia should therefore continue to focus on attracting and maintaining world-class R&D activity here as a way of retaining high-value elements of the business system locally. Marketing could also play a role in anchoring high-value jobs in Australia. We should encourage marketing activity in the same way as R&D, and find creative ways to ensure that Australia is the most attractive centre in the region for marketing and other head-office-related activities. (1993: 35)

However, the ability to split up the various functions of organisation and production and locate them in different parts of the world is a characteristic of large bureaucratic organisations, and not of small, flexible, innovative firms on which the Report focuses. Unlike mass producers, such small firms cannot separate management from production, and must keep their research and engineering operations very close to the shop-floor if flexibility and customer orientation is to be achieved. Thus, if ETM firms find their leading customers

relocating their *production* activities offshore, they themselves may be forced to relocate their *entire* operations overseas. This makes the need to retain large scale manufacturing in Australia imperative if Australia is simply to retain the emerging exporters which *Emerging Exporters* identifies.

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