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THE EXPORT MARKET DEVELOPMENT GRANTS SCHEME AND THE DEVELOPMENT OF AUSTRALIAN EXPORTS: RATIONALE, IMPACT AND RECOMMENDATIONS

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Abstract

This paper examines the impact of the Export Market Development Grants scheme on Australia's export performance. The EMDG scheme has had a positive impact on Australian exporters by subsidising the transaction costs of exporting, encouraging exporters to develop experience and encouraging them to change their mindsets. The program is important given the need to improve Australia's export performance. Recommendations are also made about how to improve the scheme, including reviewing the $150 million cap.

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THE EXPORT MARKET DEVELOPMENT GRANTS SCHEME AND THE DEVELOPMENT OF AUSTRALIAN EXPORTS: RATIONALE, IMPACT AND RECOMMENDATIONS

INTRODUCTION

Federal government export assistance, including programs such as the Export Market Development Grants (EMDG) scheme, has played an important role in encouraging Australian firms to export and in developing an Australian 'export culture'. The EMDG scheme has helped Australian firms to increase their exports by overcoming general information problems in exporting and changing mindsets and habits in Australian business. The scheme has encouraged such changes both through the delivery of financial incentives coupled with a more general effect of extending their information about, and experience of, exporting that they might otherwise not have obtained.

This paper looks at the role of federal government generic export assistance programs, and the EMDG scheme in particular, as an example of active industry policy. It is argued that the reasons governments provide this type of support to exports are largely to ameliorate information problems. In this way, industry policy helps coordinate economic activity that might otherwise happen, but for a range of coordination failures brought on by a range of information problems. General trends in Australian exports will be briefly examined, showing that although Australia has improved its export performance, there are still some improvements that need to be made. The paper then looks in more depth at the EMDG scheme, to examine how it works, its history and its impact. The paper concludes with some implications for the broader argument about the role of government in improving export outcomes and some specific recommendations for the EMDG scheme.

Both quantitative and qualitative data are used in this case study. Quantitative data used here include survey data from recent evaluations of the EMDG scheme plus unpublished data specially commissioned for this chapter from the Australian Bureau of Statistics' (ABS) Business Longitudinal Survey (BLS) database. Qualitative data comes from 27 interviews conducted with firms receiving export assistance, government officials and private sector program providers charged with delivering some types of assistance, including 20 firms that had used or were using the EMDG scheme. Interviews were semi-structured and conducted face-to-face in 2000.

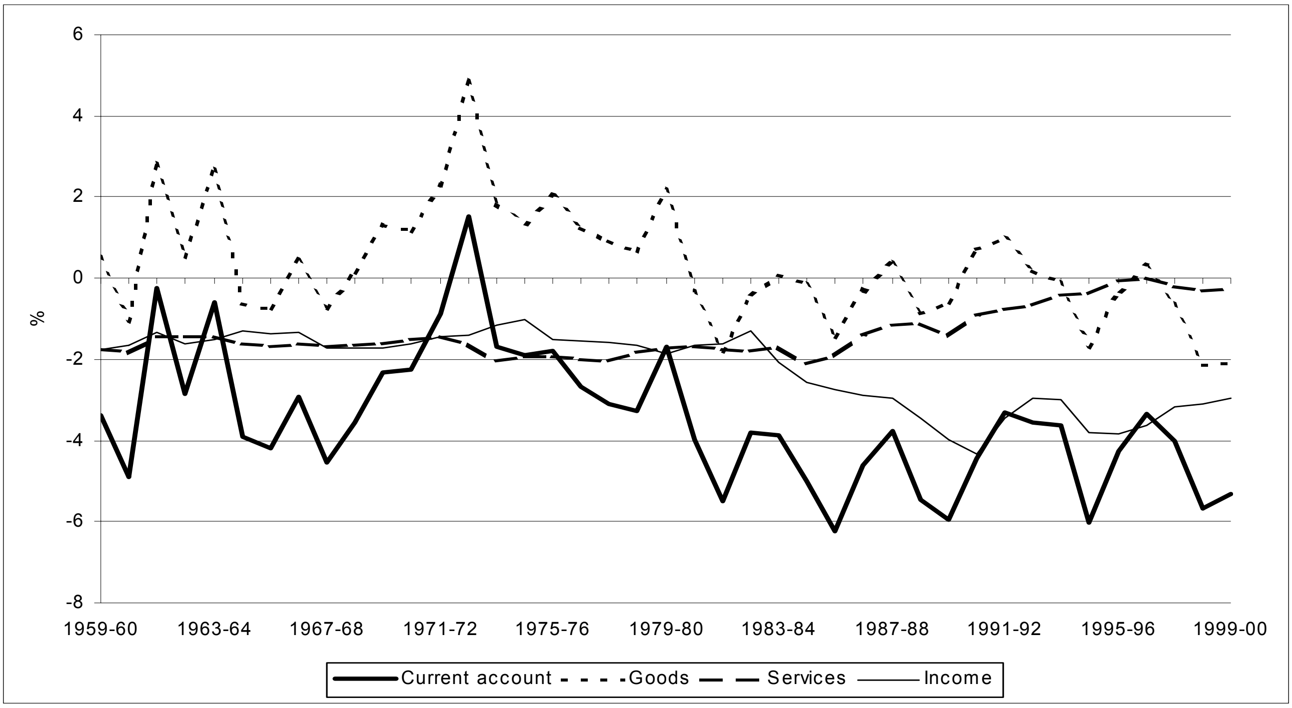
RATIONALES FOR EXPORT ASSISTANCE

There are several rationales for government export assistance outlined in the literature. Underlying most of these is the need to correct coordination failures in the private sector where information problems, such as bounded rationality, imperfect information, transaction costs and inefficient habits and institutions, prevent otherwise economically beneficial exports from occurring[1].

Current Account Deficit Problems

One reason a government might support exports is to help redress a country's trade imbalances. Efforts to increase exports help to pay for the imports we use and thereby help overcome Australia's long running current account deficit (Harcourt 2000, p. 149). Certainly Australia has had an ongoing current account deficit for most of the period since the 1950s, with the net balance of goods exports and imports having a strong influence over the trend in the overall deficit (Figure 1). There have been criticisms of this focus on the current account. It has been suggested that governments should not be concerned over where a dollar of production comes from, whether through exports or domestic production (Hughes, H. 1989, p. 37; PC 2000, p. 11). It is argued that as protection has now become almost negligible, any assistance provided to export activities will simply siphon resources away from competitive domestic activities. According to this view, policy makers should not worry if the current account deficit worsens. However, this view ignores the fact that the deterioration of the current account deficit reflects Australia's inability to pay for its consumption expenditure if such deficits occur over the long term. There is also the issue about whether a country can sustain long term current account deficits of the order of 5.5 to 6 per cent of GDP as Australia currently experiences (Figure 1) without a detriment to the country's well being.

Figure 1: Australia's Current Account as a Share of GDP



Source: ABS cat. 5206.0, 5302.0.

Long-term current account deficits mean that a country needs to rely on foreign direct investment, some of which would involve selling more of its assets overseas, or go further into debt to fund its excess of import consumption over export income earned.

Exporting Improves a Country's Growth

Exporting increases a country's economic growth and prosperity. Research by the World Bank and has shown that countries with higher export orientation, such as their ratio of exports to GDP, have grown faster than those with a low export orientation. The World Bank has shown that those developing countries that increased their trade to GDP ratio grew four times as much as other developing countries (World Bank 2002). Countries that are more integrated into the world economy tend to grow faster than other countries. High levels of exports allows a country to benefit from the growth in global markets. Countries that have lower export profiles tend to miss out on the growth in the global economy. The overwhelming evidence is that trade and openness to globalisation is a key factor explaining countries' growth (DFAT 2003, pp. 2-3).

Increasing Exports Improves Firms' Competitiveness

Encouraging firms to export also helps to improve their overall competitiveness. When firms export it transfers knowledge back to the home country as companies learn about international best practice from overseas competitors and leading edge customers. Part of the productivity growth in East Asian countries since the 1950s has been due to accelerated export growth leading to the adoption of international best practice, higher skill levels and improved technology (Stiglitz 1996, p. 169; World Bank 1993, p. 317). It has been suggested that firms are more likely to be efficient if they are exporting as export markets are sometimes more competitive and tend to demand higher standards than is the case if a firm is simply producing for domestic markets (Stiglitz 1996, p. 169).

Exporting also allows Australian companies to grow by increasing their turnover and market size. For example, those SMEs that are internationally active and have a share of their income earned overseas tend to grow faster than their domestic equivalents (OECD 1997a, p. 8). Australian firms' export participation is still quite low by international standards. However, a recent study revealed that by comparison with other small open economies, Australia's SMEs are not particularly internationalised or active in exporting (OECD 1997a, pp. 29, 32).

Spillovers

Another reason why export assistance might be beneficial is because exporting often involves spillovers or externalities. Spillovers occur where a firm's activity generates benefits for the broader community which the firm cannot appropriate to offset its private costs. This may mean that the firm will not undertake that activity, despite the fact that doing so may increase society's overall welfare. In exporting, one case where spillovers may exist is with firms entering new export markets. An Australian firm that is breaking into a new export market may have to devote considerable resources to the task and may obtain new information which can then be acquired by other Australian exporters (PC 2000, p. 7). The firm that initially entered the new market cannot charge other firms for what it has learnt, which may result in the initial firm not exporting at all. First-time exporters might also generate some sort of demonstration effect, where they prove to other firms that a new export market is viable, but cannot charge other firms for the information they learn or for the cost of being the first firm into a new market (BIE 1988, p. 26). On the other hand, it has been suggested that because Australia has become more export-oriented in the last decade and more Australian firms are exporting that such externalities are minimal today (PC 2000, p. 12).

Spillovers also exist in Australia's broader reputation as an exporter. An individual firm which wants to export overseas may generate a positive image for all Australian firms through attention to quality and customer service. The problem is that the individual firm cannot charge other later Australian exporters for this benefit, meaning that exports may be lower than is socially desirable (Hughes, H. 1989, p. 40). An overseas image can also be negative. Australian exporters of high value services and manufacturers have reported problems in marketing overseas, as in many cases potential overseas customers perceive Australia as a casual, resource-based, holiday location rather than as a producer of high quality manufacturing and services (LEK Partnership 1994, p. 105; McKinsey & Company/AMC 1993, p. 43).

Capital Market Failures

Firms' inability to obtain appropriate trade finance to develop export markets is another rationale for government assistance to exporters. The Hughes Committee suggested that the reason Australian financiers might shy away from exporters was because financiers found safer opportunities in protected domestic markets. Major reports examining the development of high value manufacturing and service exports in Australia highlighted a dearth of export finance in Australia and a lack of knowledge about exporting in the Australian financial community (DFAT 2001, p. 26; McKinsey & Company/AMC 1993, pp. 49-52; LEK Partnership 1994, pp. 74-75). In the same way that a policy challenge is to get many SMEs to understand exporting, so too there is a challenge in getting financiers to understand exporting. Again, information problems give rise to coordination failures in export finance.

Exports Carry Greater Information Problems and Transaction Costs

There is an important difference between a domestic transaction and an export, namely that firms face much higher information problems when exporting. An overseas sale may be efficient in a productive sense and may potentially generate growth for a firm, but information problems may prevent this otherwise efficient sale from occurring. Exporting is intrinsically a much more complex process due to a wealth of information problems involved in the process and firms may not have the ability or resources to overcome these problems, especially small firms. 'Exporting is unlike domestic economic activity. Exporters have to deal with institutional and administrative barriers in overseas countries, fluctuations in exchange rates, variability in prices and incomes and cultural constraints' (Harcourt 2000, p. 138). There may be problems such as obtaining information about different markets, disseminating information overseas about the firm itself, marketing to overseas customers, making contacts with overseas partners, writing contracts with overseas buyers, enforcing those contracts in foreign legal systems or cultural and language difficulties in markets. If a firm decides to export, there are costs for the firm in simply learning how to do it.

As trade becomes a more important part of the world economy, the ability to handle the information problems and resultant transaction costs is becoming more important to a firm's and a nation's global competitiveness. As the scale of economic activity has increased through history, with trade expanding out of the village, to a national and then an international level, production costs have fallen with greater economies of scale and specialisation. However, as the scale of economic activity has increased, so too have transaction costs increased as there is considerable scope for opportunistic behaviour and a wealth of information problems (Bardhan & Udry 1999, p. 217; North 1990, pp. 119-122).

Firms' Internal Information Deficiencies

In addition to the information problems associated with overseas transacting per se, firms' own internal information problems may prevent efficient exporting from occurring. Firms may want to export, but have no real idea how to go about it. They may be unaware of particular overseas opportunities or have insufficient information about the general market environment, cultural differences or legal systems in foreign markets. They may not know how to go about finding a joint venture partner or overseas distributor if that is the market entry mode they decide is their best option. There may be a role here for government providing information to firms on overseas markets and exporting more generally. It has been suggested that much of the information firms have about exporting is experiential – they have to experience exporting to understand it.

Moreover, firms may not export because they are unaware of the benefits to them from competing in overseas markets, such as obtaining better information on latest technologies, products and market developments (PC 2000, p. 8). Coordination failures exist here where a firm may not export because it does not have the experience necessary, however the only way it can get that experience is by exporting.

Potential exporters, particularly small firms, may not have the necessary resources to overcome the costs of these information problems. For example, an overseas airfare to meet a potential customer in a foreign market is much more of a cost impost on a small firm than a large firm (McKinsey & Company/AMC 1993, p. 25). In many submissions to the Hughes Committee exporters claimed that the costs of developing export markets were sufficiently large that they would not be exporting without some sort of government assistance (Hughes, H. 1989, p. 41). In addition, smaller firms may not have access to the networks that larger firms have, meaning that small firms may not enjoy the same entry into overseas markets and may not be as well known as larger companies (Harcourt 2000, p. 142). Another resource firms may lack in overcoming information problems is 'knowledge', broadly defined as the capabilities of a person or people in a firm (Seringhaus & Rosson 1990, p. 154).

Firms' Mental Models and Export Culture

Ultimately, however, firms' preparedness to export comes down to managerial motivation and attitudes. Firms are not going to spend the time and resources overcoming the transaction costs of exporting if they are not inclined or motivated to do so. Problems such as lack of information, lack of overseas legal recourse or insufficient experience can be overcome. However, firms' mindsets, influenced by broader corporate and national culture, affect their desire to overcome these problems.

> Attitudes are often considered to be a soft issue, but we must not underestimate the value of shifting firm leaders' views on exporting. There is a significant pay-off in understanding the current 'mental maps' of our manufacturing sector and in developing a conscious and targeted approach to shifting to an international and export orientation (McKinsey & Company/AMC 1993, p. 39).

This is an example of how national informal institutions influence firm-level behaviour. Motivation can be an important factor preventing firms from exporting (Seringhaus & Rosson 1990, p. 154). Various reports over the years have highlighted the role of Australian companies' attitudes to exporting and the broader need to develop an 'export culture' in Australia (Hughes, H. 1989, p. 41; McKinsey & Company/AMC 1993, p. 39; Mortimer 1997, p. 146).

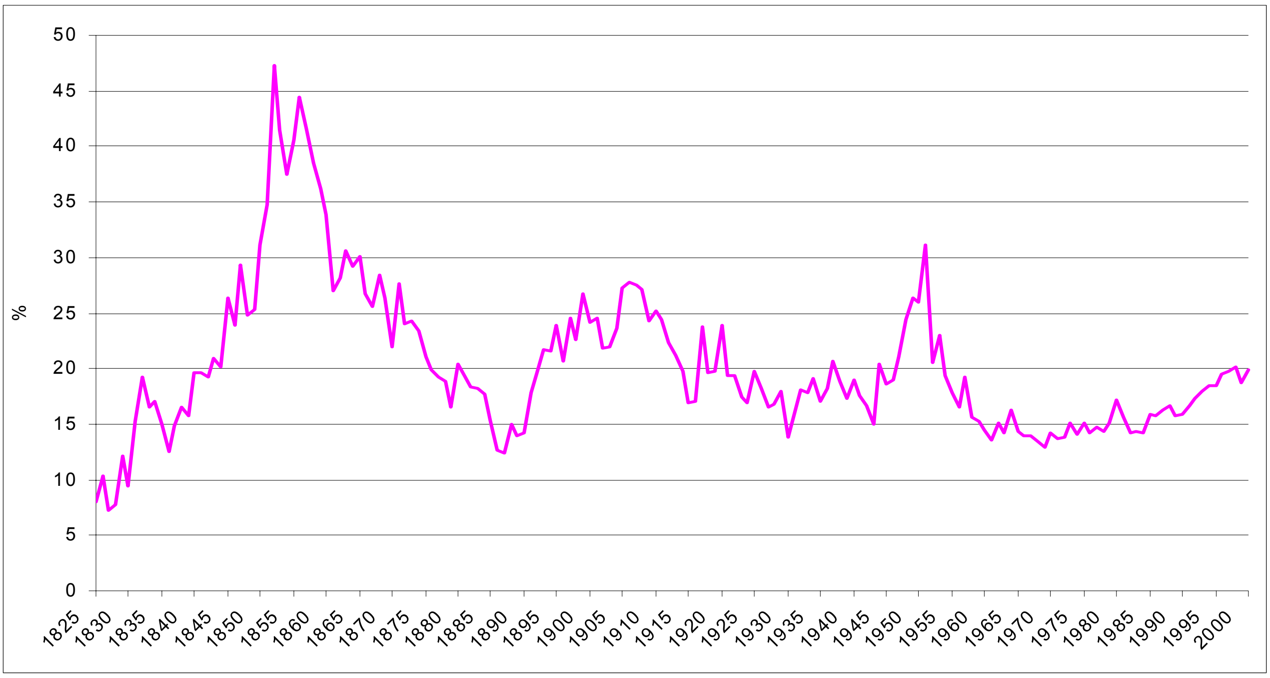
This type of problem is different to spillovers discussed earlier. In the case of spillovers, the private returns to the firm are less than its costs and the firm cannot appropriate the additional social benefits. The firm is fully aware of this and does not export. However, if imperfect mindsets, attitudes or cultures affect a firm's perception, the firm might be unaware that the private returns from exporting are greater than the costs. In this case, the firm will not export even if it is beneficial for them to do so.

Others have questioned whether there is a need for positive government assistance to Australian exporters today, since the economy has changed significantly since the 1980s. The Hughes Report (Hughes, H. 1989, p. 41) suggested that Australia's long tradition of protection hindered the development of an export culture by encouraging Australian firms to focus on supplying the domestic market rather than exporting overseas. This implies that with negligible protection today, Australia may not need export assistance programs.

DEVELOPING AUSTRALIA'S EXPORT CULTURE

While progress has been made, there is still evidence to suggest that exporting does not feature prominently in Australian firms' strategies. Compared to earlier history, Australia's export ratio is not particularly high (Figure 2). While Australia's export improvement since the mid-1980s is encouraging, a long term historical view puts such recent increases into perspective. During the twentieth century, Australia's export orientation reached peaks of 27 to 30 per cent of GDP (Figure 2). Australia's export orientation reached a low point in the late 1970s and early 1980s of around 13 per cent, a rate not seen since the 1890s. However, at least some of the decline in Australia's export to GDP ratio over time reflects the development of Australia's domestic economy.

Figure 2: Australia's Exports as a Share of GDP



Source: ABS cat. 5206.0; Pinkstone (1992) Global Connections: a History of Exports and the Australian Economy, p. 393. (Note: Data up to 1900 are calendar year, after which financial year data is used. Data 1825 to 1849 are for the colony of New South Wales, 1850 to 1860 are for the colonies of New South Wales and Victoria and 1861 onwards is for Australia as a whole.)

Only a small proportion of Australian firms are exporters, although this varies between different industries. Four percent of non-agricultural Australian firms export (Table 1). The industry classification with the highest proportion of firms exporting is Petroleum, coal, chemical and associated products, where 36.9 per cent of firms export. The Food, beverage and tobacco industries also have a high export participation rate with 27.8 per cent of firms exporting. At the other end of the extreme, many industries have few exporters, such as the Wood and paper products industries, where only 2.1 per cent of firms export. A more general indication of the lack of export orientation in Australian industry is the fact that 35 per cent of Australian small businesses have reported exporting as feasible for them but do not plan to do so (DEWRSB 2000, p. 15; Harcourt 2000, p. 142).

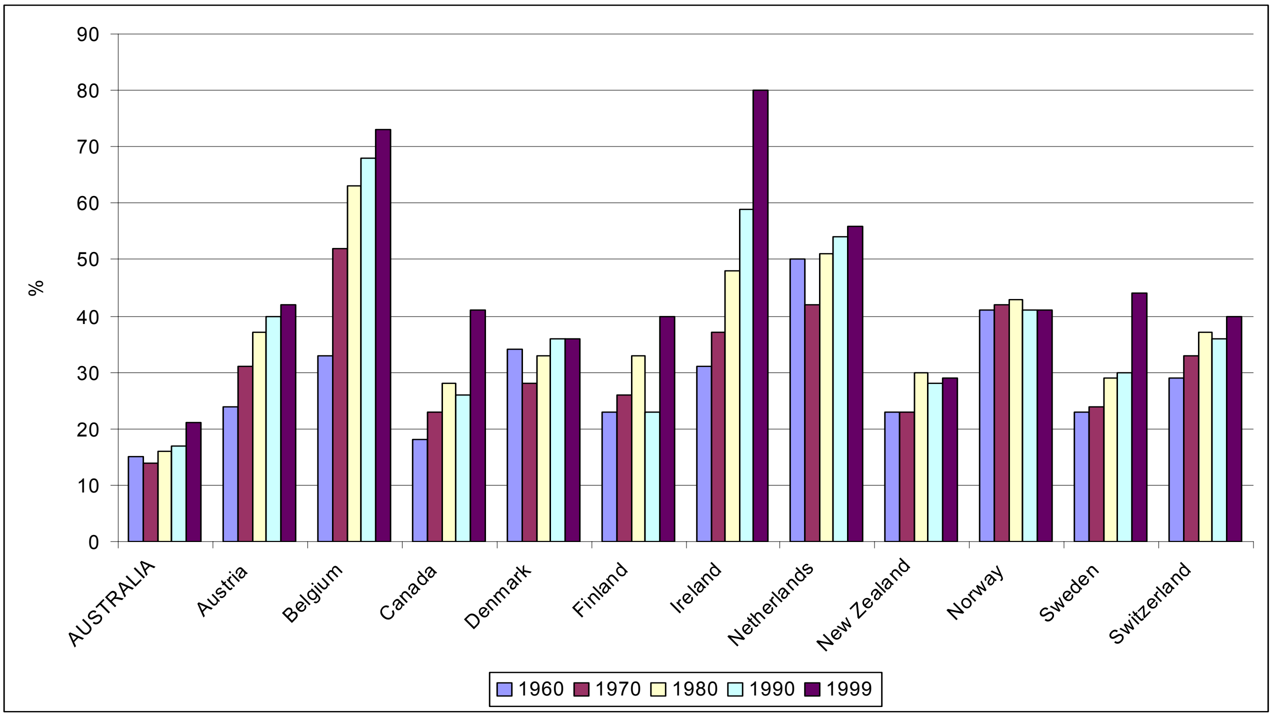
Table 1: Proportion of Non-agricultural Australian Firms Exporting, by Industry, 1997-98

Industry	Share of businesses exporting (%)	Share of turnover exported (%)
Mining	**16.1	*50.3
Manufacturing		
Food, beverage & tobacco	27.8	*18.8
Textile, clothing, footwear & leather	7.5	*25.8
Wood & paper product	2.1	*6.4
Printing, publishing & recorded media	*11.5	**4.4
Petroleum, coal, chemical & associated product	36.9	*10.4
Non-metallic mineral product	*5.2	2.7
Metal product	11.0	*14.6
Machinery and equipment	14.8	*13.6
Other	*6.8	*3.6
Total manufacturing	*12.5*	*12.9*
Construction	**0.5	*0.2
Wholesale trade	14.9	*7.8
Retail trade	**0.8	*0.1
Accommodation, cafes & restaurants	n.p.	n.p.
Transport & storage	n.p.	n.p.
Finance and insurance	**2.9	**0.6
Property and business services		
Property services	**0.6	**0.7
Business services	4.2	1.3
Total property & business services	3.6	1.2
Cultural & recreational services	*1.7	*1.0
Personal & other services	**0.7	0.6
Total all industries	**4.0**	**6.4**

Source: ABS/Austrade (2000) A Portrait of Australian Exporters: a Report Based on the Business Longitudinal Survey, p. 13.
* Sampling error 25 - 50 per cent
** Sampling error >50 per cent.
Note: n.p. - not published. Share of turnover exported' is the share of total industry turnover exported.

Compared to other countries, Australia does not appear to be particularly export-oriented. Australia's export ratio is still quite low at 21 per cent when compared to other small to medium-sized industrialised countries (Figure 3). Even allowing for the fact that some small European countries are part of the EU and may therefore have higher cross-border trade with neighbouring countries, Australia's performance has been relatively poor. Even New Zealand, the country with probably the most similarity to Australia in terms of geographic location and industry structure has consistently had an export ratio higher than Australia.

Figure 3: Exports of Goods and Services as Share of GDP, Selected Countries



Source: World Bank World Development Report, various years.

Australian companies — at least SMEs — do not appear to be extensive exporters. As an example, the OECD recently conducted a major study of SMEs' degree of internationalisation across OECD countries (OECD 1997a, 1997b). While there are difficulties in comparing across countries, the OECD found that compared to other small, open economies, Australia's SMEs were not substantially internationalised. The OECD's survey suggested that in Australia around 5 per cent of manufacturing SMEs and 1 per cent of non-manufacturing SMEs are internationally active, including both exporting, alliances and the like, which is low by international standards (OECD 1997a, p. 32).

There has been an increase in the number of Australian firms exporting, reflecting a growing acceptance of exporting as a competitive strategy. Overall, the number of firms exporting in Australia has grown by an average eight per cent per annum between 1994-95 and 1997-98 (Table 2). Property and business services have seen the fastest growth in the number of exporters (12.7 per cent per annum) of any individual sector of the economy. In terms of firm size, micro businesses, those with between one and four employees, have recorded the fastest average annual growth in the number of exporters (11.0 per cent), as have firms that are between 10 and 20 years old (15.5 per cent). However, the strong growth in micro businesses' export participation is off a low base. In 1997-98 only 2.2 per cent of micro businesses exported, compared with 5.5 per cent of other small businesses, 13.0 per cent of medium sized firms and 32.7 per cent of large firms (DEWRSB 2000, p. 15). In addition, there are non-exporting firms which have plans to export. In a 1997-98 survey seven per cent of non-exporters, roughly 22,000 firms, reported that they had increased their export marketing (ABS/Austrade 2000, p. 35), probably in anticipation of entering export markets.

Table 2: Average Annual Growth in Number of Exporting Firms, by Industry, by Size and by Age, 1994-95 — 1997-98

		Growth (%)
Industry	Mining	*4.0
	Manufacturing	2.7
	Wholesale trade	8.3
	Property and business services	12.7
	Other	13.9
	Total all industries	8.0
Firm size (no. employees)	Micro (1 to 4)	11.0
	Other small (5 to 19)	8.7
	Total small business	*9.7*
	Medium (20 to 199)	4.4
	Large (200+)	-3.3
	Total	8.0
Firm age (no. of years)	<5	5.6
	5 to <10	8.2
	10 to <20	15.5
	20+	0.4
	Total	8.0

Source: ABS/Austrade (2000) A Portrait of Australian Exporters: a Report Based on the Business Longitudinal Survey, pp. 11, 14, 17.
Note: * denotes high degree of standard error in this estimate.

A TAXONOMY OF GOVERNMENT SUPPORT FOR EXPORTS

Many governments around the world have export assistance programs of one form or another to improve their country's export performance. Most assistance can be classified into a fairly standard set of incentives. There are several categories of export assistance or services that can be provided:

- export subsidy – an *ad valorem* subsidy on exports designed to increase exporters' revenue, such as a payment from the government for every dollar of exports;

- tax exemptions – reducing exporters' tax liability by exempting exported products from some types of taxation;

- reducing production costs – reducing the costs of producing exports through input subsidies, interest rate concessions and so on;

- export market development assistance – providing financial assistance towards exporters' marketing in overseas countries;

- export information – providing information to exporters and potential exporters on exporting in general, regulations, market opportunities overseas, conditions in particular markets and the like; and

- export match-making – providing a linking service to match exporters to potential overseas customers and assisting exporters to make contact.

Differences between countries tend to be more in how the programs are delivered and administered rather than the services themselves (Seringhaus & Rosson 1991, p. 9). Some countries have public agencies that deliver programs and information, others have joint government-business activities and in other countries the private sector delivers export programs and services.

Some forms of export assistance have proved more effective than others and therefore international trends in government assistance have changed over time. For example, export subsidies were once more common than they are today (IC 1992). Their prevalence has been reduced in part due to international trade liberalisation under the General Agreement on Tariffs and Trade (GATT) which limits the use of export subsidies. Another reason is that such subsidies were not that effective in encouraging export activity or new exporters to enter the market. For example, during the late 1970s and early 1980s Australia ran the Export Expansion Grants Scheme, which paid exporters for increases they made in their exports over a base period. However, this program did little to encourage new firms to export (Hughes, H. 1989, p. 43). Export subsidies also have problems in ensuring additionality, or the level of additional exports stimulated by the subsidy, as some subsidised exports might occur anyway without the subsidy (Lattimore et al 1998, p. 133). Moreover, while that scheme did little to develop an 'export culture' in Australia, it cost the federal government substantial amounts of money, costing up to $200 million a year (Australia *Budget Paper No.1*, various years).

A number of individual government activities can encourage exports. Governments might help to enforce overseas sales contracts through inter-governmental agreements or providing export insurance in cases where the private market will not. Governments can also collect market intelligence and provide information services to firms in order to help firms overcome the information problems of exporting. Government assistance might encourage export alliances and assist exporters make contact with potential customers overseas. They might coordinate the actions of several exporters from the one country when competition between these exporters might damage each others' chances. One major example of Australian joint government-business networking to secure an 'export' of sorts was Australia's successful bid for the Sydney 2000 Olympic Games.

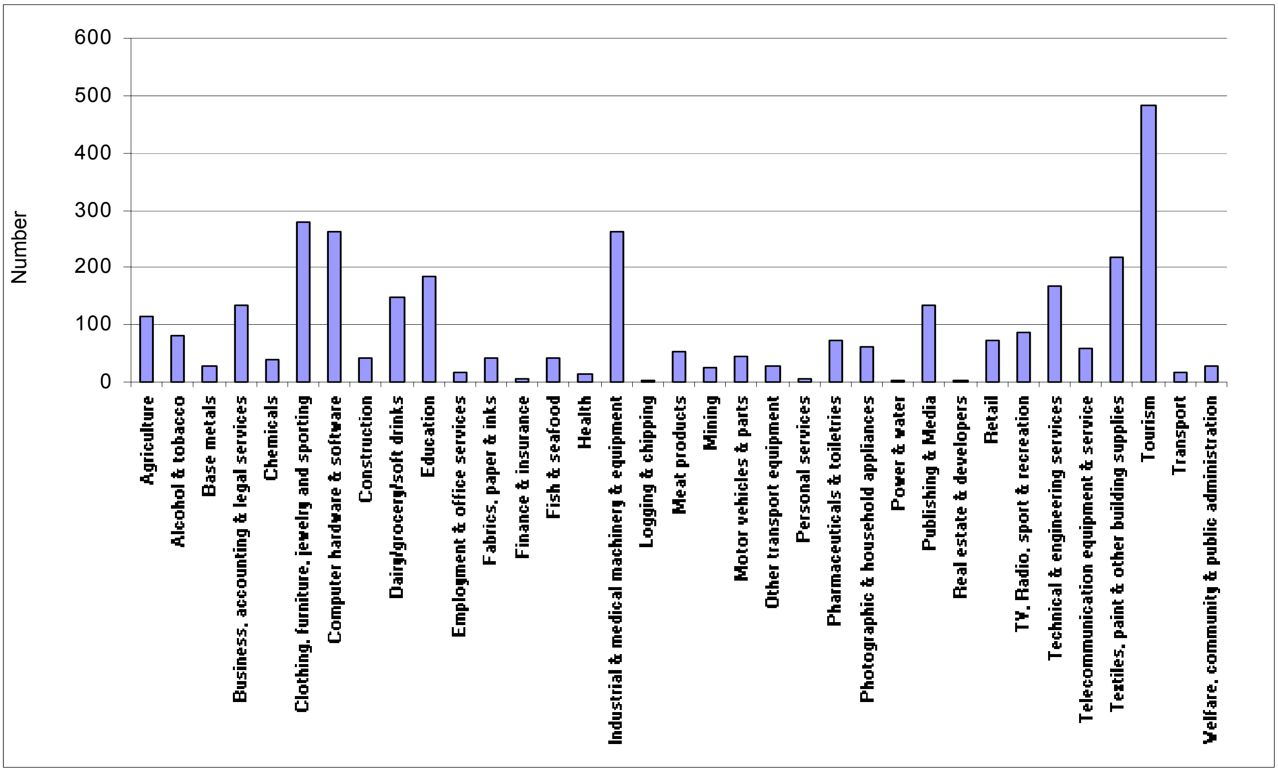
Government programs, such as export education and market information can help change attitudes, as can media attention and campaigns by government and business leaders exhorting business to consider exporting (McKinsey & Company/AMC 1993, p. 37). Financial incentives can be effective in changing industry norms and cultures. While information problems and peer pressure can change attitudes, governments putting dollars on the table in the form of financial incentives can also have an added benefit of encouraging attitudinal change in industry. Government information programs are beneficial, but 'if sufficient signals of the need to change attitudes are to be stated strongly, direct assistance to market development is justified' (Hughes, H. 1989, p. 42). Government financial incentives, as well as lowering the actual cost of a firm undertaking an activity, might also have the more general and indirect effect of signalling to firms the need to change attitudes and behaviour as has occurred, for example, with the R&D tax concession (BIE 1993, pp. 122-124, 159).

EXPORT MARKET DEVELOPMENT GRANTS

The largest and highest profile federal government export assistance program is the Export Market Development Grants (EMDG) scheme. It provides financial assistance to Australian firms for eligible expenditure on marketing and promotion of their products and services in overseas markets except New Zealand. Eligible expenditure is defined as firms' spending on overseas representation, overseas market visits, communication costs, product samples, attendance at trade fairs, literature, advertising and the use of marketing consultants. The scheme is targeted at small and medium sized enterprises (SMEs) serious about exporting with turnover, export and marketing expense thresholds that applicants must meet. Firms receive taxable grants of up to 50 per cent of their eligible marketing expenditure after the first $15,000 of expenses which firms must pay themselves. Firms can only participate in the scheme for up to seven years, after which they leave the program. From the third year onwards, applicants are subject to an export performance test, whereby a firm is either paid 50 per cent of eligible expenditure or a percentage of their total exports, whichever is less. The percentage figure decreases as firms progress through later years. This test signals to firms that they can only expect to receive their full entitlement to assistance beyond Year 2 if their exports are growing. As well as individual firms applying for grants, special categories exist for joint ventures and other approved export promotion bodies, such as when an industry association markets overseas on behalf of a whole industry.

The scheme is quite a large industry assistance program and has wide coverage. The EMDG scheme represents 8.3 per cent of total federal government budgetary outlays on industry assistance (PC 1999, p. 79), making it one of the larger industry assistance programs. During 1999-2000 3,261 firms applied for $166 million in EMDG assistance (Austrade data). Around $136 million in grants was awarded in that year and the average grant size was $45,000 (Austrade 2000a). In terms of industry coverage, the scheme is open to many industries with no single industry being dominant (Figure 4).

Figure 4: EMDG Applicants, by Industry, 1999-2000



Source: Austrade.

The policy and administration of the EMDG has evolved over time, providing an example of how governments can develop state capacity through a process of policy learning. At more than 26 years old, the EMDG scheme is probably one of the longest running industry assistance programs in the federal government and has undergone numerous reviews and modifications in that time (Table 3). The rebate has been gradually reduced from 85 per cent in 1974 to its current 50 per cent[2]. Also in that time minimum expense levels[3] and a limit of eight annual grants were introduced to ensure that exporters were committed to exporting and that administrative resources were not being consumed in processing very small grants. Most recently, the Howard government reduced the limit of annual grants from eight to seven, reduced the annual turnover ceiling from $50 million to $30 million, and reduced the maximum grant amount from $200,000 to $150,000 (Minister for Trade 2003).

Table 3: EMDG Reviews

1977	IAC – Report on *Export Incentives*
1981	IAC – Report on *Export Incentives*
1984	Department of Trade – *Evaluation of EMDG Scheme*
1985	*Report of the National Export Marketing Strategy Panel* (Ferris Report)
1987	Australian Institute of Management study of successful exporters
1988	BIE *Review of the EMDG Scheme*
1989	*Committee for Review of Export Market Development Assistance* (Hughes Report)
1993	McKinsey review of Austrade
1994	Austrade review – *Helping Meet the Export Challenge*
"	Australian National Audit Office Efficiency Audit
"	*Review of the Commonwealth's Enterprise Improvement Programs* (Burgess Report)
1996	Australian National Audit Office (follow-up) performance audit
1997	Howard government's incoming review
"	*Going for Growth* (Mortimer Report)
"	PC staff paper – *Design Principles for Small Business Programs and Regulations*
2000	Austrade – *Review of the EMDG Scheme*

Source: Austrade (2000b) Review of the Export Market Development Grants Scheme, p. 24.

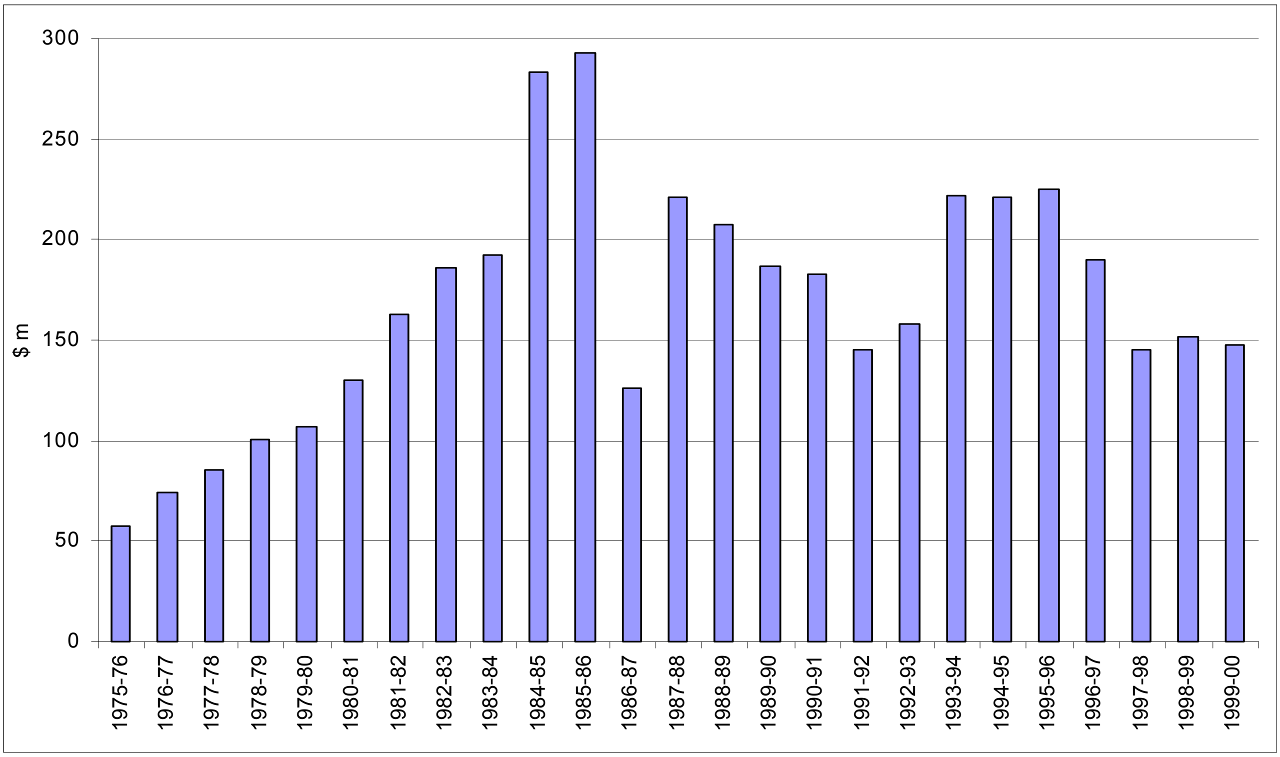
The types of activities that have received assistance have also changed. For example, the definition of eligible expenses has been progressively tightened since 1974, marketing expenses for exports to New Zealand were excluded from 1988 and tourism has enjoyed support at various times[4]. In 1997 the Howard government introduced a cap on the scheme's total outlays, limiting the scheme's budget to $150 million per year. The total cost of the scheme has not been allowed to exceed this amount since that time. In order to maintain fairness, Austrade has developed a unique process of pro-rata payments to administer the cap. Austrade awards each successful grant applicant their first $60,000 in initial grants in full and then makes pro-rata payments to those applicants with outstanding claims from what is remaining of the $150 million after the initial $60,000 grants have been paid. Thus even though a firm may be eligible for the full $150,000 grant, in any one year there conceivably might not be enough funding to pay the firm its full entitlement, in earlier years this has not been a major issue to date. In 1999-2000 all firms were paid their full payments (Austrade 2000b, p. 59).

In more recent years, increasing numbers of firms were receiving less than their full entitlement due to the impact of the cap. For example, in the 2003, 950 firms eligible for more than $60,000 in grants only received up to 40 per cent of their full entitlement above the initial $60,000 payment (Australia, Senate Foreign Affairs, Defence and Trade Committee 2003, p. 228). In the previous year, firms eligible for more than $60,000 in grants only received 75 per cent of their eligible entitlement.

One reason for the ongoing changes in the EMDG scheme is that governments have been trying to target the incentive more effectively. The rate of subsidy has been steadily reduced and the minimum expense threshold has been increased partly so that firms using the scheme also bear a greater share of the cost of their export marketing. These reforms were introduced to ensure only firms committed to exporting in the long term were subsidised, rather than supporting opportunistic exporters who might have little commitment to exporting. Most of the reviews over the years raised concerns about the high 'drop-out' rate — firms that receive subsidies for the first few years and then leave the program without exporting — which suggested better targeting was required (eg. Austrade 1994 pp. 18-20; BIE 1988, p. 18; Hughes, H. 1989, p. 61). Many of the reforms to the EMDG scheme were introduced to weed out this type of firm. It was also administratively efficient to exclude very small claims that still took time to process.

The other reason for the ongoing evolution of the scheme has been its escalating cost. Over time the cost of the EMDG scheme in real terms has varied with the general growth in exports and with the reforms made to the scheme itself following the various reviews (Figure 5). Since its inception in the mid-1970s, the cost of the scheme grew steadily, peaking in the mid-1980s when a backlog of unpaid grants from previous years was paid out at this time (Australia 1985, p. 244; 1986, p. 212). Since then a type of 'ratchet effect' can be seen in the cost of the scheme. On each occasion a review has recommended changes which further tightened eligibility and better targeted the scheme. Subsequently costs increased again as exports grew and more firms became involved, before another review recommended further targeting and tightening. This ratchet effect continued until the Howard government announced the $150 million cap for the scheme and tightened eligibility criteria further in 1997 and in 2003.

Figure 5: Real Budgetary Cost of EMDG Scheme, 1997-98 Prices



Source: 1975-76 to 1990-91: Australia Budget Paper No. 1, various years; 1991-92 onwards: PC Trade and Assistance Review, various years.
Note: Figures from 1987-88 to 1990-91 are estimates based on Australia Budget Paper No.1, various years. In these years Budget papers did not separate EMDG costs from those of other smaller export assistance schemes, such as the ITES. However, EMDG costs have been estimated by subtracting earlier estimates of the cost of these smaller export schemes detailed in previous Budgets from the relevant years. Figures for 1998-99 and 1999-2000 are estimate, adjusted for inflation using ABS GDP deflator.

IMPACT OF FEDERAL GOVERNMENT EXPORT PROGRAMS

Determining the impact of export programs is often not a precise science. Many factors can influence firms' export performance and determining the influence of government assistance on firm behaviour is a difficult exercise. Seringhaus and Rosson (1990, p. 206) suggest that the impact of export promotion programs can be gauged by looking at firms' awareness of programs, their use of such programs and then the programs' helpfulness or critical impact. The main focus of this section is on the EMDG scheme because it is the 'flagship' of federal government export assistance and because it is such a large industry assistance program. Other programs and services are covered in the survey data are the Export Access, Export Finance and Insurance Corporation and the former International Trade Enhancement Scheme, although these are not examined in detail here.

In terms of general *awareness* of all federal government export schemes, little data is available. Austrade's performance indicators on increasing community awareness of its programs and services have been exceeded. In 1999-2000, while aiming for 15 per cent community awareness, awareness of Austrade actually reached 40 per cent (Austrade 2000c, p. 11). Similarly, unprompted community awareness of Austrade's services in the same year was 67 per cent, compared with its target of 35 per cent (Austrade 2000c, p. 11). Similar figures were obtained from earlier overseas studies, although international experience suggests that awareness does not necessarily translate into use (Seringhaus & Rosson 1990, p. 206).

In terms of firms *use* of export assistance programs, as opposed to their awareness, programs do play a role in the activities of some Australian exporters. Specialist data from the ABS' Business Longitudinal Survey (BLS) provides some indication of the extent to which exporters use federal government export programs. Results from the survey show that in 1996-97, 14.4 per cent of exporting firms, accounting for 27.1 per cent of export revenue, used at least one federal government export program, whether it was the EMDG scheme, Export Access, EFIC or the ITES program (Table 4). In previous years this figure had ranged between 10.5 and 16.9 per cent of exporters. Between the 1994-95 and 1995-96 surveys, the proportion of export revenue covered by export programs increased from 17.6 to 37.7 per cent, due particularly due to an increase in the use of EFIC. However, by no means do a majority of exporters use generic export assistance. At most 17 per cent of firms and a third of export revenue is assisted by such schemes, suggesting that many exporters get by without government assistance.

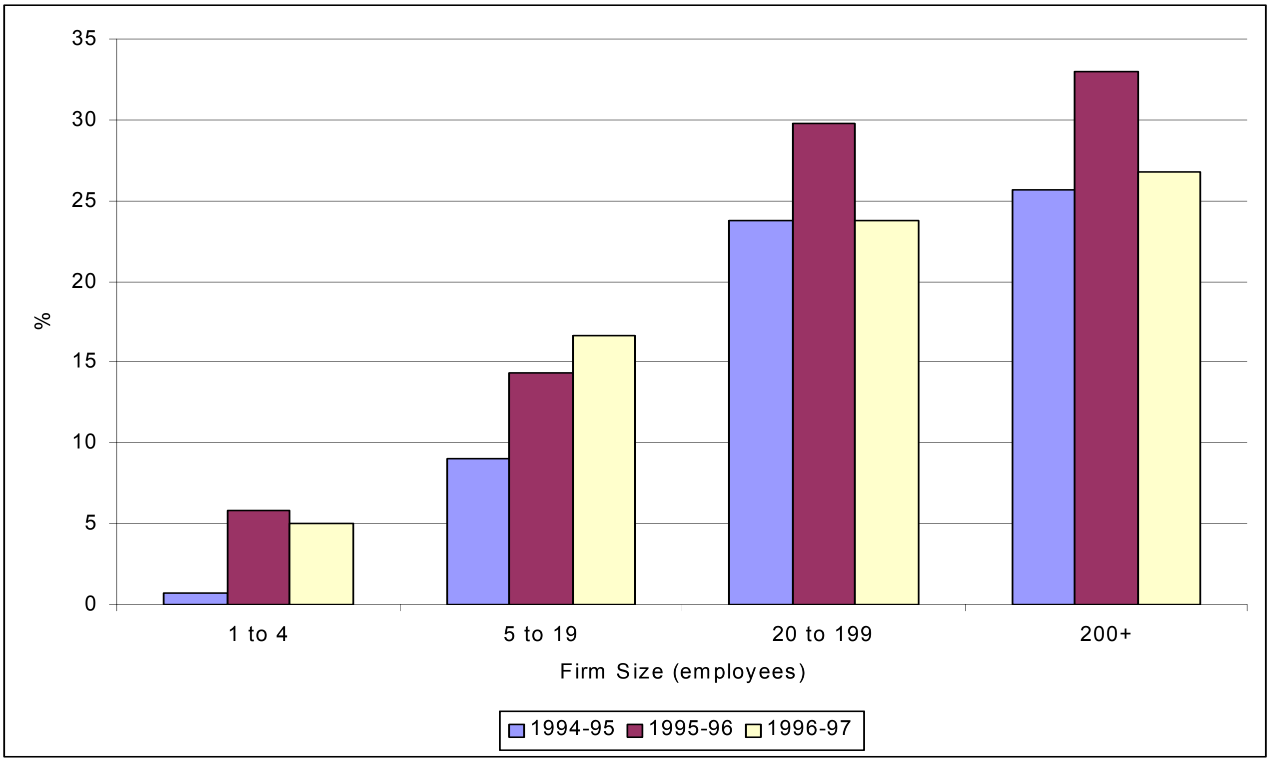
Table 4: Exporting Firms' Use of Federal Government Export Programs, Number of Exporters and Export Revenue

Year	Program	Firms (no.)	Share (%)	Export revenue ($m)	Share (%)
1994-95	EMDG	1,434	8.3	6,371	11.7
	Export Access	232	1.3	**1,326	2.4
	EFIC	391	2.3	*5,604	10.3
	ITES	*96	0.6	*456	0.8
	Total program users	*1,815*	10.5	9,598	17.6
	None of the above	15,467	89.5	45,050	82.4
	Total exporters	17,282	100.0	54,648	100.0
1995-96	EMDG	1,937	12.1	8,602	15.2
	Export Access	552	3.5	*2,944	5.2
	EFIC	769	4.8	10,882	19.2
	ITES	*70	0.4	**6,044	10.7
	Total program users	*2,698*	16.9	21,339	37.7
	None of the above	13,287	83.1	35,283	62.3
	Total exporters	15,985	100.0	56,622	100.0
1996-97	EMDG	1,805	9.9	*6,874	12.2
	Export Access	*505	2.8	*501	0.9
	EFIC	865	4.7	12,139	21.5
	ITES	*159	0.9	513	0.9
	Total program users	*2,633*	14.4	15,326	27.1
	None of the above	15,682	85.6	41,175	72.9
	Total exporters	18,315	100.0	56,501	100.0

Source: ABS BLS database, unpublished data.
* Sampling error 25 — 50 per cent.
** Sampling error >50 per cent.

Generally the larger and more established the firm, the more likely it is to use an export program. Generic export assistance programs tend to be more popular amongst larger firms and are not particularly well utilised by smaller firms, particularly micro businesses with less than five employees[5] (Figure 6). While over 25 per cent of companies with more than 200 employees have used at least one federal export program, only 5 per cent of micro businesses have used such schemes. Interestingly, the utilisation of such schemes by smaller businesses appears to have increased in 1995-96 and 1996-97. This may reflect the increasing number of micro businesses getting into exporting (Table 2) and perhaps the recent drive by Austrade to improve its delivery of services to smaller firms. The tendency to utilise government export assistance schemes also seems to increase with the age of the firm (Table 5).

Figure 6: Share of BLS Exporters Using at Least One Generic Federal Government Export Program, by Size



Source: Calculated from ABS BLS database, unpublished data.
Note: Federal government export programs are EMDG, Export Access, EFIC or ITES.

Table 5: Share of BLS Exporters Using EMDG, any Generic Federal Government Export Program and No Export Programs, by Age, 1996-97

Age of business (years)	Share of exporters using export programs (%)		
	EMDG	At least one program	No programs
Less than 5	3.8	8.7	91.3
5 to less than 10	*8.2	9.4	90.6
10 to less than 20	14.7	21.6	78.4
20 or more	12.2	20.3	79.7
All firms	9.9	14.4	85.6

Source: Calculated from ABS BLS database, unpublished data.
Note: *Denotes sampling error between 25 to 50 per cent. Federal government export programs are EMDG, Export Access, EFIC or ITES.

In addition, the more regularly a firm exports, the more likely it is to use export assistance programs. Results from the BLS show that a greater proportion of 'regular' exporters, those that exported in each of the three years that export program information was collected, use such programs more than other types of exporters (Table 6). As the regularity of exporting declines, so too does the likelihood that a firm is using an export program. Regular exporters also tend to rely on exports for a greater share of their income. 'Born globals'[6], firms that exported in their first year of operation, use some export programs, however their participation rates are lower than regular exporters.

Table 6: BLS Exporter's Use of Program by Experience and Export Ratio, 1994-95 — 1996-97

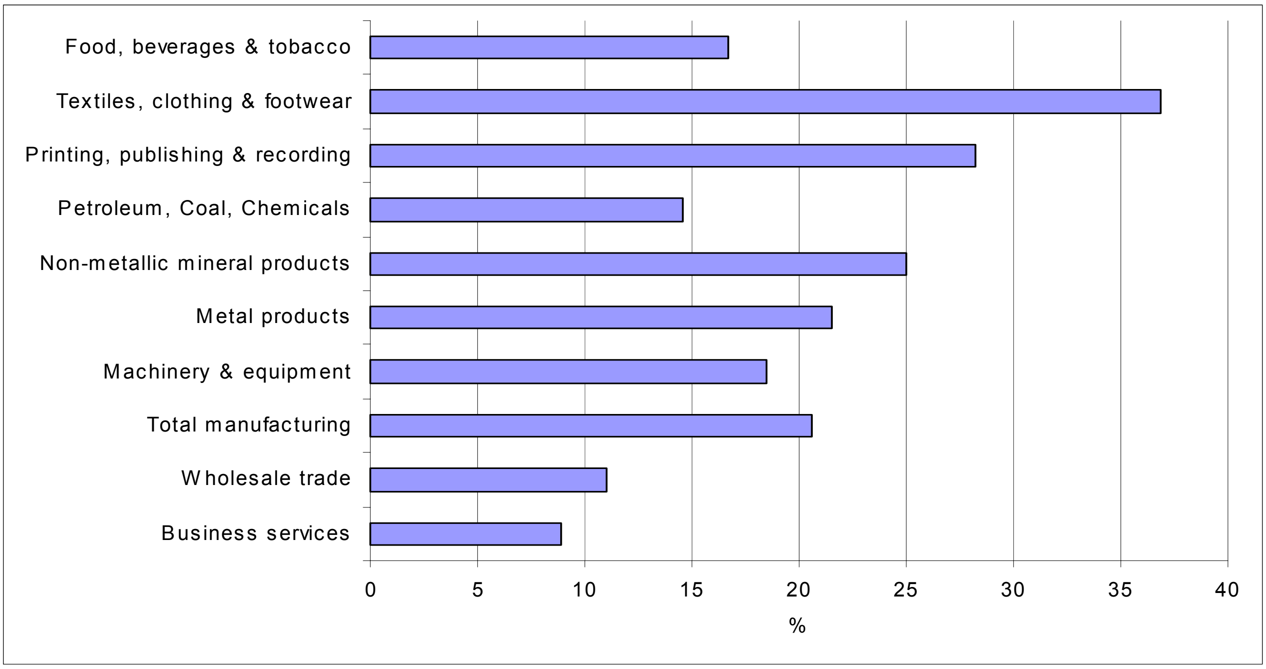
Exporting experience	Program	No. of exporters	Share of exporters (%)	Export ratio (%)
Regular	EMDG	1,334	13.1	24.1
(exported in all three years)	Export Access	427	4.2	13.7
	EFIC	642	6.3	43.2
	ITES	105	1.0	12.9
	Total program users	*1,946*	19.1	*n.a.*
	None of the above	8,244	80.9	24.4
	Total regular exporters	10,190	100.0	26.3
Irregular				
1 year	EMDG	213	3.3	9.4
	Export Access	8	0.1	22.2
	EFIC	22	0.3	2.3
	ITES	n.p.	-	n.p.
	Total program users	*233*	3.6	*n.a.*
	None of the above	6,184	96.4	4.3
	Total irregular 1 yr	6,417	100.0	4.4
2 of 3 years	EMDG	281	7.2	6.9
	Export Access	32	0.8	2.6
	EFIC	143	3.7	10.6
	ITES	n.p.	-	n.p.
	Total program users	*429*	11.0	*n.a.*
	None of the above	3,477	89.0	6.5
	Total irregular 2-3 yrs	3,906	100.0	7.1
Born globals	EMDG	123	4.8	19.1
	Export Access	55	2.1	3.9
	EFIC	92	3.6	37.5
	ITES	50	1.9	20.5
	Total program users	*211*	8.2	*n.a.*
	None of the above	2,364	91.8	23.4
	Total born global	2,575	100.0	24.6

Source: ABS BLS database, unpublished data.
Note: n.p. denotes not published and n.a. denotes not available. Includes only those firms in the BLS which operated for all three years: 1994-95, 1995-96 and 1996-97. 'Export ratio' is the proportion of total export income to total income for all firms in that category. An average of firms' individual export ratios would have been preferable, but this could not be obtained from the ABS. 'Born globals' are those businesses which exported in their first year of operation.

Export assistance seems to be more readily used by more established exporters. It would appear at first glance that this somewhat contradicts one of the supposed justifications of export assistance which is to assist firms new to exporting. Certainly additional BLS data suggests that new exporters are no more likely to use generic export assistance than other exporters. However, this data was unreliable due to a high number of standard errors.

The utilisation of generic export programs also varies across industries. Textiles, clothing and footwear exporters seem especially keen to use generic assistance programs, with 37 per cent of them using at least one such federal government export program (Figure 7). This does *not* include their use of industry-specific export assistance programs. Other industries where firms make good use of generic export schemes include printing, publishing and recording; and non-metallic mineral products. Service industries, such as wholesale trade and business services also use these programs, although firms in these industries tend not to use them to the same extent[7]. While not an absolute generalisation, it appears that to some extent industries with a high use of generic export programs tend to be those industries where not many businesses are exporting (Table 1). Either this suggests that export programs actively prevent or inhibit firms from exporting, which is an unlikely situation, or more likely that industries where exporters tend to use these schemes to a greater extent are those where exporting is not nearly as common. If this is the case, it suggests that export programs are encouraging firms in low-export industries to start exporting. It should be said, however, that one of the industries with the fastest growing numbers of exporters, business and property services (Table 2) appears to be one of the industries least likely to use generic export assistance programs (Figure 7).

Figure 7: Share of BLS Exporters Using at Least One Generic Export Program, by Industry, 1996-97



Source: Calculated from ABS BLS database, unpublished data.

In terms of export assistance programs' *helpfulness* or *critical impact*, the effect on Australian firms is unclear from the data. For example, the export ratio of regular exporters participating in the EMDG scheme was 24.1 per cent, almost identical to those regular exporters that did not use any generic export programs (24.4 per cent). Export ratios for regular exporters participating in Export Access (13.7 per cent) and ITES (12.9 per cent) tend to be lower than non-program users, while those regulars using EFIC had a ratio of 43.2 per cent (Table 6). However, the causality here remains unclear. It could be argued that EFIC is a successful program because it has generated a higher export ratio than non-program users, whereas Export Access and ITES were failures due to the low export ratio. However, this ignores the fact that firms which rely on exports for a significant part of their revenue may be attracted to insure with EFIC to protect their income stream, whereas firms that do not export much might be less inclined to use EFIC. Equally, a claim that Export Access and ITES are failures due to participating firms' lower export ratios may be mistaken, as these schemes are designed to help precisely those firms that do not normally export. The apparently low export ratios may reflect the fact that these firms are looking to increase their export activity.

Generic export programs may have at least some positive influence over exporters, although it is difficult to attribute direct causality from this data. As already mentioned, attributing causality to broad statistical trends is difficult. The broad trend that emerges is that exporters which are larger, older and more committed to exporting are more likely to use export programs. This would, at least superficially, suggest that export programs were not having a great deal of success in encouraging new exporters.

The fact that more established firms tend to use export programs may not, in itself, indicate a failure of export programs. It may be that the pay-off for Australia, in terms of increased exports, may be larger than the pay-off if only micro- and small businesses are encouraged to export more.

While improving the *number* of exporters is a laudable goal, in the end it is also the *level* of exports, in both volume and value terms, that matters to Australia's prosperity and development. There may be more established firms that currently do not export that may benefit from doing so. Moreover, while there are obviously exceptions, the data presented earlier suggests that Australian businesses across-the-board are generally not as exported as their overseas competitors. For these reasons the fact that more established firms tend to access export programs may not be such a bad thing.

Alternatively, a broader criticism that has been raised before is that export programs tend to ignore the needs of small, or smaller businesses. It should be noted that other export schemes targeted specifically to new SME exporters, such as Export Access, have not been examined in detail here. However, the data also shows that export programs are being used more by the types of firms for which exporting has not been common, such as micro businesses. Moreover, TCF firms do not normally export, however a high proportion of those that do (37 per cent) use at least one generic export program. This suggests the schemes may be encouraging non-traditional exporters to start exporting. In reality, such aggregate figures from the BLS can only give an insight into the effect of such schemes and do not provide sufficient detail in exactly *how* the schemes influence firms. To do this, one needs to examine the schemes in more detail, incorporating qualitative interview data as well as quantitative data.

IMPACT OF EMDG

The EMDG scheme has had at least some impact on the performance of Australian exporters. The Hughes Report found that the EMDG scheme covered $6 billion worth of exports in 1987-88 compared to Australia’s total exports of $49 billion (Hughes, H. 1989, p. 70), meaning the scheme covers 12.2 per cent of Australian exports. In 1999-2000 the EMDG scheme covered $4.5 billion in exports, around 3.6 per cent of Australia’s exports (ABS cat. 5206.0, Austrade 2000c, p. 11). The 1999-2000 figure may be smaller than Hughes’ 1987-88 figure due to the various amendments made to scheme since then which have improved the focus and targeting of the scheme and narrowed its coverage. The scheme assists 10 per cent of Australian exporters[8] (Table 4). As with export programs generally, EMDG tends to be more popular with more established exporters. Almost 15 per cent of firms between 10 and 20 years old use EMDG (Table 5), while regular exporters make much greater use than irregular exporters (Table 6). Unfortunately, such broad coverage figures do not indicate the real impact of the EMDG scheme.

Attempts have been made to quantify the EMDG scheme’s impact on exporters. The problem is that some of the exports supported by EMDG may have occurred anyway, without assistance. An econometric evaluation for Austrade’s 2000 review found that in 1997-98 the EMDG scheme stimulated an additional $1.69 billion worth of exports through stimulating additional overseas marketing expenditure (Austrade 2000b, p. 15). These are exports that would otherwise not have occurred and are equivalent to 1.5 per cent of Australia’s $114 billion worth of exports in that year (ABS cat. 5206.0). One measure sometimes used to measure the effectiveness of export programs is a scheme’s multiplier — the increase in firms’ spending on export marketing promotion per dollar of revenue forgone. The EMDG scheme’s multiplier was estimated at 1.01 (Austrade 2000b, p. 239).

However, there are problems using such numerical estimates to gauge the effectiveness of export programs. Lattimore et al (1998, p. 135) have suggested that problems sometimes exist when the control group – the unassisted firms used as a basis for comparison with those firms that used government assistance – can be dominated by firms not committed to exporting[9]. They also suggest that rather than focussing on the simple numerical proportion of exports induced by the scheme, more of the scheme’s benefits may actually be qualitative, rather than quantitative. Certainly an exclusive focus on quantitative data may ignore qualitative effects of such assistance (Seringhaus & Rosson 1990, p. 208). Qualitative data obtained through interviews sheds more light on the impact of the scheme by examining how it affects individual firms.

Initially, the EMDG scheme has at least a moderate influence on firms' decision to commence exporting and expand into additional overseas markets, according to the latest evaluation of the scheme (Austrade 2000b). Table 7 shows that firms believe the scheme generally has a moderate influence over their decision to seek export markets. Joint ventures rated EMDG assistance as almost a major influence. The scheme ranked as the third most important influence on export decisions for firms that had graduated from the scheme and those that received grants for at least three years, behind more fundamental commercial reasons. EMDG ranked fourth most important for firms new to the scheme and for joint ventures. Similarly, the scheme had a generally moderate influence on firms' decision to increase their number of overseas markets once they had commenced exporting (Table 8). EMDG ranked fifth most important factor for individual firms and fourth for approved bodies and joint ventures.

While EMDG proved important in firms' export decisions, other factors proved more important. Commercial factors, such as overseas export opportunities, interest from overseas and limited domestic opportunities proved the more important factors for practically all firms either in their decision to commence or expand exporting (Table 7, Table 8). Another important factor in firms' decision to expand export markets once they have commenced exporting was the experience they had gained from earlier export activity (Table 8). However, as argued below, by encouraging firms to start exporting, the EMDG scheme helps firms develop this export experience which becomes important in later decisions to expand export markets. The export success of domestic competitors, general publicity of exporting and industry development programs did not rate highly as factors influencing firms' decision to export (Table 7).

Table 7: Factors Influencing Firms' Decision to Seek Export Markets, Average Degree of Influence

Factor	EMDG 1-2	EMDG 3-8	Graduates	Exiters	JVs	Non-EMDG
Declining domestic market	2.2	2.3	2.1	2.0	3.3	2.0
Limited growth in domestic market	3.1	3.2	3.1	2.9	4.0	2.9
Export market sales opportunities	4.3	4.3	4.3	4.1	4.3	4.1
Export success of domestic competitors	2.1	2.1	2.1	1.9	2.5	1.9
Parent firm encouragement/ requirement	2.0	2.1	1.9	1.6	1.0	1.9
Interest from overseas inquiries	3.6	3.5	3.4	3.4	4.2	3.7
EMDG assistance	2.8	3.3	3.2	2.4	3.8	2.1
Industry development programs	1.8	1.8	1.9	1.5	2.8	1.5
Export facilitation programs	2.0	2.0	2.0	1.8	3.2	1.8
General publicity on value of exporting	2.2	2.2	2.2	2.0	2.3	2.0

Source: Austrade (2000b) Review of the Export Market Development Grants Scheme, p. 193.
Ratings 1= no influence, 2= marginal influence, 3= moderate influence, 4= major influence, 5= critical influence.
EMDG 1-2: firms in first 2 years of grants; EMDG 3-8: firms in 3-8 years of grants; Graduates: firms that have completed 8 years of grants; Exiters: firms that left scheme before completing 8 years of grants, JVs: joint ventures; Non-EMDG: exporters not receiving grants.

Table 8: Reasons for Firms Increasing Number of Export Markets Since Commencing Export Marketing, Average Relative Influence

Factor	EMDG 1-2	EMDG 3-8	Exiters	ABs	JVs	Non-EMDG
Availability of EMDG assistance	2.9	3.2	2.3	3.8	3.4	1.8
Limited opportunities in domestic market	3.0	2.9	2.5	2.8	3.0	2.7
New export opportunities	4.2	4.2	4.2	4.2	4.5	4.1
Interest from overseas inquiries	3.9	3.9	4.0	3.9	4.3	3.7
Leveraging off existing business opportunities	3.5	3.3	3.1	3.7	3.0	2.6
Increased access to financial assistance	2.7	2.5	2.1	2.8	3.4	1.7
Experience from existing exporting activities	3.8	3.8	3.6	4.1	3.8	3.5

Source: Austrade (2000b) Review of the Export Market Development Grants Scheme, p. 200.
Ratings 1= no influence, 2= marginal influence, 3= moderate influence, 4= major influence, 5= critical influence.
EMDG 1-2: firms in first 2 years of grants; EMDG 3-8: firms in 3-8 years of grants; Exiters: firms that left scheme before completing 8 years of grants, ABs: approved bodies; JVs: joint ventures; Non-EMDG: exporters not receiving grants.

Qualitative interviews for this study revealed that the first obvious impact of the EMDG scheme on firms is financial. The ability to receive compensation for export marketing expenditure assists firms by providing them some sort of financial benefit. Practically all of the 20 firms receiving EMDG assistance that were interviewed for this study explicitly identified the financial benefits the scheme provided to them. The scheme helps to defray the costs for firms of conducting marketing overseas and allows firms to undertake more export marketing than they might otherwise have done. This allows them to expand existing export markets, or develop new ones. In one interview, a tourism company cogently described the financial impact of EMDG,

> Primarily, it's that we can just do more and better of what we were doing before. That's the main thing. So, we had already, as an organisation, reached a realisation that if we wanted to grow the business and stay in our niche product area we had to go overseas for business. … The major difference is that, for example, for the years before we met Austrade we might have gone to some markets and done a couple of trips with some trade shows, or a couple of trips where we went over and did some training with agents. We now do a lot more of that. In 2000, we'll probably do four times as much of that than we were three years ago. So we are actually now in a process of trying to utilise the Austrade support to accelerate the growth (Managing director, Tourism company).

Another firm commented that 'EMDG's allowed us to confidently progress our product development and presentation in markets that we wouldn't get to. We wouldn't have access to that if we didn't have financial support' (Deputy executive director, Tourism company). Three interviewees also commented that the EMDG scheme helped to 'level the playing field' when competing against overseas companies, by defraying marketing costs either in their competitors' home markets or in third markets (Managing director, Manufacturing and engineering company; Managing director, Pharmaceutical company; Managing director, Collectibles exporter). For example, it was suggested that EMDG assistance allowed companies to compete on the same basis with European and American companies in those markets.

The effect of the scheme is that firms do *more* export marketing with what they've got, rather than reduce their spending on marketing. The PWC evaluation found that the grants that firms were receiving were not 'crowding out' their other export marketing expenditure; that is, firms did not reduce their marketing expenditure when they received EMDG assistance (Austrade 2000b, p. 239). EMDG expands the level of export marketing, rather than subsidise a given amount.

> The significant effect of the scheme is not so much to increase exports, it certainly doesn't lower the costs of exports, it doesn't do that. What it does do is concentrate the export effort. Instead of … $25,000 a year over five years, the company can probably spend $50,000 a year for three years because it knows its going to get that money back. It brings forward its export marketing and brings forward export sales (Austrade official).

EMDG does not subsidise exports directly, but encourages changes in corporate behaviour, thus avoiding the problems of earlier export subsidy schemes like the Export Expansion Grants Scheme.

Several companies provided explicit examples in their interviews of how the EMDG scheme had helped their export marketing in particular instances. For example:

- a manufacturing and engineering firm had spent several years developing markets in Asia when the East Asian economic crisis hit in 1997 and 1998. For this firm, EMDG funding allowed them to continue marketing in these Asian markets during the crisis, reassuring customers and maintaining a presence in Asia. Without EMDG funding this would not have been possible (Managing director, Manufacturing and engineering company);

- a high technology manufacturing company trying to sell their product into China had to send three expensive samples of their product to standards organisations in Shanghai and Beijing in order to have Chinese standards developed and have this firm's product approved by Chinese authorities. The firm would not have been able to afford to supply those samples without EMDG funding (Managing director, Manufacturing company);

- a food export company was able to place a marketing manager within a European multinational firm which has since helped the exporter develop an alliance with that multinational in Asia. This opportunity would not have been taken without EMDG because the costs for the exporter were too great. EMDG was critical here (Managing director, Food exporter); and

- a clothing manufacturer is preparing to enter the US market, with EMDG funding making possible the substantial amount of advertising required to enter their particular niche market. The US market represents a real growth opportunity for the company, possibly doubling the firm's sales in a year. Without EMDG funding, this firm would have had to wait at least two years before venturing into the US, possibly compromising the company's long term growth potential (Managing director, Clothing manufacturer).

The EMDG scheme's financial inducement does appear to have positive qualitative effects on exporters by drawing firms into a stronger commitment to exporting. The 2000 Austrade evaluation found that the scheme had an important 'learning by doing' component which taught small, new exporters about how to go about exporting overseas. In spite of commercial issues being the prime driver of firms' decisions on export marketing, EMDG does have an influence.

> The EMDG Scheme is, however, an important facilitator through supporting the 'learning by doing' process and targeting its support for export promotion spending on activities which are designed to identify and access offshore demand opportunities (Austrade 2000b, p. 158).

Qualitative comments from some interviewees tend to confirm that the EMDG scheme has an educational effect, whereby firms gain confidence in exporting through financial support. An Austrade official suggested that EMDG encourages the development of an export culture, moving Australian firms away from the 'opportunistic exporter' behaviour that was once common in Australia, and also encourages firms to think about and plan their export development (Austrade official). The suggestion here was that even simply encouraging firms to develop export plans ensured a greater chance of export success. Three EMDG recipients commented that participating in the scheme encouraged them to develop export plans, to keep better financial records and to think about exports as a longer term growth strategy (Managing director, Collectibles exporter; Managing director, Manufacturing and engineering company; General manager, Performing arts company). The financial support from EMDG also gave some firms greater confidence when exporting, with at least two interviewees saying the scheme had this effect. 'It gave us the courage and confidence to go out and export' (Managing director, Clothing manufacturer).

EMDG helps firms become more comfortable and experienced with exporting. The scheme appeared to be even more important for firms when developing individual markets once the commercial decision to export had been made. For most recipients, EMDG assistance is at least moderately important in developing export markets, even for those firms which have exited from the program (Table 9). Most recipients give it moderate influence, tending towards major influence for established EMDG firms and joint ventures. The most important factors are the types of activities firms must undertake to overcome the information problems and transaction costs of exporting (Table 9). Market visits, market research, participation in trade fairs and appointment of an overseas representative are, by and large, all rated of 'moderate' importance or above and in many cases are of 'major' importance. It is exactly these sorts of activities that are supported by the EMDG scheme, suggesting that the scheme is fulfilling an important role in subsidising the transaction costs of exporting. However, the scheme was not totally influential, with EMDG workshops not proving to be particularly important (Table 9).

Table 9: Importance for Firms of Factors in Developing Export Markets, Average Relative Importance

Factor	EMDG 1-2	EMDG 3-8	Graduates	Exiters	JVs	Non-EMDG
Market research	3.8	3.6	3.5	3.5	4.0	3.4
Market visits	4.4	4.4	4.5	4.2	5.0	3.9
Development of export plan	3.5	3.5	3.5	3.4	4.2	3.3
Participation in trade fairs	3.4	3.7	3.5	3.1	4.3	2.5
Attending EMDG workshop	2.3	2.1	2.0	1.9	2.6	1.6
Appoint overseas representative	3.7	3.8	3.9	3.3	3.8	3.0
Establishment of overseas office	3.1	3.2	2.9	2.7	2.4	2.1
EMDG assistance	3.5	3.8	3.6	3.0	3.8	2.4
Website presence	3.5	3.3	3.1	2.8	3.4	2.8

Source: Austrade (2000b) Review of the Export Market Development Grants Scheme, p. 195.
Ratings 1= no influence, 2= marginal influence, 3= moderate influence, 4= major influence, 5= critical influence.
EMDG 1-2: firms in first 2 years of grants; EMDG 3-8: firms in 3-8 years of grants; Graduates: firms that have completed 8 years of grants; Exiters: firms that left scheme before completing 8 years of grants, JVs: joint ventures; Non-EMDG: exporters not receiving grants.

The main reason the EMDG program works is because it redresses information problems in the private sector which give rise to coordination failures. Small firms that might otherwise be competitive exporters are reluctant to sell in foreign markets due to a lack of experience, traditional attitudes and the transaction costs of overcoming these problems. The EMDG scheme subsidises the transaction costs for new exporters, encouraging them to 'take the plunge' and export. The scheme has both a financial effect offsetting the costs of export marketing, but at the same time has a learning or attitudinal effect which encourages new firms to commence exporting and established exporters to develop new export markets. After initially encouraging firms to start exporting, that learned experience ameliorates the transaction costs and trepidation of exporting, encouraging those firms to export more and diversify markets. Table 8 shows that firms' previous experience of exporting is generally a major influence on their subsequent decision to expand into other export markets. In short, the EMDG scheme is an example of how active industry policy can help improve economic outcomes by ameliorating information problems. After encouraging firms to become exporters, they develop the skills and techniques to be successful exporters and are not so reluctant to engage in future exporting.

> Policies which encourage firms either to commence exporting or to expand significantly their current levels of exports are helping to change Australian attitudes to exporting by demonstrating the gains that can be made (Hughes, H. 1989, pp. 41-42).

Various reviews over the years have found that the EMDG scheme has helped develop an export culture in Australia, although some have suggested the scheme is now redundant. For example, in 1988 the BIE found that the scheme had been 'instrumental' in encouraging many firms to export (BIE 1988, p. 43). Other reviews suggested that the EMDG scheme played a role in encouraging the development of an export culture in Australian firms (Hughes, H. 1989, p. 71; McKinsey & Company/AMC 1993, p. 37). Most recently the Austrade 2000 review has argued that while the prime driver of export performance is still export opportunities, the EMDG scheme is a significant factor in encouraging firms to export (Austrade 2000b, p. 15). The same review also found that graduates of the EMDG scheme continued to have a high export orientation after they had finished the program (Austrade 2000b, p. 185).

The effect of the EMDG scheme also provides valuable insights into how government policies can help change informal norms and the prerequisites for successful 'demonstration'-style programs. In deciding to seek export markets, firms generally rate the export success of their domestic competitors as a 'marginal' influence on their export decision, scoring around two in most cases, and rank it fairly low when compared to other factors (Table 7). Similar values were given to general publicity on the value of exporting. This suggests that, at least in this case, the demonstration effect of seeing other Australian competitors succeed in exporting is not a major influence on a firm's decision to export itself. Other factors such as overseas market opportunities, interest of overseas buyers and the EMDG scheme, play a more important role. Moreover, once a firm has commenced exporting, the experience stemming from those exports plays an important part in a firm's decision to export more. Most categories of firms rated the experience gained through existing exporting activities as a major influence on their decision to seek other export markets (Table 8). In most categories of firms, such export experience ranked as the third most important factor closely following the second most important which was overseas inquiries. The demonstration effect from a firm's own learning experience of exporting is more important than any demonstration effect that may arise from them seeing their competitors succeed at exporting.

All of this reflects the 'learning by doing' nature of exporting and the EMDG scheme's support for this. Firms that are initially contemplating exporting for the first time are attracted by potential market opportunities, but face significant transaction costs in overseas markets or in overcoming their own trepidation in commencing such a move. Overseas studies of export programs have reached similar conclusions.

> Research shows that early in the exporting process, when companies typically lack experience, their belief in the helpfulness of export support was highest. The kind of help companies needed most seems to be of the experiential or learning kind (Seringhaus & Rosson 1990, p. 208).

The fact that exporters' compatriots in Australia may have already overcome these transaction costs is not that important. The EMDG scheme assists first-time exporters overcome these initial transaction costs. Then, as the firm learns from the exporting process and develops experience through exporting, it overcomes the transaction costs and trepidation it faces, and subsequent expansion into other export markets seems not as difficult. 'The "learning by doing" thesis is further strengthened by the low importance given to "peer group" behaviour and more general promotion of the value of exporting' (Austrade 2000b, p. 194). Rather than simply learning from other firms' experience, firms have to each have to individually learn for themselves what exporting is all about.

The lessons of Australian export assistance suggest that such programs are only really effective when all firms are each individually targeted for assistance and each individually develops experience. It is no good to encourage a few firms and hope that others will copy them. To effectively overcome inefficient behaviours in the economy, government has to individually encourage each firm to overcome their own attitudes, cultures and expectations for themselves.

The influence and image of the EMDG scheme naturally varies between different companies. This variation was reflected in interviews. Some firms could provide concrete examples of how EMDG payments had made a difference to them. However, other firms characterised their EMDG payment as something they received after the event that had little, if any, influence on the company. One firm described how their annual process of applying for EMDG was almost a tedious affair, where they were constantly hassled by their consultant to put in their grant claim. This firm indicated that the grant was really only a bit of money they received long after any export decisions were made and it 'never' influenced export marketing (General manager, Media company). Similarly, an educational institution said that the scheme basically had no influence on their export decisions and was really only some money they came across after the event (Business manager, Education institution). One general, although by no means definitive, observation is that the interviewed firms which tended to view their EMDG payments less enthusiastically were those that only exported a small proportion of their sales, say, up to 10 per cent. This may be understandable as firms with only a low exposure to exports may not be as interested in the export marketing support provided by EMDG. This corroborates the findings from the BLS that the higher the firm's export ratio, the more enthusiastic they were about export assistance.

At the other end of the scale, firms that are well-established in international markets may receive less benefit from the scheme as they develop into large exporters.

> In the earlier days it probably did help quite substantially because the costs of setting up in some of these countries, particularly when you are a growing company and maybe not particularly well known, can be quite expensive. The usefulness now, I guess, is limited

> because we are a pretty well known name around the world (Financial controller, Scientific equipment manufacturer).

In this case, the company has probably outgrown the EMDG program. This lesson about the usefulness of export assistance also arises in overseas evaluations of export assistance (Seringhaus & Rosson 1991, p. 15). The more experienced in exporting a company becomes, and the more specific its requirements, the less beneficial is general export support.

While EMDG support is important to many firms, the primary motivation for exporting is the commercial opportunity presented by the potentially larger market that exporting provides. The primary factors encouraging firms to start exporting and diversifying into other export markets are demand factors such as overseas opportunities and inquiries from overseas (Table 7, Table 8). Across the categories, the EMDG scheme had the most importance for joint ventures, rating 3.8 degree of influence, making it almost a 'major' influence on their export decision. Across all types of firms, export market sales opportunities and interest from overseas inquiries rank first and second respectively in importance in terms of firms' decision to export. As with the decision to export, demand-pull factors, such as new export opportunities and interest from overseas inquiries are the first and second most important reasons respectively for all categories of firms to enter additional export markets.

The primacy of commercial opportunity in a firm's decision to export was also reflected in interviews for this study. Nine EMDG recipients interviewed said that while EMDG was at the very least useful, the actual decision of whether to undertake export marketing was driven by commercial considerations, not by whether the firm would qualify for government assistance.

> We do nothing for a grant. We don't think of any grant we get as the reason to go. We look at: is it viable and can we make money? And if the grant is there and if it's assisting then it's sort of a secondary thing (Managing director, Furniture exporter)

> Because it's there, you take it. I don't think necessarily you would start an export thrust because the grant was there. I think if you want to be in business that you would go for it regardless and this is a cost sweetener (Business manager, Construction company).

Thus although in financial terms the EMDG scheme is useful to exporters and has been a critical influence on some firms' decisions on export marketing, it is unlikely that the scheme has stimulated non-commercial activities or marketing that had no chance of earning some sort of return for the individual firm.

In terms of the design and administration of the program, the EMDG scheme now performs reasonably well. In earlier years, the scheme did experience administrative problems, most notably in the backlog of unpaid grants. Other problems in early administration also existed, evidenced by the statistic that in 1985 at least 14 per cent of EMDG claimants were non-exporters and doubts existed about the export performance and commitment of a further 5 per cent (BIE 1988, p. 51). More recent analysis rated it as one of the better performing industry assistance programs.

> The program is big enough to make a difference (with nearly 4,000 claims in 1995-96), is highly visible to potential clients, tries to control additionality by targeting smaller 'export ready' businesses, weeds out ineffective users of the program using an export performance test, is administratively efficient, uses state-of-the-art risk management techniques (such as a computerised risk assessment model) and limits taxpayers' exposure through a novel annual cap on expenditure (Lattimore et al 1998, p. 137).

Similarly, the Mortimer Inquiry believed that the EMDG scheme was one of the better run industry assistance programs in Australia (Mortimer 1997, p. 143). The most recent review of the administration of the scheme reveals a generally high level of satisfaction among recipients, with over 80 per cent satisfied or very satisfied with the scheme (Austrade 2000b, p. 217). Similar results were reported for the application process. Interviews revealed that firms think the scheme is well administered but still have some complaints, such as the time and effort needed to fill out forms, the lack of flexibility in bureaucratic rules and the low levels of compensation for overseas travel expenses.

The $150 million cap has certainly prevented any further blow-outs in EMDG spending and, at least initially, has not been a major problem for grant recipients. In the three years since the cap was introduced the EMDG scheme paid out 100 per cent of claims in the first year, 98 per cent in the second year and 100 per cent in the third year (Austrade official). However, in its recent review Austrade suggested that if the cap is not increased and the trend growth in the scheme continues, then over time more than 1,000 exporters will have the value of their grant entitlements cut (Austrade 2000b, p. 17).

More recently, these concerns about the $150 million cap have come to fruition. In recent years an increasing proportion of firms qualifying for assistance under the program have received less than their full entitlement, leaving firms with a shortfall in their own budgets. As well as placing an unexpected financial impost on firms, this also effectively penalises firms that have put more effort into export marketing.

RECOMMENDATIONS ON THE EMDG SCHEME

The EMDG scheme is broadly a well administered program: high profile, transparent, predictable and wide ranging. Several interviewees did suggest that the allowance for overseas expenses, $200 per day, did not go very far in many of Australia's major overseas markets, perhaps particularly when the value of the Australian dollar was low. More generally, the scheme has obviously gone through some fine tuning over the years, as evidenced by the 'ratchet effect' in its expenditure profile.

The cap of $150 million per year expenditure appears to be becoming a significant problem. It is only likely to become a greater constraint into the future as the number of Australian exporters increases and as inflation pushes up exporters' overseas marketing costs. While Austrade has developed an admirable pro-rata procedure for paying grants at present, if the cap becomes too restrictive there is little strategy about how to deal with this into the future.

Assuming that future governments will want to keep the cap to keep cost control in the scheme, there are several possible solutions to the problem. One possible solution is to automatically index the cap to inflation so that at least the real value of the scheme is preserved over time. Another possibility is to have a regular review of the cap after a fixed number of years where the Government is required, perhaps by legislation, to review and increase the cap after considering the evidence. Alternatively, the Government could simply keep the cap but agree to increase it on a more regular basis so that the scheme is allowed to grow with Australia's economy, but in a controlled way. One immediate solution might be to double the cap to $300 million from the present $150 million – the rationale being that if the objective is to double the number of exporters then the Government should look at doubling the cap.

A different issue is the extent to which the scheme is targeted at boosting the *number of exporters* rather than the *value of exports*. If the objective is to simply increase the number of firms exporting, with less focus on the end result for Australia's export performance, then targeting the scheme to smaller firms, as the current trend appears to be, is the obvious strategy. Encouraging many small firms to commence exporting will help to increase the number of exporters. However, it is questionable whether this strategy will necessarily increase the value of exporters. Ignoring larger firms that have extensive domestic operations but perhaps have not started exporting potentially misses a range of firms that could make a significant contribution to boosting the total value of Australia's exports. One larger firm becoming an exporter may have more beneficial impact than several small or micro firms starting export a few dollars each in sales. Reviewing the current trend to increasingly target the scheme exclusively to small firms would be a good start to evaluating the scheme's effectiveness in boosting Australia's *exports* as opposed to the *number of exporters*.

CONCLUSION

The EMDG scheme has helped to develop an export culture in Australia by redressing information problems associated with exporting and in Australian exporters in particular. BLS data does not provide a clear picture on causality, but it does appear that export programs may recently have been attracting firms of certain types which traditionally have not been heavily involved in exporting, such as micro businesses and TCF firms. Interviews confirmed that these programs and services do make a contribution.

The experience of programs like EMDG demonstrates that governments can use active industry policy to redress coordination failures in the economy. Australia has not had a substantial export culture, although this is changing. While a number of factors, such as tariff reform and general globalisation of the Australian economy, have contributed to this change, exporters report that government assistance does help them to commence and continue exporting. Such assistance helps firms overcome their lack of experience and other information problems which prevent them exporting. EMDG works by subsidising transaction costs, encouraging firms to expand exports and develop experience.

One of the interesting observations to emerge out of this paper has been the insights into how demonstration programs help overcome bounded rationality and help change informal institutions. Data from evaluations of the EMDG program suggest that exporting is an experiential process. By far the most important factors encouraging firms to export more are what the firm learns from its early experiences. This is where export assistance programs like EMDG become important in encouraging firms to take those first few tentative steps, take up potential commercial opportunities and start exporting. Firms' subsequent decision to increase exports and develop additional export markets is heavily influenced by what they have learnt from earlier export attempts.

The key point in this is that the export success of domestic competitors plays relatively little part in encouraging firms to export; that is, the success of the firm next door offers little encouragement or 'demonstration' of how successful exporting can be. This adds weight to the claim that it is by individually encouraging each firm to develop experience in exporting and to overcome the information problems and transaction costs of exporting, that programs like the EMDG scheme help firms learn to export.

ACRONYMS

ABS – Australian Bureau of Statistics
AMC – Australian Manufacturing Council
Austrade – Australian Trade Commission
BIE – Bureau of Industry Economics
BLS – Business Longitudinal Study
DEWRSB – Department of Workplace Relations and Small Business
DFAT – Department of Foreign Affairs and Trade
EFIC – Export Finance Insurance Corporation
EMDG – Export Market Development Grants Scheme
GDP – gross domestic product
IC – Industry Commission
ITES – International Trade Enhancement Scheme
PC – Productivity Commission
OECD – Organisation for Economic Cooperation and Development
R&D – research and development
SME – small to medium sized enterprise
TCF – textiles, clothing and footwear
US – United States

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ENDNOTES

[1] For a discussion of the economics of coordination failure and information problems as a rationale for government policy intervention, see Shaw and Hughes (2002).

[2] When the scheme was originally established in 1974 firms received rebates of up to 85 per cent of eligible expenditure. This was reduced to 70 per cent in 1978, then changed to 70 per cent of expenses in excess of the first $5,000 in 1985. In 1990, the rebate was further reduced to 50 per cent of expenses over $15,000.

[3] This first expense level meant that firms had to have spent at least $5,000 on export marketing to qualify for assistance under the EMDG. This minimum was increased to $10,000 three years later in 1988; then two years later in 1990 it was increased to $30,000 before then being reduced back down to $20,000 in 1997.

[4] Tourism services were originally ineligible for assistance under EMDG. From 1978 tourism was eligible for assistance until 1985 when it was excluded again. Five years later it was reinstated again in 1990, but only for large tourism operators. Single tourism providers were subsequently also made eligible again from 1995, but could only receive a 25 per cent rebate.

[5] A more detailed breakdown of government export programs by firm size was obtained with a view to examining the use of individual government programs by size to determine, for example, the proportion of micro businesses using the EMDG scheme. However, this data had a high number of standard errors. As a result, this data was grouped into those indicating they used 'none of the above' and this was used to calculate a broader measure showing those exporters using at least one government export program.

[6] Born globals are often considered important because it is these types of firms that can have a key role in driving export growth, being oriented towards exporting from their inception (McKinsey & Company/AMC 1993).

[7] Data on other industries were obtained, however due to the high sampling error these are not shown. Moreover, more detailed data on use of individual programs on an industry basis was also obtained, however this also had excessively high sampling errors.

[8] The decline in EMDG coverage in Table 4 between 1995-96 and 1996-97 may be due to a restriction of eligibility introduced in 1996.

[9] Control groups can suffer self-selection bias. Firms that are committed to long term exporting anyway will apply for EMDG assistance, whereas firms that are not committed to exporting will not bother to apply. Thus the control group may be dominated by firms not interested in exporting. In fact Austrade's 2000 evaluation of the EMDG scheme may have suffered from exactly this problem. The control group of non-EMDG recipients used by consultants, PriceWaterhouseCoopers (PWC), is not representative of EMDG recipients. Twenty-five percent of PWC's control group of non-EMDG exporters used in the EMDG evaluation are in primary products, compared to just between 2 and 5 per cent for EMDG recipients (Austrade 2000b, p. 180). A further 24 per cent of PWC's non-EMDG control group are firms classified in low-trade manufacturing industries – industries that do not traditionally have much international trade, compared to between 7 and 10 per cent of PWC's sample of EMDG firms (Austrade 2000b, p. 180). Moreover, only 2 per cent of the non-EMDG group are involved in tourism when in the sample of EMDG recipients between 15 and 20 per cent are in tourism, which is the biggest single industry receiving EMDG assistance (Austrade 2000b, pp. 29, 181). In short, the control group of non-EMDG firms used in the evaluation is not directly comparable with EMDG recipients. Despite these issues, the survey data from the PWC evaluation is still used in this study.