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Abstract
This paper builds a conceptual framework to explain the obstacles that prevent Argentine producers of differentiated products from establishing a consistent presence in the developed world. We build our framework based on four case studies of sectoral export emergence in Argentina. We find that exporting consistently to developed countries requires drastic changes in how business is conceived and conducted relative to the practices that prevail among domestically-oriented firms. An export pioneer is the first to implement the required changes based on a knowledge advantage acquired due to his embeddedness in the business community of his industry in a developed country.

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1. Introduction

A hallmark of developing countries that have industrialized in the last fifty years is the impressive growth of their exports. Fast rates of export growth have also been achieved, more recently, by several other developing countries throughout the world. One distinguishing feature of the rapid export growth experiences of these countries is the ability of their firms to become established as consistent suppliers of differentiated products to high income economies. The export success of these countries is often attributed to the drastic reductions in barriers to international trade associated with the globalization process. However, this success contrasts with the lukewarm performance of other developing countries as exporters of differentiated goods to high income economies despite their similar exposure to globalization. The contrast is more salient in the case of countries that have a much longer tradition in manufacturing and a more diversified industrial base, such as several countries in South America, but do not feature a substantial number of consistent exporters of differentiated products to high income economies. While those countries would be expected to take advantage of their accumulated industrial knowledge to succeed internationally, they seem apparently unable to exploit the opportunities of a more integrated world by leveraging on this prior knowledge. This study contributes to understanding the reasons behind this apparent failure.

Standard theories of international trade could potentially account for this puzzle. Developing countries with a longer tradition in manufacturing could have developed a domestic production of differentiated goods through protection despite not having a comparative advantage for producing them. Thus, they might not take advantage of a more integrated world because lack of a comparative advantage in those sectors hampers their international competitiveness. While plausible in principle, such an account is unconvincing. The set of differentiated goods includes a very diverse span of products ranging from frozen vegetables and footwear to precision instruments and specialized machinery. This span of products in turn maps into similarly diverse requirements of technological capabilities, natural conditions, factor proportions, and raw materials. Given this wide diversity, it is hard to accept the notion that a country lacks a comparative advantage in almost the entire set of differentiated goods. We postulate the alternative views that, even if comparative advantage in differentiated goods is present in latent form, it requires additional conditions to become effective as a determinant of exports to developed countries. In particular, in order to access those markets domestic producers are required to change their way of conceiving and conducting business.

We develop a conceptual framework to explain export emergence (or its lack of) in differentiated good sectors. We first characterize the challenges producers of differentiated products in developing countries face to enter markets in advanced industrialized countries and the hurdles that prevent them from achieving this goal. Then, we describe how those hurdles are eventually overcome in
specific sectors by export pioneers who possess a knowledge advantage about the main features and operation of foreign markets. Also, we identify common aspects in their past experience that explain their possession of this advantage. Finally, we analyze how the general nature of key components of their knowledge facilitates its diffusion to other firms in the sector spurring a process of export emergence. Our characterization of sectoral export emergence in differentiated products contributes to the literature on determinants of export performance both in the fields of international trade and international business studies.3

Our findings are based on four case studies of export emergence in differentiated good sectors in Argentina: Motorboats, Television Programs, Wines, and Wooden Furniture. These sectors are chosen among those that display emerging export activity substantially oriented towards developed countries. These industries vary in their stage of export emergence. In Television Programs and Wines, export development is already advanced and features numerous established exporters selling to a wide variety of countries. In Motorboats, export emergence is incipient and involves only a few exporters with an established presence in developed countries. In Wooden Furniture, export emergence is also incipient but consists primarily of sporadic exporters who have still been unable to find a stable way into foreign markets. In all four cases, the differentiated products these industries export have an important design component as a key feature.

We limit the scope of our study to differentiated products exported to developed countries for two reasons. In the first place, the breadth of the set of differentiated products and the combined market size of developed countries imply that countries that can successfully perform this type of exports might attain fast and sustained rates of export growth that can potentially become an engine for economic development. In the second place, despite the wide diversity of products and destination countries encompassed under this scope, performing this type of exports on a sustained basis imposes challenges that have a common nature and thus can be analyzed under a single conceptual framework. These challenges are much more difficult to overcome than those associated with exporting other goods, such as agricultural or industrial commodities4, or exporting to other developing countries, where consumption patterns are less sophisticated and business practices are not as stringent. Our study does not include high technology sectors. Since in these sectors exporting might depend more heavily on firms’ ability to master complex technologies, our findings might have limited applicability to explain their exports. Despite these limits on the scope of our study, the four industries we analyze span a broad diversity of economic activities, namely agriculture-based manufacturing (Wines), traditional manufacturing (Wooden Furniture), non-traditional manufacturing (Motorboats) and services

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2 Differentiated products present disparities in terms of design, components, functions, durability, or other features that make them imperfect substitutes to the eye of the buyer. This category of products is primarily – though not exclusively – composed of manufactured goods.

3 We relate our findings to those literatures in Section 2.

4 See Rauch (1999) for a characterization of the distinctive nature of international trade in differentiated goods and its quantitative implications for bilateral trade flows.
(Television Programs). Therefore, we hope our findings have broad applicability across a substantial number of economic sectors.

Our conceptual framework contains three building blocks. The first building block characterizes how firms that have been able to achieve consistent exports to developed countries understand and manage their business and the logic that drives their actions. In particular, we contrast their way of doing business with that of firms primarily oriented toward the domestic market. We find stark differences in how the two conduct business. Firms that export consistently to developed countries introduce drastic changes in the way they conceive, produce, and market products relative to the practices that prevail among domestically-oriented firms. Those changes are not implemented as isolated improvements in business operations but as coherent elements of a different approach to business. We call a stylized characterization of this approach the “export business model”.

The most salient common feature of firms that implement the export business model is their fundamental understanding that establishing a substantial and consistent presence in developed countries can hardly be attained by simply replicating the prevailing formulas for achieving domestic success. These firms know that the income gap and cultural distance between their domestic market and target markets in developed countries is accompanied by (sometimes drastically) different demand patterns and business practices. In particular, they know that despite success in the domestic market products still tend to require substantial adaptations to appeal foreign consumers in developed countries, who demand products of better quality and more sophisticated designs. As they are aware of the importance of addressing those different demand patterns, they hire local designers that are familiar with the tastes and needs of foreign markets and can “speak the same language” with international consultants and other sources of information about features of foreign demand. They also develop local suppliers and organize the production process to ensure that their products satisfy the more stringent quality requirements of consumers and distributors in high income countries. Further, they understand the value of working with distributors who can provide continuous and detailed updates about changing styles and demand trends in destination markets. Thus, they adapt their business practices to the requirements of those distributors to keep them as partners in long-term relationships.

Implementing this different approach to business is a hard task but not an insurmountable challenge once firms understand the importance of changing their business model. Even when they lack relevant knowledge about specific aspects of demand patterns and business practices in those markets – most of which is tacit – they make efforts to acquire this knowledge if they are convinced of its importance (for example some of this knowledge can be acquired by hiring international consulting services). However, it is often the case that domestic firms are not even aware of the need to implement this type of changes. This situation is particularly frequent when the industry has no well-established exporters. In those circumstances, domestic producers lack a benchmark about how things should be done to achieve consistent exports to developed countries. Thus, they attempt to export following the
business approach they use to compete in the domestic market. These attempts achieve at most limited or sporadic sales abroad and are often condemned to failure.

The second block of our conceptual framework characterizes the initial stages of export emergence in a sector. In three of the four industries we study – including the two industries at a more advanced stage of export development – we encounter one entrepreneur, an export pioneer, who develops a new way of conducting business that is conducive to establishing a sustained presence in high-income countries. The export pioneer is the first to fully implement the export business model. The export success of the pioneer is based on the possession of a knowledge advantage over his peers in the industry. This knowledge advantage stems from the fact that he is *embedded* (Granovetter, 1985) in his industry’s business community not only at home, as other domestic producers, but also abroad. In particular, he is embedded in his industry’s business community in a foreign country that plays a central role in world trade of that industry. His foreign embeddedness allows the pioneer to access fine-grained information (Uzzi, 1997) about foreign markets such as the latest consumption trends, which distributors would be a good match as partners, and how to gain their trust. While a long tradition of research emphasizes the acquisition of technological capabilities as the main determinant of export performance in industrial sectors (Katz, 1984; Amsden, 1989) in the sectors we study we find that the knowledge advantage of export pioneers consists primarily of a thorough understanding of how foreign markets operate. This knowledge allows them to conceive and implement the export business model. The fact that all export pioneers we encounter share this common background is our key to infer that the main constraints that prevent other producers from exporting consistently are precisely those that the export pioneers can overcome due to that background.

The foreign embeddedness of export pioneers is not the outcome of purposeful actions they undertook to enhance their chances of establishing a future export business. On the contrary, it is the result of previous life experiences they acquired *independently* from their subsequent decision to become exporters (two of the pioneers were previously importers). Since acquiring this background was in all cases the natural consequence of choices they made to satisfy other goals at a time when they did not think of exporting, the route they took might not be replicable by other domestic producers.

The final block of our conceptual framework characterizes the process of diffusion of the export business model. This process is generated by the pioneer’s export success. The contribution of the export pioneer is twofold. On the one hand, he demonstrates that exporting consistently to developed countries is possible and profitable. On the other hand, his exporting efforts make clear to others that achieving an established presence in those countries requires substantial changes in the way business is done. Sometimes his actions also provide valuable clues about which markets to target or which kind of products to design. The export pioneer sets an observable benchmark. The demonstration effect he produces first convinces a few early followers to embark on a consistent exporting effort as

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In Wooden Furniture we do not find an export pioneer, i.e. we do not find an individual who has implemented the export business model.
well. Then, the generation of a critical mass of exporters provides visibility to a new way of conducting business that spurs export growth in the sector. The impact of the export pioneer relies on the fact that the knowledge diffused by his actions (and sometimes also by his own predicament), such as the importance of addressing specific tastes of target markets or the need to ensure high and consistent quality standards, is of a very general nature. While more specific components of the pioneer’s knowledge, e.g., commercial secrets, might remain unknown to other firms, the diffusion of the general component of his knowledge is sufficient to loosen the most important constraints that hamper the export potential of other firms.

In the television and wine sectors, multinational firms are among those firms that create the initial critical mass of exporters. However, we do not encounter this type of firms among the export pioneers nor among the very early followers. In the case of public agencies and private associations, while some studies underscore their role in export development (e.g., McDermott, 2007) we find that while they play an important role as agents of diffusion once export emergence has been initiated they do not explain the initial stages of this process.

Although we cannot determine the counterfactual export performance of the industries we study in the absence of the export pioneer, our findings suggest that sustained export growth in those sectors could have not occurred or otherwise could have been substantially delayed. Further, they suggest that a potential explanation for why a priori similarly promising sectors do not display sustained export activity is that an export pioneer has not emerged in those sectors. Therefore, identifying the constraints that prevent most firms from exporting and understanding why the background of export pioneers allows them to overcome those constraints may contribute to the design of public policies to promote cross-sectoral diffusion and thus help firms deal with similar difficulties in sectors in which an export pioneer does not appear spontaneously.

The success of many developing countries whose exports of differentiated products grew rapidly in recent decades is largely due to the integration of their firms into global supply chains. A large fraction of those firms perform assembly work following designs created in developed economies. They take advantage of prevailing low wages for producing unskilled-labor intensive stages of production in mass-produced items (Abernathy et al., 1999; Gereffi, 1999). Argentina, in contrast, does not display new exporting sectors that support their export growth on low wages. In fact, in the four sectors we study the foreign attractiveness of exported products is heavily dependent on the appeal of their designs. This is not surprising. Argentina’s relatively high wages (partly determined by its natural-resource abundance) prevent its firms from competitively performing those unskilled-labor intensive tasks. As a result, they are obliged to find a different route into world markets. In particular, we find that the route successful exporters take entails the ability to design products that appeal foreign

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6 Although multinationals are now important players in two of the industries we study, Wines and TV Programs, they did not play an important role in the early emergence of export activity in their sectors. Smaller firms in both industries still capture a large fraction of production and exports.

7 We conduct a statistical analysis to identify new exporting sectors in Appendix 1.
consumers. This ability is not confined to general design skills. It is fundamentally the ability to understand the idiosyncrasies of foreign demand and to establish channels for keeping updated about their evolving patterns. Those requirements constitute the ultimate source of most of the obstacles and challenges that we identify in this study. Following the export path of many apparel firms in East Asia, which acquired marketing and design capabilities as the culmination of a process that started by just performing assembly work (Gereffi, 1999) seems not to be an available option for firms located in developing countries that have relatively higher wages.

Although we do not develop a mathematical model or test hypotheses using econometric tools, we think the qualitative approach that we take here and our efforts at conceptualizing our findings make a contribution to the literature studying determinants of export performance, export dynamics, and firm internationalization. In particular, we provide a thorough characterization of the constraints that prevent firms from exporting differentiated goods from developing to developed countries and the circumstances under which those constraints are overcome. In addition to this contribution, we hope this approach will serve as a motivation for further research in this area.

The rest of the paper is structured as follows. Section 2 relates our findings to those of the international trade and international business literatures. Section 3 describes the recent evolution of Argentina’s exports and compares it with the export performance of other regions in the world. Section 4 justifies the scope of the study and describes the methodology used in our investigation. Section 5 characterizes the export business model and contrasts it with the domestic business model. Section 6 describes the knowledge advantage of export pioneers and how this advantage helped them establish a consistent presence in developed countries. Section 7 characterizes the process of diffusion and section 8 provides some concluding remarks. While this paper describes and conceptualizes the main findings of our study, a detailed description of the four case studies we conducted is available in a companion paper.8

2. Related Literature

Our study is related to two strands of literature concerned with the determinants of firm export behavior and its dynamics. The first lies in the field of international trade. In this literature, mathematical models of industry or general equilibrium are developed and their predictions tested using large firm-level surveys or censuses conducted by official statistical agencies. The second belongs to the field of international business studies. Here, exporting tends to be viewed as part of a process of firm internationalization that can evolve into setting up a foreign affiliate. Compared to the previous strand of literature, this latter one uses theoretical frameworks that provide a more nuanced characterization of firm export behavior but yield predictions that are not as sharp. The empirical evidence is in general based on relatively smaller surveys of firms or on case studies.

A bourgeoning theoretical and empirical literature in international trade analyzes determinants of export behavior at the firm level. This literature points to firms’ productivity as the key determinant of whether firms export. Melitz (2003) lays out the basic mechanism in a formal model. Since more productive firms can charge lower prices abroad, their products attract more demand and generate higher profits. Thus, only more productive firms export because they can make profits abroad sufficiently large to cover the fixed or sunk costs of entering a foreign market. Other models introduce additional elements to this framework such as endogenous quality choice (Verhoogen, 2008) and marketing costs (Arkolakis, 2008) but still point to productivity as the only source of firm heterogeneity and hence the sole determinant of export behavior. Our findings suggest instead that export performance might be more dependent on how thoroughly foreign markets are understood than on how efficiently production is organized.

A related set of models postulates that, in addition to productivity, firms are also heterogeneous in the amount of fixed or sunk costs that they need to pay to enter foreign markets (Das et al., 2007; Ruhl, 2008; Armenter and Koren, 2009). For example, firms might differ in how much they need to invest to set up a distribution network, learn about export procedures, or understand foreign regulations. Here, exporting not only depends on firms’ productivity but also on export-specific attributes. A relatively unproductive firm, for instance, might still export because it has family ties abroad. While export performance in these models is partly determined by firm attributes that are specifically related to the export activity, the models assume that firms sell abroad the same products that they sell in the domestic market. In contrast, our conceptual framework – focused on exports from developing to developed countries – emphasizes the importance of product adaptation, both to address systematic differences in demand patterns related to the income gap between the domestic and the export markets and demand idiosyncrasies that exist even among markets with similar per-capita income.

A more recent set of models takes into account the existence of cross-country variation in the appeal of products (e.g. Albornoz et al., 2010; Bernard et al., 2009; Eaton et al., 2008; Nguyen, 2008). This variation, which is a key element of our framework, is modeled as a country-specific random component of demand that affects how much of an existing product is consumed in each country. However, firms possess no knowledge that might help them adapt their products to match countries’ specific demands patterns. In our framework, possessing this knowledge is a critical determinant of export performance.9 This ability is not confined to awareness about demand idiosyncrasies of targeted markets. It is the capacity to implement the export business model, which encompasses the need to know how to design and produce goods that meet those demand idiosyncrasies and how to relate to distributors to continuously keep this knowledge up to date. Moreover, making a product “appealing” to

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9 In Mayer et al. (2009), firms pay customization costs to sell their products abroad. However, all firms know how to customize and are uniformly able to perform this customization.
foreign consumers also involves conforming to the business practices of foreign distributors who are the means to reach those consumers.\(^{10}\)

In addition to the above literature, this study is also related to a long tradition in the field of international business studies that analyzes the dynamics of firm internationalization. This literature widely recognizes the Uppsala model as its seminal stone (Johanson and Vahlne, 1977; Johanson and Vahlne, 1990). The Uppsala model emphasizes the uncertainty surrounding a firm’s initial involvement in a foreign market and the gradual process of learning that results from its foreign exposure. Due to the initial uncertainty, the amount of resources the firm first commits to a foreign venture is limited. The foreign exposure, although limited, allows the firm to learn about intricacies of the foreign market, reducing its uncertainty and inducing more investment. More export-related investment then leads to higher foreign exposure and further learning, initiating a “virtuous circle” of firm internationalization.

Our framework distinguishes between the process of internationalization of export pioneers, who implement the export business model, and firms that attempt to export without changing their business model. In the case of export pioneers, the process of entering a foreign market is substantially less tentative and uncertain than the one described by the Uppsala model. In the case of firms that attempt to export without changing their business model, the process of firm internationalization diverges from the Uppsala model not only in its sequence but also in its final outcome. Due to the drastic differences in demand patterns and business practices between developing and developed countries, the gap between what these firms know and what they need to know is so wide that they are unable to correctly process the signals and feedback they obtain from their incipient activity and deals in those markets. As a result, their export experience does not generate sufficient learning to make the expected returns of further investments profitable. Therefore, their incipient efforts at internationalization do not follow a learning-investment process that spirals up, as described by Uppsala. Rather, they follow a process that is soon truncated.

More recently, the literature has pointed to the existence of firms that do not follow a gradual process but are global from inception. These “born global” firms are “small, (usually) technology-oriented companies that operate in international markets from the earlier days of their establishment” (Knight and Cavusgil, 1996).\(^{11}\) Studies of born globals find that a key determinant of firms’ early internationalization is the strong international experience of the entrepreneur, which provides him/her with the market knowledge necessary to become a successful exporter (Madsen and Servais, 1997; Sharma and Bomstermo, 2003). The “born-global” entrepreneur is very similar to the export pioneer at the heart of our analysis. However, since the nature of his/her knowledge advantage is different, the implications for other firms not possessing this knowledge also differ. The born-global entrepreneur typically possesses a new product that resolves a technological challenge better than any other available

\(^{10}\) In this last regard, our study also relates to models of search and matching in international trade by Rauch and Watson (2003) and Eaton et al. (2009). Compared to those models, our account emphasizes the importance of firms’ knowledge about how to establish a relationship with a foreign distributor and the role this relationship plays as a source of information about foreign demand.
product. Also, he/she has a superior knowledge about a foreign market such as intricacies of its competition environment, awareness about specific business opportunities, and ties with other market players. This entrepreneur is located in a developed country, where demand needs, quality standards, and business practices are similar to those of the destination market. Therefore, other local entrepreneurs who do not possess his/her knowledge still understand the basic features of demand and are used to similar quality standards and business practices. As a result, even if they lack the foreign market knowledge of the born-global entrepreneur, they might still be able to enter export markets consistently though at a slower, more gradual, pace – as postulated by the Uppsala model.

The export pioneers we focus on, in contrast, do not possess an innovative product to sell, and originate in a developing economy, where demand needs, quality standards, and business practices are drastically different from those that prevail in developed countries. While export pioneers have more specific knowledge about foreign market idiosyncrasies than other local producers, their critical knowledge advantage is their acknowledgement and understanding of those drastic differences and of the importance of changing the way of doing business to address them. Local producers lack this more general and fundamental knowledge. Hence, they fail to establish a consistent presence in developed economies even if they attempt to do it following a gradual approach.

The fact that a key component of the knowledge advantage of export pioneers is of a general nature explains why we analyze the dynamics of firm internationalization in the context of the broader process of export emergence, which occurs at the level of a sector. The general nature of the pioneer’s knowledge greatly facilitates its diffusion. Hence, his actions, and later those of his followers, convey information to other producers in the sector that help them understand and implement the export business model as well. In contrast, the international trade and international business studies literatures reviewed above abstract from this type of knowledge transmission. Hence, they view export behavior as primarily determined by the firm’s own attributes and actions. This last approach is relatively more appealing when the knowledge advantage of exporters is of a more specific nature, e.g. knowing intricacies of foreign markets, possessing commercial secrets, or mastering frontier technologies, as is the case of the born-global entrepreneur typically located in a developed country.

By adopting a sectoral approach and a pioneer-diffusion framework to explain export dynamics we follow the work of Hausmann and Rodrik (2003) – henceforth HR. However, although we also emphasize the existence of a learning externality generated by the actions of an export pioneer, our findings depart from key components of their model. First, production costs are the only source of uncertainty and the object of diffusion in HR. Instead, we find that the main source of uncertainty and object of diffusion is the viability and characteristics of the export business model. Second, the export pioneer in HR is ex-ante identical to other explorers of potential export opportunities but ex-post the fortunate one to discover a profitable export activity. Rather, we find that the export pioneer is distinguished by the possession of a substantial knowledge advantage over others in his industry about

11 See Rialp et al. (2005) for a survey of this literature.
how foreign markets operate. Third, while HR emphasizes the existence of an appropriability problem depleting incentives to explore new export opportunities, we find that diffusion often benefits more than harms export pioneers. The policy conclusions that could be derived in each case are also different. While HR suggests the potential benefits of policies that spur discovery activity, our findings suggest that those policies may not be effective unless firms gain substantial understanding of foreign markets and change their approach to business to serve them.

A large study conducted by the Inter-American Development Bank (IADB) emphasizes the resolution of a coordination problem as the key to spur export growth. While in our case studies we find that coordination problems are often important obstacles for export growth in the sector, we do not find that the resolution of this type of problem explains the initial stages of export emergence. Our discrepancy with the IADB findings may stem from the strong predominance in that study of agriculture-based products such as flower cuts in Colombia or artichokes in Peru, where coordination among producers or between producers and public agencies is often critical to sustain activities that generate large externalities, e.g. experiments with new seeds, or that demand the provision of public goods, e.g. roads or air transport. As those goods are not differentiated, exporting them implies surmounting other than those underlined here.

Finally, Keesing and Lall (1990) characterize the challenges of exporting consumer goods from developing to developed countries. In their account, the obstacles to export are overcome when buyers from developed countries spontaneously approach potential sellers in developing countries. They provide them with designs and gradually teach them how to change their products and business practices to conform to their demands. As argued above, this gateway to world markets is apparently closed for firms located in countries whose wages are not sufficiently low to attract unskilled intensive stages of the production process. In fact, in none of the sectors we study we find that export emergence originated from the spontaneous actions of foreign buyers.

3. Argentina’s recent export performance compared to other regions in the world

In this section we provide a brief background of the Argentine economy in the last decades and describe the structure and recent evolution of its exports. Also, we compare Argentina’s exports of differentiated products to OECD countries with those of other regions in the world.

3.1. Recent trends in Argentina’s exports (1980-2008)

External conditions and government policies faced by Argentine exporters varied widely over the period 1980-2008. Reversing a long history of protectionism, in the late 1980s Argentina initiated a
unilateral trade liberalization process that was mostly completed by the early 1990s.\textsuperscript{14} The nominal average tariff decreased from 37\% in 1985 to 12\% in 1991 while most non-tariff barriers were removed. Argentina was also a founding a member of Mercosur, which was launched in 1991 and included a transition period that finished in 1995 with the creation of a customs union. In addition to substantial unilateral and regional trade liberalization, other structural transformations took place simultaneously. These reforms included the removal of restrictions to FDI, the liberalization of the capital account, and a drastic privatization and de-regulation program. After a decade of stagnation, the Argentine economy started a period of considerable growth which lasted until the third quarter of 1998. That moment was the beginning of a severe recession that culminated in a financial, currency and debt crisis in 2001. Since reaching the trough of the crisis in 2002, GDP growth has been consistently strong until 2008. Figure 3.1 shows the evolution of Argentina’s GDP at constant prices since 1980.

![Figure 3.1: Gross Domestic Product](image)

Large real exchange rate fluctuations have also been a chief characteristic of the conditions facing Argentine exporters since 1980. As displayed in Figure 3.2, the real exchange rate drastically decreased following the launch of the convertibility regime in 1991, as inflation persisted for several months following the peso’s peg to the US dollar. After remaining relatively stable for more than half a decade, it considerably appreciated in 1999 due to Brazil’s devaluation of the real, and continued at this level until the 2001-2002 crisis. This episode led to a sudden and large devaluation of the real exchange rate, which reached its highest level in 2002. It has since been decreasing gradually and now is roughly at about twice its value during the previous decade.

\textsuperscript{14} A drastic program of trade liberalization was implemented in the late 70s but lasted only a few years.
The combined effect of reforms in the trade and investment regimes and a relatively more stable macroeconomic environment had a significant impact on the evolution of Argentina’s exports. While export growth averaged 5.9% annually in the period 1980-1990, it averaged 10.6% in the period 1991-2008 (see figure 3.3). Export growth picked up in the early 1990s, stalled during the end of that decade, and resumed vigorously after the devaluation of the peso in January 2002.

Even though all major export categories have grown substantially in the past 30 years, different rates of growth have led to a significant change in Argentina’s export composition (see figure 3.4). Primary products and agriculture-based manufactures, which jointly dominated exports in the period 1980-1990 with 73% of the total exported, declined to 54% in the period 2002-2008. Most of this fall can be attributed to primary products, whose share went from 35% to 21%. Exports of fuel and energy, on the contrary, increased from 4.8% to 15.2%. The same occurred with the share of industrial manufactures, which went from 22.1% in 1980-1990 to 30.1% in 2002-2008.
In line with the rise in manufacturing exports, sales of differentiated products also exhibited a substantial increase, going from 18% of total exports in 1980 to 32.7% in 2008 (see figure 3.5). Yet, this rise has been primarily driven by exports to the developing world in particular to neighboring countries members of MERCOSUR. While exports of differentiated products to non-OECD countries grew by a factor of 11.7 between 1991 and 2008, exports of differentiated products to OECD countries only did it by a factor of 4.5 during the same time period. As a result, Argentina’s exports of differentiated products to developed nations have been consistently below ten percent of its total exports over the last three decades.

3.2. Exporting differentiated products to developed countries: Argentina in the World

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15 We use Rauch’s (1999) classification to classify goods into differentiated and non-differentiated. Rauch (1999) classifies SITC 4-digit categories into three categories: homogenous goods are those that are traded in organized exchanges (e.g. wheat). Reference-priced goods are those that are not traded in organized exchanges but have reference prices in specialized publications (e.g. polyethylene). Differentiated goods are all remaining ones. We follow the “liberal” version of his classification and group the first two categories as “non-differentiated”. Some SITC 4-digit-categories are not included in his classification. We assign them to “differentiated” and “non-differentiated” following this criterion: First, we count for each 3-digit category the number of products classified by Rauch as “differentiated” and “non-differentiated” following this criterion: First, we count for each 3-digit category the number of products classified by Rauch as “differentiated” and “non-differentiated” and we assign the unclassified products to the group with the highest number of products within that 3-digit category. Then, we repeat the procedure at the 2-digit and at the 1-digit level as certain products remain unclassified after the first two rounds.
Argentina’s lukewarm performance as an exporter of differentiated products to developed countries can be compared with the export performance of other groups of countries. Figure 3.6 displays the evolution by region of the share of differentiated products exported to the OECD in total exports from 1980 to 2006.16 There is considerable heterogeneity between regions. In most regions, this share has increased more than five percentage points and currently accounts for at least 20% of total exports. This is particularly the case of South Asia, where exports of differentiated products to the OECD account for almost a half of total exports in 2006. Other regions such as Central America, North Africa, Eastern Europe and the Middle East also display substantial rises, while East Asia and High-Income OECD countries exhibit modest increases although starting from relatively high levels.

In contrast, in other regions these exports remained stagnant and still account for less than 10% of total foreign sales. This is the case of Sub-Saharan Africa, Oil Abundant countries, and South America (except Brazil). The weak performance of South America is particularly interesting in the context of our study as it shows that the performance of Argentina as an exporter of differentiated goods to the OECD is not exceptional within the region. Also, it raises the question of why many countries in this region have been apparently unable to consistently sell their differentiated products to developed economies despite having a longer tradition in manufacturing and a more diversified industrial base than most other developing economies in the world.

One potential explanation could be related to the fact that export growth of differentiated products in most developing countries has been largely driven by the integration of their firms into global supply chains. At the initial stages of their countries’ export growth processes, these firms attract

16 The figure displays average shares by region. Oil abundant economies are included in a single group and excluded from their geographic region in order to analyze their performance separately.
unskilled-labor intensive stages in the production of mass-produced items to take advantage of prevailing low wages. In most cases, they primarily perform assembly work following designs created by their buyers in developed countries. The products they sell are typically unbranded since branding and marketing is conducted by retailers or other intermediaries (Abernathy et al., 1999; Gereffi, 1999). The Apparel industry is prominent among the economic activities undertaken by those firms. Figure 3.6 above singles out one product category, “Articles of apparel and clothing accessories” (SITC 84), which is among the most unskilled labor intensive product category within manufacturing. The figure demonstrates the prominent role that this single product category has played in the integration to world trade of most regions in the developing world displaying substantial export growth of differentiated products to the OECD. While low wage countries have been able to integrate (part of) their economies to global supply chains that primarily satisfy the demands of high income countries, other developing countries with higher wages (such as many countries in South America) might not have been suitable to perform that role in the globalization process. Some evidence supporting this explanation is provided by Figure 3.7. This figure shows that countries with higher GDP per capita in 1980 have tended to be those with the smallest increase in the share of exports of differentiated products to the OECD between 1980 and 2006.¹⁷

The relatively high wages of the latter countries may have prevented them from entering global value chains producing mass-produced items, forcing them to find a different route into the international market. This alternative route involves severe challenges that, although not impossible to overcome, are often insurmountable for most domestic firms and frequently result in unsuccessful attempts to export consistently to the developed world. In the remaining sections, we describe those challenges and the circumstances under which they can be overcome.

**4. Scope of the study and methodology**

¹⁷ A test that the negative slope is significantly different from zero delivers a p-value of 0.12.
This section delimits and justifies the scope of this study and describes the methodology used in our investigation. The first section explains why we focus on export of differentiated products from developing to developed countries. Then, it lays out the criteria we use to select our four case-study sectors. Finally, it describes the methodology for conducting the case studies.

4.1. Exporting differentiated products from developing to developed countries as a distinct challenge

This study characterizes the challenges and constraints that firms in developing countries face when they attempt to export differentiated products to developed countries on a consistent basis. Since developed countries’ imports of differentiated products constitute a substantial fraction of world trade and largely exceed the production capacity of most developing countries, this type of exports offer ample room for expansion, and thus constitute a potential opportunity for economic development. In addition, the common nature of the challenges and constraints associated to accomplishing these exports enable their analysis under a unified framework. On the one hand, exporting differentiated products requires from firms the ability to make product adaptations that appeal to specific needs or tastes of foreign consumers. This ability is not required in the case of agricultural and industrial commodities, or other homogenous products, due to their intrinsic absence of differentiating features. Marketing the latter products also involves lower information requirements both for the buyer and for the seller – in many cases transactions are even performed anonymously through organized exchanges. Exporting differentiated products to developed countries, on the other hand, imposes stronger challenges related to systematic differences in consumption patterns and business practices between developed and developing countries. Consumers in developed countries demand products of higher quality and more sophisticated designs while distributors are accustomed to more stringent business practices such as those associated with quality consistency and timely delivery.

The challenges for exporting differentiated products that we identify here apply to developing countries broadly. However, following our discussion in the previous section our characterization of how these challenges are overcome fits better the case of countries that cannot base their attempts to compete internationally on low wages. Finally, our case studies do not include high technology sectors. Since export success in those sectors might closely depend on the ability of firms to master complex technologies, our findings might have limited applicability to explain export performance in those sectors.

4.2. Choice of case-study sectors

We conducted case studies of export emergence in four industries: Motorboats, Television Programs, Wine, and Wooden Furniture. These industries were chosen among sectors producing differentiated goods that satisfy the following criteria: (a) strong recent export growth; (b) substantial fraction of exports shipped to developed economies; and (c) non-trivial amount of exports. The wine and wooden furniture industries were identified and selected after conducting a statistical analysis of
exports at the 4-digit product-category level of the Harmonized System during the period 1991-2005. The analysis filtered 4-digit HS product categories that passed quantitative thresholds for the above criteria – 40% top percentile in terms of export growth, at least 1/3 of exports to OECD countries, and more than 10 million US dollar exports in 2005, respectively.\footnote{This analysis and the results are described in detail in Appendix 1.} The motorboat and television program industries were identified based on our previous knowledge of their recent emergence as new exporting sectors and selected after confirming that they also satisfied the above criteria.\footnote{An exception was made in the case of Motorboats, which displayed exports in 2005 slightly below the threshold.} The four selected sectors span a diverse set of broadly-defined economic categories: Agriculture-based Manufacturing (Wine), Traditional Industrial Manufacturing (Wooden Furniture), Non-Traditional Industrial Manufacturing (Motorboats), and Services (Television Programs). Among sectors that satisfy the above criteria, these industries were selected to maximize the diversity of economic activities and thus the potential for generalizing the findings.

4.3. Methodology for case studies

After selecting the industries to be studied, our first objective was to gain a general understanding of these industries and, in particular, of their history of export emergence. We contacted local trade associations, conducted interviews, and consulted academic studies and industry reports. We also analyzed customs data to identify the top exporters in each sector and their export performance over the last fifteen years. In all four of the sectors we soon found ample consensus among industry participants about the person that could be singled out as the one who first made decisive and successful efforts at exporting consistently. One of the authors of this study had some previous knowledge about the television and motorboat industries and therefore had a general idea about potential pioneers in each of these sectors. Nevertheless, even in these sectors the existence of an export pioneer was established after consulting the different industry sources and analyzing the customs data.

In the wine industry we conducted interviews with nine of the leading exporters and representatives from four organizations linked to this sector. One of these interviews was conducted with the general manager of Wines of Argentina, the organization charged with promoting Argentine exports in this sector. In the wooden furniture sector, we carried out interviews with four of the leading exporters, the leading designer for exporters, and representatives of two trade associations. In the motorboat industry, we interviewed four of the top exporters, the leading designer for exporters, and representatives of the main trade association. In the television industry, we conducted interviews with seven firms and with support organizations including an educational institution and a scriptwriters association. Interviews were generally conducted with the owner or general manager of each firm. In all of the sectors except the wine industry, all of the owners or general managers had been directly involved in developing the export business of their companies. In the few cases we could not talk to the owner or to the general manager of the company, we arranged meetings with the export manager.
All interviews were conducted over an eight-month period between May and December of 2006. A few follow-up interviews and phone calls were made afterwards. The interviews were conducted in Spanish using open-ended questions and generally lasted approximately one hour and a half. In most cases, they were conducted at the production facility of the firm and were accompanied by tours of these facilities. All interviews were digitally recorded. We used an inductive method to identify the elements that established exporters had in common in their way of carrying out and thinking of their export business. Based on those common elements we built our characterization of the two ideal-type (export and domestic) business models. Similarly, we used an inductive method to identify the common elements that were present in the background and vision of export pioneers.

5. What do exporters do differently? Export versus Domestic Business Models

Firms in a developing country that attempt to sell differentiated products to high-income foreign countries on a sustainable basis are severely hampered in their efforts to achieve this goal if they do not accompany their attempts with a drastic change in the way they do business. The knowledge they possess and the business practices they are familiar with are in general not conducive to a long-run presence in foreign markets. In order to export consistently and on a sustainable basis, firms have to do things differently. Based on the findings of our fieldwork, in this section we characterize the different requirements foreign and domestic markets respectively impose on the way firms operate by contrasting two business models: the “export business model” and the “domestic business model”.

We define a business model to be a simplified representation of the elements that characterize a way of conducting business which, as a coherent system, provides viability to a firm’s long-term presence in a market. While actual business models that firms implement contain specific elements that differentiate them from one another, we construct and focus on two ideal types. The first ideal type is the export business model, which characterizes the way of doing business of consistent exporters. The second is the domestic business model, which characterizes the way of doing business of firms primarily focused on the domestic market.20 We propose a characterization of business models built upon three main components. The “product” component relates to the identification of products to sell and the market segments to target. The “production” component relates to how products are marketed and sold.21

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20 Despite its wide use, there is no agreed upon definition of the term “business model” in the management literature. Shafer (2005) reviews the different definitions. Since we focus on ideal types rather than on specific business models, our characterization of the business models highlights more general issues than those emphasized in the literature. Also, abusing terminology we refer to “the” export (domestic) business model as the ideal type and to “an” export (domestic) business model as an actual form of the ideal type model as is implemented by a particular firm.

21 Although the term marketing is customarily used to refer to those activities associated with defining the product to be produced as well as those associated with selling it on the market, we use this term only to refer to the latter so that we can distinguish between two distinct activities that are located at each end of the process of developing, producing and selling a product. In doing so, we build on a process approach to the study of business activities which seeks to understand the connections between activities across divisions rather than concentrating on them within a particular area such as a marketing department.
The export business model characterizes what firms need to know and do in order to export differentiated products consistently to developed countries. The domestic business model characterizes what is needed to achieve sustained domestic sales. While the latter is adequate for domestic market success, it is not conducive to achieving long-term profitability in export markets. Firms primarily focused on the domestic market that wish to export need to change their business model. Transitioning between models involves changes in business practices in all three model components (product, production, and marketing). Prominent among these changes are the need to adjust product characteristics to foreign tastes (product), production processes for quality upgrading (production), and marketing practices to conform to those of foreign distributors (marketing). These changes are fundamentally intertwined and need to be implemented as a coherent system.

Domestic firms often embark on an export venture while still conducting business according to the domestic business model or after applying some but not all of the elements of the export business model. However, as long as they fail to implement the elements of the export business model concurrently as a coherent system, the success of their export venture will be limited. Although these firms might achieve sporadic exports to developed countries, regular but not substantial exports to those markets, or regular and substantial exports to developing countries – in particular geographically close ones – they will face great difficulties in achieving substantial and sustained exports to developed countries. The latter type of exports requires a number of changes in the way firms conduct business that need to be made at the same time.

Unfortunately, it is often the case that domestic firms do not even recognize the need to make the required changes. An important obstacle they face is that the mechanisms and channels they use to acquire relevant information and knowledge about characteristics and operation of the domestic market are not suitable for understanding foreign markets. A substantial amount of information and knowledge firms possess about the domestic market stems from their geographical and/or cultural proximity with consumers, distributors, and other participants in this market. In contrast, geographic and cultural distance implies that analogous information and knowledge about foreign markets is considerably more difficult to access and interpret. As we describe later in detail, this difficulty is one of the main hurdles for adopting the export business model, in particular at early stages of export emergence in a sector.

Next, we describe in more detail the export and the domestic business models, emphasizing the contrast between their main components. We also illustrate our characterization of ideal-type business models using examples from actual business models that firms in our case studies have implemented.

The product component

Characteristics of consumer demand usually vary, often markedly, between countries. Part of this variation is systematically related to countries’ income per capita. Consumers in high income
countries tend to demand products of higher quality (Hallak 2006, Choi et al. 2009), which have more sophisticated designs, are made of better materials, or are less likely to malfunction. Variation in consumer demand across countries also stems from market-specific factors such as idiosyncratic tastes or needs. For example, U.S. consumers prefer fruiter wines with less alcoholic content while Europeans tend to like less fruity wines with a higher content of alcohol. Idiosyncratic tastes are also manifest in style differences. While leather covering on tables is increasingly appealing to U.S. consumers, this design feature is not considered stylish in Argentina.

Since demand characteristics vary across countries, firms must know the idiosyncrasies of the markets they target. Although this requirement is valid for firms focused on the domestic market as well as for those that attempt to export, acquiring knowledge about foreign demand is substantially more challenging than acquiring knowledge about demand characteristics in the domestic market. Moreover, as demand characteristics evolve over time, firms need to secure channels not only for accessing this knowledge but also for continually updating it. For example, in our fieldwork we have encountered that successful exporters use foreign distributors as a key source of information about the evolution of foreign consumption trends.

Understanding the characteristics of consumer demand in a specific country allows firms to identify the market segments they wish to target, understand the nature of competition in those segments, and define the specific products they want to sell. For example, motorboat exporters have decided to focus their exporting efforts on the segment of relatively small units (less than fifty feet) to avoid competition with the largest European producers. The existence of differences in consumer demand also implies that market segmentation in a foreign country might be considerably different from the way the domestic market is segmented. For instance, Argentine exports of wooden furniture to the U.S. are mainly concentrated in the “contemporary furniture” market segment, which consists of consumers who place a distinctive emphasis on design originality and replace their furniture with a higher frequency (about once every five years). In the domestic market, there is no distinguishable market segment with the same features. Examples of more specific differences in the relative appeal of product characteristics can also be found in the furniture industry. Consumers in the U.S. tend to demand longer tables than those customarily purchased in Argentina since apartments and houses in that country are on average larger. Due to the differences in market segmentation and in the relative appeal of specific product features, most firms that attempt to export find the task of identifying the right market segment and the particular products to sell in a foreign country extremely challenging.

Opportunities for entering foreign markets are often associated with changes in consumption trends. One salient change in consumption trends currently taking place most notably among high-income countries is associated with the increasing importance of “new luxury” goods, a “new category of products and services that possess higher level of quality, taste and aspiration than other goods in the category but are not so expensive as to be out of reach” (Silverstein and Fiske, 2003).

23 Specific examples of this type of goods are Sam Adams beer and BMW cars.
four case studies (Wooden Furniture, Motorboats, and Wines), export emergence has involved satisfying foreign demand for goods that can be classified as “new luxury”. Although some of these goods still satisfy basic necessities, their appeal resides in the fact that they “…evoke and engage consumers’ emotions while feeding their aspirations for a better life” (Silverstein and Fiske, 2003).

The increasing importance of this type of goods raises the knowledge requirements imposed on domestic producers who attempt to export. While, as argued earlier, understanding the idiosyncrasies of foreign demand is in general challenging, this challenge can become insurmountable when the potential appeal of products hinges on the extent to which their particular features engage consumers’ emotions and aspirations, which are shaped by specific traits of culture and collective values in foreign countries. Furthermore, it is often the case that changes in consumption trends are associated with the emergence of a new product, or a substantial variation of an existing product, that reshapes consumer demand in the industry. Since a considerable time lag might elapse before these new products gain significative acceptance in lower-income countries, domestic producers might find it hard to understand the particular ways in which foreign demand has changed as there are no analogous products in the domestic market that can act as a reference benchmark. In that case, they will also face substantive difficulties in identifying the right segment to target or products to sell abroad, thereby risking the opportunity to establish themselves as regular foreign providers.

The transformation of consumption patterns in the Wine industry is a notable example. Traditionally this market was divided into two primary segments, one dominated by consumers of table wines who based their purchases largely on price and another dominated by consumers of high quality wines who customarily possessed extensive knowledge about the French vineyards from which most high quality wine originated. The emergence of new high quality wineries in Napa Valley in the early 1970s lead to a revolution in this industry that changed the nature of market segmentation as it enabled wineries throughout the world to compete with the French and drive down prices. As the price of high quality wines declined, higher end consumers of beer and other alcoholic beverages shifted toward the consumption of these new wines. These wines are new luxury goods because they fulfill consumer’s basic necessities while also satisfying their aspirations for a better life at a price that is significantly lower than traditional high quality wines (Bartlett, 2003).

Although Argentina has a strong tradition in winemaking, for a long time domestic winemakers did not participate in the world market for those new wines as they did not have the ability to produce and package the wine in a way consistent with those foreign needs and aspirations. For example, they did not pay attention to the important role played by labels. Consumers of new world wine want the labels of wines to communicate something about the place where the wine is produced while also stating basic facts about how the wine is made, e.g. if the wine is aged in oak barrels, the label has to say what type of oak barrels are used and how long the wine was stored in them. Also, although such consumers do not tolerate labels that peel off easily or boxes that are easily damaged, these presentation problems, largely tolerated by domestic consumers, were common among Argentine wines.
In our fieldwork, we have encountered numerous cases of firms that attempt to export without understanding the idiosyncrasies of foreign markets. Furthermore, most of these firms are not even aware that there are critical idiosyncrasies that need to be understood to achieve long-term presence abroad. These firms sometimes make substantive efforts to find export markets for their existing products rather than examining potential export opportunities that would require slight or radical modifications to those products. Failure to address the specificities of foreign demand limits the volume and sustainability of exporting efforts undertaken by these firms. For example, Bodegas López, owner of some of the most widely recognized brands of wine in the domestic market, has not made substantive efforts in adapting their wines to the growing segment of consumers demanding fruitier, less abrasive flavors. As a result, their export success is limited to a declining market segment. Ideas del Sur, one of the most successful producers of television content in the domestic market, has attempted to sell their television programs to other countries but did not succeed because the design of their programs was not sufficiently flexible to incorporate content with local flavor of destination countries. Also, several furniture producers attempt to sell their products in the U.S. market without realizing the simple fact that this market demands larger units. Those producers are sometimes able to export on a limited basis but find substantive difficulties in expanding their foreign penetration.

A key question is why it is so hard for domestic producers to understand the differences in tastes, needs, and market segmentation between the domestic and foreign markets. Our answer is that the knowledge they need to acquire is, to a large extent, of a tacit nature (Polanyi, 1983). As opposed to explicit knowledge, tacit knowledge is hard to codify and thus transmit in codifiable form. For example, it is hard for a domestic producer to learn from books, trade magazines, or other formal channels of communication how stylish consumers in a particular foreign country will regard specific aspects of product design, or how those specific aspects will engage their emotions or feed their aspirations. As a result of its tacit nature, domestic producers usually lack precise knowledge about specificities of what foreign consumers, at any given point in time, like or need.

Although tacit knowledge is hard to codify and transmit in codifiable form, there are alternative channels through with it is sometimes transmitted. Building on Granovetter’s (1985) embeddedness approach as a means for understanding how the economic activities of firms are shaped by the communities in which they operate, Uzzi (1997) examines how embeddedness in a business community of a specific sector influences the flow of tacit knowledge within that community. In the context of our study, domestic producers are naturally embedded in the domestic business community of their sectors in their own countries. Consequently, they access critical “fine-grained information” about features of domestic consumers’ demand, such as perceptions of style, consumers’ aspirations, and quality expectations, that allows them to identify the specific products that will appeal those consumers.

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In particular, he studies the consequences of embeddedness in a network of relationships in the New York City fashion industry.
In contrast, since domestic producers are not embedded in the business communities of their industries abroad, the transmission of analogous tacit knowledge about foreign consumer demand does not occur spontaneously.\textsuperscript{25} As a result, domestic producers’ understanding of foreign demand is lacking. In particular, they cannot elucidate the specific ways in which foreign and domestic demands differ. Moreover, they find it hard to recognize and internalize the fact that those differences exist and are important. Even if they communicate and engage in transactions with foreign agents, key information about foreign markets comes bundled and can only be understood in a specific context that needs to be shared by the communicating parties.\textsuperscript{26} These difficulties in accessing critical tacit knowledge about foreign markets as an impediment to exporting are most prominently true at early stages in the emergence of export activity in a sector, before knowledge about the intricacies of foreign markets becomes – if it eventually does through the diffusion process – common wisdom within the local business community.

The production component

Once companies have understood the characteristics of market demand, identified the market segments to target and the type of products they want to sell, they still need to create and make the specific products to be marketed. The production component of a business model characterizes how firms first design and then produce these products.

Designing an actual product is a specific task usually performed by professional designers. Professional designers are prevalent in all of the industries we study. For example, they are the “enologists” in the winemaking industry, “boat designers” in the motorboat industry, and “content managers” in the television industry. The specific task of professional designers, like the more conceptual task of defining which goods to produce described earlier, also requires understanding the tastes and needs of consumers in foreign markets. Moreover, professional designers need to be able to integrate specificities of demand idiosyncrasies in foreign countries into an actual product design.

To help local designers perform this task, the entrepreneur or manager of a firm sometimes hires an outside, customarily foreign, consultant. This agent is the “design expert”, an intermediary who conveys relevant information about foreign markets to the local designer. For example, in the wooden furniture, motorboats, and wine industries there are international consultants who help firms understand international trends and provide them with general advice about how to produce the type of products that could be in line with those trends. They lay out the basic parameters of a potential product and work with local designers to adapt their products to the tastes of foreign consumers. Sometimes these adaptations are minimal but they are nonetheless critical. These consultants do not fully design a product but they may sometimes revisit a factory or winery to see how a product is evolving. In the

\textsuperscript{25} In the next section, we will describe the case of export pioneers as notable exceptions.

\textsuperscript{26} Uzzi (1997) finds that “…fine-grained information transfer is not only more detailed and tacit but has a holistic rather than a divisible structure that is difficult to communicate through market ties. I found that this information structure is manifested as a
television industry, “format consultants” are experts in a format that have the ability to interpret cultural codes of different national audiences and translate the principal components of a format to match specificities of those audiences.

In order to take full advantage of the services of the foreign experts, local designers must be capable of understanding and communicating with the experts, i.e. they need to “speak the same language”. The existence of these foreign consultants strongly facilitates the acquisition of tacit knowledge needed to make products appealing to foreign consumers. However, given the high cost of their services, it only makes sense to hire these experts once the firm has already implemented most other elements of the export business model. In particular, the entrepreneur will not hire such an expert unless he is sufficiently convinced of the importance of adapting products to foreign tastes and needs.

Once the product is designed, firms need to adjust the production process to effectively make those products. One of the most important differences between the export and the domestic business models regarding how goods are produced stems from the fact that high-income countries demand products of higher quality. Satisfying the higher quality standards of developed countries typically imposes the need to implement important upgrades in the production process.

Adapting the production process to satisfy foreign demand may require investing in new machinery. For example, in the wine industry exporters had to invest in stainless steal tanks and in some cases 225 liter oak barrels in order to produce wines suited to the tastes of international consumers. However, the financial requirements those investments impose do not appear to be the most important hurdle firms need to overcome to meet the quality standards of international markets. Rather, the main production challenge is more typically associated with making changes in production techniques. Firms that implement the export business model need to pay careful attention to how goods are produced as small defects in the products can lead to their rejection by their foreign distributors or even to the termination of the business relationship. In the wooden furniture industry, quality derives from how the parts are dried, stained and assembled. For example, firms have to ensure that wood is dried properly so that stain is applied evenly. They also have to ensure that no cracks are visible between two separate pieces of wood in the same piece of furniture. In essence, workers have to pay careful attention to how they do their work. To be able to do so, factories have to be well lit so that workers can see better what they are doing. Producers of goods for the domestic market do not pay attention to such details simply because those details do not play such a determinant role in the purchasing decisions of domestic consumers. Similarly, despite the financial burden it implies, exporters in the motorboat industry own the matrices used to mould the hull of the boats to control their precision and obtain a standardized finished product that does not require subsequent hand-made polishing. In the domestic market, standardization is not a valued feature as domestic consumers are more tolerant to polishing imperfections.

particularly “style”, which is the fusion of components from different fashions, materials, nomenclaturas, and production techniques.”
To accompany their own upgrade, firms also need suppliers and service providers to upgrade their products or services. Accomplishing this task requires them to work closely with their suppliers. For example, in the wooden furniture industry firms have to help their suppliers improve the drying of parts because how drying is done is crucial for the quality of the final piece of furniture. The lack of capable local suppliers might lead firms to integrate vertically. In the wine sector, the most difficult production challenge is not related to the actual elaboration of wine but rather to methods for growing higher quality grapes. Grape vines have to be pruned and trimmed carefully. Grape producers also need to learn how to adapt the standard techniques for producing such grapes to the particular conditions of the Argentine climate. Because of the critical role that the quality of grapes play in the elaboration of high quality wine and the difficulty in ensuring the provision of quality grapes by suppliers, wineries often produce their own grapes for their top wines and rely on suppliers for their medium range ones.

It would seem reasonable to hypothesize that although firms understand the importance of meeting the quality standards of developed countries, they lack the technological capability to attain them. However, in the industries we study we do not find this to be the case. Instead, failure to reach stable exports to developed countries appears to be more closely associated with the fact that while firms are able to attain those standards they do not maintain them consistently. In the furniture industry, a large amount of production and commercialization effort by a group of producers and distributors to achieve a long-term presence in the United States and Canada was wasted when the first consolidated shipment was found to contain an unacceptably high fraction of defective items. The fact that managers and workers are often not deeply convinced of the critical importance of achieving and maintaining quality standards stands out as a stronger impediment for export growth than lack of technological knowledge. Indeed, lack of access to production knowledge does not appear to be a critical bottleneck for export success.

The marketing component

The last component of a business model is the marketing of products. In this component, we emphasize the relationship firms establish with their distributors and the actions they take to make their products known and appealing to consumers in destination markets. There is a sharp contrast between the challenges of marketing products in domestic markets of developing countries and those of marketing in foreign developed countries, in particular when a stable foreign presence has not yet been established. Marketing in the latter countries, compared to doing it domestically, involves the need to establish long-term relationships with distributors who operate under more stringent business practices, have a stronger bargaining power, possess less information about foreign producers’ reliability, and play a more important role as channels of information supply. Also, producers who want to export need to develop a marketing strategy for products that do not enjoy brand recognition from foreign consumers.
While the way of conducting business and the business codes that regulate commercial activity in developing countries differ considerably from those prevailing in developed countries, distributors in the latter countries expect their foreign suppliers to conform to their own business practices and codes. For instance, they are used to and insist on quality consistency and timely delivery. These practices are not yet deeply rooted in developing countries. Foreign distributors also have specific requirements about packaging and back office procedures that they expect their providers to fulfill. For example, Trapiche, a leading exporter of wines, has restructured its back office to ensure issuing invoices that are consolidated and easy to process. Failure to conform to these requirements may risk the continuity of the business relationship with the channel. For instance, a furniture producer’s incipient relationship with a foreign distributor was terminated when the producer failed to provide the requested price quotes in time. Similarly, another furniture producer’s relationship with a distributor was abruptly severed when he attempted to increase the original quoted price soon after he learned the distributor was successfully selling his products.

The importance of complying with foreign distributors’ expectations and requirements stems from the fact that their negotiating power tends to be substantially larger than the negotiating power of domestic distributors. Foreign distributors can choose business partners from a large pool of similar potential suppliers worldwide and select only a few with whom to establish long-term relationships and save on transaction costs. Domestic producers, therefore, need to understand and deal with the fact that their relationships with foreign distributors are more asymmetric than those they establish with domestic ones.

Foreign distributors usually lack information about the reliability of potential suppliers overseas. Therefore, they take the extent to which they comply with their requirements and way of doing business as a signal of how serious and reliable they will be as business partners. For example, foreign distributors in the wine and wooden furniture industries interpret receiving products in boxes that are damaged as an indication that the producer is not serious about quality. Firms that implement the export business model are aware of the importance of such signals and take actions to reduce the distributor’s uncertainty about their reliability. Compañía Constructora de Embarcaciones (CCE), a leading exporter in the motorboat industry, ensures post-transaction services for the ships they sell to convey the assurance that they are trustworthy. The firm has even sent its own technicians to the country in which the ship was bought to make specific repair work. The distributors’ reliance on such signals constitutes a severe problem for domestic firms, who are usually not only unfamiliar with how business is done abroad but also are unaware of the importance distributors place on such signals.27

Finally, foreign distributors in developed countries seek out long-term suppliers with whom they can establish fluent communication and mutual understanding about the evolving patterns of

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27 A potential explanation for why domestic firms so often fail to conform to foreign distributors’ requirements is that, in some cases, they might perceive the requirements to be inefficient relative to alternative arrangements that fit local conditions better. This could indeed be sometimes the case. DiMaggio and Powell (1983) argue that isomorphic processes – in this case...
consumer demand and who can react rapidly with new or modified products to those changing patterns. Reciprocally, firms that implement the export business model regard their distributors as a resource not only to help them sell their products but also to help them understand how markets are changing. In contrast, firms that would like to make exports a substantial part of their business but work under the domestic business model do not realize that they are unlikely to gain a stable presence in foreign markets unless they develop this kind of relationship with a distributor. Thus, they end up working with a different type of distributors who act merely as middle-men. Business relationships with the latter distributors tend to be transitory as they conduct transactions on a spot basis, do not invest in making the supplied products distinctively appealing to consumers or retailers, and are ready to substitute them with similar products from competing suppliers if offered a slightly lower price. In essence, dealing with those distributors implies for domestic producers that their differentiated products are sold in the foreign market as if they were commodities.

In the case of branded products, firms need to elaborate an advertising strategy to make their products known and appealing to potential consumers. These products enjoy brand recognition domestically but not in foreign countries. The domestic brand recognition is often not due to special advertisement efforts or investments but just the result of the long presence of the brand – sometimes the founder’s name – in the domestic market. In contrast, implementing the export business model requires that firms create a brand from scratch and develop its positioning strategy in an unfamiliar market. For example, CCE advertised its boats in major European trade magazines while Catena Zapata, a leading exporter of wines, created a tour with tango dancers around the U.S. to introduce its wines to specialized journalists.28

At the early stages of export emergence in a sector, firms that wish to export also have to confront the potential existence of “country-of-origin (COO)” bias. As a response to the imperfect observability of quality attributes in a product at the time of purchase and the absence of a country reputation as a reliable producer of quality in a given sector, consumers often use the level of development of the product’s country of origin as an extrinsic cue of product quality.29 COO bias also exists among distributors. If they have a bad image about a country’s business practices – e.g. the degree to which they fulfill contracts – they may be unwilling to invest in a long-run relationship with a producer at the outset as they might presume that this potential partner shares those practices. Potential exporters, therefore, need to be aware of this bias and develop a strategy to offset it. Reno, a furniture producer, opened a warehouse in California to store his goods with the main purpose of convincing his potential customers that he would be able to deliver their orders in time. Horacio Levin, a television program producer, associated with a Spanish colleague at a television festival to offset the COO bias he faced.

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28 In the wooden furniture industry, direct advertising to consumers might not be necessary as consumers tend not to base their product choice on brands.

29 A vast literature in international marketing documents the existence of COO bias. See, for example, Bilkey and Nes (1982) and Verlegh and Steenkamp (1999).
was convinced would hamper his potential commercial deals as an owner of a production company in a
country with no recent record participating in world markets of television programs.

It might seem puzzling that such a large proportion of domestic firms fails to adjust their
approach to marketing when they attempt to enter a foreign market. However, as in the case of the
product component discussed earlier, implementing the marketing component of the export business
model also requires a substantial amount of knowledge about how foreign markets operate. At early
stages of export emergence in a sector, this knowledge is mostly tacit and is not possessed by members
of the local business community. While their embeddedness in the local business community allows
them to acquire relevant knowledge for domestic marketing, analogous knowledge about how to market
their products abroad is beyond reach.

In sum, firms that wish to export to developed countries on a consistent basis need to learn how
to market their products in a different environment. As opposed to the environment in which they
operate domestically, in foreign markets they need to adapt to foreign distributor’s business practices
and codes. In those markets, they also depend more critically on the information distributors can
provide about the evolution of consumer demand. Also, they might need to develop an advertising
strategy. The most important consequence of firms’ failure to adapt their marketing practices to this
different environment is that their differentiated products end up being commercialized in the foreign
country as if they were commodities. By exporting their differentiated products as commodities they
sacrifice profitability and the prospects of a long-run presence in the foreign market.

Nota: debido a la restricción de 30 páginas impuesta por la AAEP, las restantes secciones, las
referencias, y el apéndice aparecen como Anexo.
6. Export Pioneers

In three of the four sectors we study (Motorboats, Television Programs and Wines) an export pioneer was the first to implement the export business model and establish a consistent export presence in one or more developed countries. These export pioneers exhibit as a common characteristic the possession of a substantial knowledge advantage over other producers in their industries consisting of a thorough understanding of specific foreign markets in developed countries, in particular their demand idiosyncrasies and way of conducting business. Their superior understanding allows them to conceive and implement the export business model. The knowledge advantage of export pioneers stems from their embeddedness (Granovetter, 1985) in the business community of their industries in foreign markets that play a central role in world trade. Although crucial to their export performance, the pioneers’ embeddedness is the result of activities they undertook previously and independently of their later decision to become exporters. In this section, we first characterize the approach to foreign markets of a typical domestic producer in an industry that does not export consistently to developed countries. Then, we describe the knowledge advantage of export pioneers and how this advantage helped them become consistent exporters. Finally, we succinctly describe relevant aspects of their life histories that explain how they could forge embedded relationships with members of the business community of their industries abroad.

Let us consider a typical domestic producer who evaluates whether to embark on an export venture in an industry in which export emergence has not taken place, i.e. where no other producer has established a regular export presence in a developed country. Our producer realizes that the foreign environment is unfamiliar to him. However, he fails to distinguish key differences between this environment and the domestic one in which he regularly operates. More importantly, he is unable to map those differences into relevant changes in his approach to business. For instance, he does not recognize the critical importance of addressing specific cultural traits and tastes of foreign consumers or the need to satisfy the requirements of foreign distributors who seek partners with whom to establish a different kind of business relationship than those he maintains with domestic distributors. More generally, he does not realize that he needs to change his business model to gain a stable presence in foreign markets.

As this domestic producer realizes that he is unfamiliar with the foreign market, his assessment of a potential export venture is not sufficiently optimistic to make him risk substantial resources in its pursue. In many cases, he still wants to try the export market but he does it timidly. In any event, as he does not realize that his way of doing business needs to change or is unable to elucidate the relevant dimensions along which he needs to do it, he approaches foreign markets without adapting his business model to the requirements those markets impose. Thus, he soon finds that his incipient deals abroad do
not develop into deeper and more stable relationships. As his (limited) export efforts are unrewarded, he ultimately abandons the export market.\footnote{It is common to find firms with a stable but limited presence in a particular foreign market. In most cases, those exports are explained by the existence of strong links with a business partner in the other country (the “brother-in-law effect”). While this kind of export presence might not require a change of business model, the scope of the exporting activity will be necessarily limited as it is not replicable with other business partners in the same country or in other countries.}

Differentiated-product sectors in which the description above applies to all its producers are characterized by a weak and stagnant export performance. This is the case for most industrial sectors in Argentina. However, in our statistical analysis of Argentine exports between 1991 and 2005 (see Appendix XX) we observe specific differentiated-product sectors that exhibit substantial export growth to developed countries. We choose our four case studies among those sectors. In three of those four sectors we find that export growth has been spurred by the presence of export pioneers whose success in the foreign market demonstrates the logic and viability of the export business model.

We define an export pioneer to be the individual who first implements all of the elements of the export business model in a given industry. In the sectors we study, export pioneers have in common the possession of a knowledge advantage over their peers consisting of a thorough understanding of one or more foreign markets, in particular their demand idiosyncrasies and way of conducting business. This understanding allows them to identify the key pieces of the export business model and to put them together according to the model’s internal logic. Thus, they build a “vision” of this business model. Having the vision provides them with better and more certain prospects of the potential outcome of an export venture. As they realize that the implementation of the export business model is feasible and most likely profitable, they develop and embark on a focused export strategy which they follow consistently. The export business model is completed as they experiment and learn in the course of its implementation.

Export pioneers’ understanding of foreign markets stems from a common feature that distinguishes them from other domestic producers: they have embedded relationships in the business community of their industries in a developed country that plays a central role in world trade. Their embeddedness in those foreign business communities is the doorway to a variety of resources for acquiring fine-grained information (Uzzi, 1997) about the market such as the latest consumption trends or which distributors would be willing to engage with him in a partnership and how to gain their trust. As described in the previous section, this information is fundamentally tacit and as such very difficult to acquire through alternative channels. In addition, tacit information about idiosyncrasies of third markets is also widely spread within the business community of (either exporter or importer) countries that concentrate a large fraction of world trade.

Given the importance of being embedded in those foreign business communities (before export emergence in a country has taken off), it is critical to understand how export pioneers become enmeshed in these social networks. Surprisingly, we find that their foreign embeddedness is the result of past activities carried out previously and independently to their subsequent decision to become
exporters. In particular, export pioneers did not undertake those activities as a means to learn about the export market. In fact, as such they would have been unreasonably costly (which explains why they are not done by other domestic producers). Next, we describe the particular instances in the life experiences of our three export pioneers that have enabled them to become embedded in business communities of their industries abroad. We also describe how the knowledge they acquired helped them construct an export business model. While we provide a very succinct account here, the individual case studies describe in much larger detail their individual experiences and the business trajectories that allowed them to achieve consistent exports to developed countries. The case of Wooden Furniture, where we do not find an export pioneer, is treated later in this section.

In two of our industries (Motorboats and Television Programs) the export pioneers were first importers. Luis López Blanco was the pioneer of the Motorboats industry. He founded his own trading company after working for years as an accountant and business administrator for different shipyards. This company was the Argentine representative of internationally recognized brands such as Ferreti, a premium Italian brand of motorboats, and Cummings, a U.S. motor engine producer, as well as domestic boat brands. Despite no previous production experience, in 2000 he started to produce his own motorboats. Now, he consistently exports motorboats primarily to Europe.

His experience as an importer was crucial to make him familiar with the European motorboat market. This market has its core located in Italy, the largest world exporter in this industry. The importing activity, which involved regular trips abroad, attendance to the most important trade fairs in the industry, and frequent and fluent contact with foreign agents, promoted his embeddedness in the European motorboat business community. He learned about consumer tastes, demand trends, quality requirements, and business practices. He also learned about foreign distributors’ needs and how to gain their trust. For instance, López Blanco learned the importance of providing distributors with detailed blueprints and manuals of every boat so that they could respond to customization requests of their clients. More generally, the knowledge he acquired allowed him to mould the vision of an export business model, which he then implemented.

A few examples are useful to illustrate how López Blanco’s embeddedness in the European motorboat business community, and the fine-grained information he acquired through it, allowed him to achieve a stable presence in the European market. First, the knowledge he acquired by socializing in that community permitted López Blanco to develop a reasonably thorough understanding of the tastes and aspirations of European motorboat consumers, which are more leisure-oriented than those in Argentina. Based on this understanding, he designed the control panel of the Aqualum 35, the first motorboat he sold abroad, following the style of instrument panels of premium automobiles such as Audi and Ferrari. He also realized that these consumers had concerns about buying a big-ticket item such as a motorboat from a developing country with no established reputation in motorboat production. Thus, among other initiatives to address these concerns, he decided to equip the boat with more
expensive Italian comfort appliances to set foreign consumers at ease by providing appliances they already recognized and trusted, and could be easily repaired in Europe.

López Blanco also understood that similar concerns from distributors could hamper their willingness to invest in a serious partnership with him. To show trustworthiness and commitment to quality, he once sent his own technician abroad – rather than rely on outsourced post-sale service – to repair a boat he had recently sold. We regard these examples as evidence of the importance of foreign embeddedness for developing an export business model. In particular, we find it reasonable to presume that domestic producers lacking López Blanco’s knowledge and understanding of the foreign market would have made different decisions and taken different actions at similar junctures.

Horacio Levín, the pioneer in the Television Program industry, also was an importer before becoming a producer. Having started his business career as a producer of television commercials, he later imported cartoons and animated films that he sold to state-owned television broadcasters in Argentina. His export path took advantage of the growing importance of formats and the myriad of services associated with them in world trade of television content. First, he adapted foreign formats to the domestic market. Then, he adapted foreign formats to foreign markets. Finally, he created and exported his own formats.

As in López Blanco’s case, Levin’s previous experience as an importer proved critical. By regularly visiting industry trade fairs in Europe and the U.S. and being involved in commercial dealings with foreign agents, he became embedded in an increasingly global television business community, which gathers at annual meetings in Cannes (France) and Las Vegas (U.S.). The knowledge he acquired allowed him to understand the new logic underlying the design, production and trade of television formats, and early on exploit it in Argentina. Also, he could understand that foreign agents might be reluctant to make deals with a businessman from Argentina, a country with no reputation for reliably operating with formats at the time. To avert those concerns and guarantee that he would be taken seriously, he associated with Spanish independent producer Globomedia to obtain the rights to adapt the format “The Survivor” (in many countries known as “Expedition Robinson”) for Spain and all of Latin America.

In contrast to the pioneers in the Motorboats and Television Programs industries, the pioneer in the Wine industry, Nicolás Catena Zapata, was not new to production in his industry. In fact, he was the heir of one of the oldest and largest wineries in Argentina. His early exports were directed to the United States. Now he exports to more than 32 countries and he is the second largest wine exporter in Argentina. Catena Zapata’s early choice of the U.S. as the destination market for his fine wines was not a coincidence. His three years as a Visiting Professor at Berkeley, where he taught courses in basic microeconomics at the Agricultural Economics Department, allowed him to socialize with members of the wine business community in Napa Valley and to become embedded in that community. In

31 Television formats consist of the structure and main features of a television program, which is later completed with specific content adapted to the idiosyncratic tastes of local audiences.
particular, he became a close acquaintance of Robert Mondavi’s, the pioneer of the transformation of this sector in the United States. Catena Zapata’s familiarity with the intricacies of that transformation motivated him to attempt to emulate it in Argentina. Thus, he became the pioneer of the transformation of the Argentine wine industry and led the way into establishing international recognition for Argentina as a producer of new world wines.

Catena could not have built his successful export strategy without his thorough knowledge about how new world wine was produced, consumed, and marketed. For instance, convinced that he would risk his long-run export prospects if the quality of his wines faltered, he decided not to commercialize abroad the wine from the first harvest he obtained using new-world wine production methods. Also, based on his understanding of the new prevailing attitude toward wine consumption, he organized a promotional tour that included a sophisticated tango-dance show so as to associate his wines with other recognized high-quality symbols from Argentina. His familiarity with how prestige was assigned in the U.S. wine business community also motivated him to seek recognition for his icon wines that would serve as a quality umbrella for his other wines. More generally, he sought to have his wines reviewed by the Wine Spectator, the most important wine magazine in the United States and he courted specialized journalists because he knew their reviews would be critical for promoting his wines.

It is less obvious in Catena’s case that his embeddedness in the business community of Napa Valley was the result of activities undertaken previously and independently to his decision to export. However, we argue that this is the case. On the one hand, even if his willingness to accept the visiting position he was offered was motivated by Berkeley’s proximity to Napa Valley, where he might have heard that important changes in wine production were occurring, it is unlikely that his decision factored in the possibility of acquiring knowledge that would later help him become an exporter of new-world wine. On the other hand, even if he did, the offer to take a visiting position at UC Berkeley was the consequence of having done a Ph.D. in Economics many years earlier. In fact, it was a former classmate of his at Columbia University who offered him the position. In addition, his four years as a Ph.D. student in New York City provided him with familiarity with the American culture and values, which might have facilitated his social embeddedness in the wine business community of Napa Valley.

Two types of evidence underlie our claim that the key advantage that distinguishes export pioneers from other domestic producers is their foreign embeddedness. First, as illustrated in some of the examples above (and others described in the case studies), we identify several instances in which key decisions of export pioneers appear to have been based on their thorough understanding of export markets and unlikely to have been made by others without this knowledge. Second, it is very infrequent to find a domestic producer who is embedded in a foreign business community. Thus, the likelihood of observing our three export producer exhibiting this common characteristic would be extremely low if its possession were not critical to solve an otherwise insurmountable hurdle for export success.

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32 In fact, in our interview with Catena he explicitly stated that he was not aware of the transformation of the industry occurring in Napa Valley at the time. Further, he said he would have accepted a similar position elsewhere in the United States.
Our emphasis on export pioneers’ embeddedness abroad does not imply that other aspects of their background, resources, and personality characteristics are not important determinants of export performance. In fact, export pioneers know their industries well, have access to financial resources, and probably possess some common psychological characteristics such as ambition, drive, creative energy, and the ability to think systematically. Following Diamond’s (1997) Anna Karenina Principle, which he uses to characterize a situation in which many elements need to be present for an event to happen, we could think of the pioneers’ profound understanding of foreign markets to be as critical for their export success as is their industry-specific knowledge, financial resources, or psychological characteristics. However, we highlight their understanding of the intricacies of foreign markets because this characteristic is rarely found among domestic producers. Thus, while many of them combine all other requirements for export success, only the few export pioneers display this requirement as well.

The case of the Wooden Furniture industry provides an example of an industry in which no producer combines all necessary requirements for achieving a stable presence in a foreign market. In this industry, we do not find an export pioneer as no single producer has implemented all elements of the export business model. The absence of a pioneer is manifest in the fact that there is not a producer with an established presence in a developed-country market. Many of the firms in this sector continue to export on a sporadic basis, simply seeking to compensate for occasional declines in the domestic market. Although some firms have understood the need to view exporting as an intricate part of their business that requires adjustments in the manner in which they conceive their products and produce them, none of these firms have established long-term relations with distributors that can help them achieve a continued and active presence in foreign markets such as the United States.

Despite the absence of an export pioneer, the case of Jorge Etchebehere is illustrative as an example of an individual who has a vision of an export business model but cannot successfully implement it. Etchebehere is not a producer, he is a commercial agent. After working many years as a sales representative for a domestic furniture company, he decided to start his own business as an intermediary between local producers and U.S. distributors. First, he contracted a U.S. designer to teach Argentine producers how to adapt the style of their furniture to the tastes of U.S. consumers. More recently, he has formed a company with two U.S. sales agents to represent eight Argentine firms in the U.S. and Canada.

Etchebehere’s early life experience exposed him to social interactions that provided him with a strong familiarity with the U.S. culture and values. When he was 16 years old, he stayed three months as an exchange student in the United States. As an adult, he held a position in a multinational that involved regular social and business interactions with Americans who went to Argentina to train local employees. This experience gave him the ability to understand and communicate with people from the United States, which proved critical for building his business ties in North America.

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Kremer’s (1993) O’Ring theory is built on a similar principle.
Etchebehere is fully aware of the basic elements of the export business model. For example, he is convinced of the importance of adapting the products to foreign tastes, maintaining a consistent quality, and conforming to foreign distributors’ requirements. However, despite his own knowledge he seems unable to convince the local producers he represents that they need to change their business model to successfully export. In particular, as those producers are geographically dispersed around the country, he is unable to guarantee the quality of their shipments, which frequently falter. As a result of this failure, his export business has not taken off.

Before concluding this section, we would like to emphasize that our findings should not be understood to imply that becoming embedded in a foreign business community is always necessary to consistently export. While this is indeed the case when export development in an industry has not yet occurred, producers can acquire the required tacit knowledge through alternate channels at later stages of this process. In fact, once the pioneer demonstrates that a successful business model exists and some of its elements become visible for others in the industry, this knowledge can spread throughout the local business community without the need for others who follow the pioneer to have a similar experience abroad. The latter constitutes the process of diffusion, which we analyze in the following section.

7. The diffusion of the export business model

The export success of the pioneer has an amplified impact in industry exports when his activity induces others to follow him and thus spurs substantial export growth in his sector. In this section, we analyze the process of diffusion of the export business model. We describe its main determinants and the most important channels through which it operates. Since there is seldom a smoking gun to identify most critical instances of diffusion, the characterization we provide here is partially based on indirect evidence and, in some cases, even on mere speculation. However, all of its elements and implications are consistent with the evidence collected in our field work.

The implementation of the export business model by the pioneer is visible to other players in the industry. Notable among them are competitors and suppliers. Those players understand that the pioneer is making consistent efforts to export and realize that those efforts involve conducting business in a substantially different way than their own way of conducting business. They might not be able to observe the specific components of the business model the pioneer is implementing. However, even when they do observe some of what he does, they find it hard to understand the economic logic that drives his actions. Many think he is simply crazy. In any event, it is still clear for most industry participants that he is trying something different. In fact, Luis López Blanco, Horacio Levin, and Nicolás Catena are all acknowledged by their peers as export pioneers in their respective industries. Even Jorge Echebehere, the commercial agent in the furniture industry, is so regarded. Sometimes the

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34 The Wooden Furniture case study describes some of the main exporters in the industry and explains why none of them can be considered an export pioneer.
export pioneers are themselves open and vocal about what they are doing and try to promote others to follow their steps. This is particularly the case of López Blanco, who at the time he was developing the export business model was also the president of CACEL, the business association of motorboat builders. He used his position to preach about the benefits of exporting and the business practices that were conducive to that goal.

Once the export pioneer achieves export success, this success is accompanied with a significant growth in size (e.g. sales, number of employees) that is observed by other firms and taken as an indication that a profitable export business model exists in the industry. Although those firms might not know the specific components of the business model the pioneer has implemented, they still learn that there is a way of doing things to achieve profitable exports on a sustained basis. We call “general diffusion” the transmission of this very basic knowledge. Merely learning that there is a profitable export business model might be sufficient to convince potential exporters to search for the unknown components of the model, for instance paying careful attention to the pioneer’s actions, hiring a pioneer’s employee, or contracting an international consultant. Also, it might attract multinational firms that otherwise would be unconvinced that they could adapt their way of conducting business to the local conditions. The pioneer sets a benchmark. He shows that gaining a stable and profitable presence in export markets is possible. This is the most important role of the pioneer in the process of diffusion.

In addition, export pioneers are sometimes agents of a more specific type of diffusion. For example, as they implement the export business model other firms might learn about the export markets that they target or key features of the products they export. This was the case in the wine industry. Winemakers in Mendoza knew that Nicolás Catena was working with Cabernet and Chardonnay grapes, which were uncommon in the domestic market. They also knew that he was targeting the U.S. market. We call “specific diffusion” the transmission of knowledge about specific elements of the export business model. It is beyond the scope of this study to search systematically for instances of specific diffusion stemming from the actions of pioneers. A substantial and targeted research effort would be needed for this task as the transmission of knowledge seldom leaves a trail and managers tend to be reluctant to acknowledge what they learned from competitors. We nevertheless identify particular episodes, described below, that we can reasonably presume to have encompassed various instances of specific diffusion.

Two of these episodes involve Horacio Levin, the export pioneer in the TV industry. In addition to his efforts at exporting his own programs, he was also an intermediary of the first export of an Argentine format to a developed country. The owners of this format, the production company Cuatro Cabezas, had created the program without knowing it could be formatted and exported. Levin let them know about the interest of his commercial partners in Spain in buying the format and managed the transaction representing those partners. After this operation, Cuatro Cabezas soon sold this format to numerous other countries and later on exported several more formats they subsequently created. This transaction, generated and conducted by Levin, taught Cuatro Cabezas the very basic logic surrounding
the production and trade of T.V. formats. In addition, we presume this operation also taught them more specific issues about the types of T.V. programs that can be formatted and the main elements of a format over which a sale contract can be based. A second episode involves Levin leasing studio space from Telefé Contenidos to shoot El Frijolito, a Mexican-style soap opera aired in the U.S. for the Hispanic audience. Telefé Contendios later became one of the leading Argentine exporters in the TV industry. Although we have no concrete evidence of learning here, we find it reasonable to presume that hosting Levin Telefé learned about his target market, the type of program he was exporting, and probably various technical aspects of its production. Another of the episodes consists of a classical example of diffusion that occurred in the Wine industry. Pedro Marchevsky, head agronomist for the export pioneer Nicolás Catena for many years, left this company to found his own winery Dominio del Plata. In this new company Marchevsky applied all the specific knowledge about how to produce wines appealing to world markets brought from his experience working for Catena. This winery gained a strong presence in the United Kingdom.

Although a large number of firms are aware of the pioneer’s efforts at exporting and maybe even know some specific aspects of what he is doing, at an initial stage of the diffusion process only a few early followers find this information sufficiently convincing to embark seriously on an export venture of their own. In most other cases, this knowledge does not influence firms to do anything differently. Despite what they see, it is often the case that they fail to understand the logic of the pioneer’s actions. Moreover, sometimes they simply regard them as a waste of money. Some of these firms appear not to care about exporting. However, their indifference may just manifest lack of vision about how to approach this activity.

The adoption of the export business model by the early followers helps the diffusion process to spread throughout the industry. Some of its specific elements become more broadly known and the idea that it is possible to export consistently and profitably to developed countries becomes more widely accepted. This stage has been reached in two of our four cases, Wines and TV, which now display a large number of successful exporters. In those industries, knowledge about how to do things to consistently export to developed countries is, following Marshall’s metaphor, “in the air”. In the motorboats industry, in contrast, we find the diffusion process to be only incipient. Although we could expect that it will eventually follow a similar process to those observed in Wines and TV, as of now it is not obvious that it will generalize to the industry. Finally, in the case of the furniture industry there is no diffusion process to analyze since no firm has yet implemented an export business model.

The generalization of the diffusion process involves a wide variety of actors. Among them, the role of multinationals is salient. Both in the wine and in the TV sectors we find that soon after the export pioneer and early followers implemented the export business model several multinationals entered the industry. The entrance of multinationals, often acquiring domestic firms, has the main
purpose of exploiting the foreign market. Multinationals largely contribute to the spread of the export business model. However, in none of our case studies a multinational is the export pioneer. Despite their knowledge about how foreign markets operate they are uncertain about local production conditions. This uncertainty is only resolved when they observe the pioneer and early followers implement the export business model.

Government agencies, business associations and public-private institutions are important for the diffusion of the export business model but play an important role only later in this process. For example, in the wine industry the government’s main agricultural extension agency, INTA, developed new types of grapes and wines and shared this information with wineries. Although it had conducted experiments with those grapes and wines in the early 1980s, simultaneously with Nicolás Catena’s own trials with new world wines, it became an important agent of diffusion later in the 1990s after Catena had already exported his first bottles of new world wines to the United States. In addition, INTA did not help wineries acquire information about how tastes vary from country to country. This organization was only involved in the diffusion of the production component of the export business model. Other important agents of diffusion are designers. For example, in the motorboats industry Gino Giandino owns a design company that works for different boatyards. He transfers them knowledge about design features that enhance a boat’s appeal in the Italian market he acquired working in Italy for Germán Frers, a naval architect renowned for designing successful racing yachts.

A common theme in the innovation-diffusion literature is the appropriability problem. Hausmann and Rodrik (2003), for example, emphasize that the incentives to innovate can be largely depleted by the prospects of diffusion. Although diffusion can potentially hurt the pioneer, in our cases we have not encountered evidence that the possibility of diffusion discouraged the pioneers to invest relative to a benchmark with no diffusion. Furthermore, the pioneers’ own account of their decision environment at the time of implementing the export business model dismisses the notion that their actions were affected by the concern that diffusion might eventually deplete their profits. To the contrary, in most cases pioneers were themselves promoters of diffusion. The explanation for this behavior is that export pioneers may benefit from diffusion to other competitors, in particular at early stages of their new export activity.36 First, consumers often identify country of origin as one of the main characteristics of foreign products. In all of our case studies, pioneers benefited from other exporters who helped develop “brand” recognition for the country as a whole. Second, pioneers sometimes benefit from the appearance of other exporters as they increase the demand for specialized infrastructure and specialized (high-quality) intermediate inputs and services. Third, pioneers might benefit from cooperating with others to take advantage of economies of scale in international transactions. For example, they can share stands at a trade fair, work together in a trade mission, or

35 Granovetter (1978) develops a model of diffusion with agents that have heterogeneous thresholds for adoption. The diffusion process might be halted at a point in which there is a sufficiently large gap between the thresholds of adopters and non-adopters.
cross-offer their products to diversify the portfolio they offer in foreign markets. The fact that export pioneers benefit from diffusion to other firms suggests the potential feasibility and desirability of schemes aimed at fostering inter-firm cooperation.

One lingering but crucial question is whether export emergence would have nevertheless occurred without the existence of the export pioneer. Was he necessary for the eventual spread of the export business model throughout the sector or was he just the first emergent of a process that would have occurred anyway (although maybe with a substantial delay) due to changing external conditions? The second view can be sustained more forcefully in the case of the wine industry. Drastic shifts in consumption patterns and production methods gave many new countries the opportunity to enter world markets as exporters of bottled fine wine. Therefore, given that Argentina was already an important producer of traditional wines, it is plausible to think that Argentina’s rise as a significant world exporter would have eventually happened even if Catena had not pioneered the transformation of the wine industry in Argentina. While this is certainly possible in the wine industry, it is less obvious that export emergence would have occurred without the existence of a pioneer in the TV and motorboat industries. Those industries do not seem to enjoy a stronger comparative advantage in Argentina than other industries such as leather footwear and furniture, which also have a long tradition of domestic production and favorable sectoral conditions both regarding design capabilities and abundant and inexpensive access to raw materials. Therefore, the contrast between the weak export performance of these industries and the export success of the previous ones cannot easily be attributed to those obvious determinants of comparative advantage and is most convincingly explained by the existence of an export pioneer in the former and the absence of someone to demonstrate that there is a way to conduct business to consistently export in the latter.

8. Conclusions

To be written.

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36 This result was also found in many of the studies included in the Inter-American Development Bank’s project The Emergence of Export Activities in Latin America, of which an early version of this study was part of.
References


25. Keesing and Lall (1990) (libro)


37. Ruhl, 2008 international elasticity puzzle


Appendix 1: Quantitative identification of new exporting sectors

This appendix presents a brief statistical analysis of Argentina’s export performance at the sectoral level. The objective of this analysis is to identify sectors that have been successful in exporting differentiated goods to developed economies.

Although our database reports Argentina’s exports at the 6-digit level of the Harmonized System (HS), we aggregate at the 4-digit level and use this level of aggregation to conduct the statistical analysis of sectoral export growth. In the majority of cases, we think that 4-digit categories best group firms and products that share similar technologies, labor-skill needs, distribution channels and marketing requirements, and thus can be thought of as economic sectors. There are 1328 4-digit HS categories.

We consider export growth between the average of the periods 1991-1994 and 2002-2005. The Argentine economy underwent a period of drastic trade liberalization that was mostly complete by 1991. Therefore, the choice of base period attempts to minimize the identification of sectors with emerging export activity driven by sectoral reallocation in response to trade liberalization. Averaging over four years prevents exceptional peaks – sometimes driven by measurement error – from dominating the measure of export growth.

We impose the following quantitative filters on the database. First, we require exports in 2005 to be above the threshold value of US$ 10 million to exclude categories that have insufficient economic significance. This amount represents 0.025% of total Argentine exports and 0.091% of industrial manufacturing exports in that year. This criterion leaves 267 out of 1328 4-digit categories in the database. Second, we rank the remaining 267 categories according to export growth between 1991-1994 and 2002-2005, and select only those in the top 40 percentiles. Applying this criterion narrows the list to 106 4-digit categories. Finally, among those 106 categories, we select only those that have shipped more than a third of their exports to OECD countries. The application of this last filter results in a list of 30 4-digit sectors. Applying Rauch’s (1999) classification, 13 sectors can be classified as differentiated (listed in Table 1) and 17 as non-differentiated (listed in Table 2).

Since categories in the Harmonized System do not necessarily correspond to relevant economic sectors, the industries we choose for case study do not exactly match the 4-digit categories used in the statistical analysis. One of our sectors, Wooden Furniture, straddles HS category 9403 (“Furniture NESOI and parts thereof”) and HS category 9401 (“Seats (except barber, dental, etc), and parts”), which are two of the thirteen categories included in Table 1. Another of our selected sectors, Wine, coincides with HS category 2204 (“wine of fresh grapes; grape must NESOI”). Although this category is classified in Table 2 as “non-differentiated”, we consider this classification to be the result of an ambiguity created
by aggregation. Whereas this category is dominated by fine wine – a differentiated product – in Argentina’s exports, Rauch (1999) classifies wine as a reference-price category maybe based on the category’s inclusion of grape must and table wine. A third of our sectors, Motorboats, is very hard to identify using customs data since not even at the finest levels of disaggregation does the HS classification discriminate by tonnage or length. Once properly defined, the motorboat industry passes all the criteria established above, except for its value of shipments which is slightly below the minimum threshold of US$ 10 million. Finally, information about exports in our fourth sector, TV Programs, is not included in customs data.

For a number of sectors listed in Tables 1 and 2, growth is primarily driven by the increasing exploitation of resource-based comparative advantage in response to trade liberalization and deregulation. For instance, this is the case of copper ores (HS 2603), leather (HS 4107) and wood boards (HS 4407, 4409 and 4421). A few other sectors are highly idiosyncratic. On the one hand, Nuclear reactors (HS 8401) are exported by only one government-owned agency. On the other hand, exports reported under “Reaction initiators and accelerators and catalyst preparations NESOI” (HS 3815), “Turbojets, turbo propellers and other gas turbines and parts” (HS 8411) and “Aircraft” (HS 8802) correspond to sales of used equipment, previously imported. Netting these sectors out from the list and re-classifying wine as a differentiated product places wines, seats and seat parts, and furniture at the top of an export-ranked list of differentiated products with high export growth and substantial orientation towards OECD markets.
Table 1. High growth, high value sectors with large exports to OECD. Differentiated

<table>
<thead>
<tr>
<th>HS4</th>
<th>Exports 2005 (US$ M)</th>
<th>To OECD (%)</th>
<th>Growth †</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>9401</td>
<td>76.3</td>
<td>85</td>
<td>18</td>
<td>seats (except barber, dental, etc), and parts</td>
</tr>
<tr>
<td>4407</td>
<td>74.0</td>
<td>59</td>
<td>44.6</td>
<td>wood sawn or chipped length, sliced etc, over 6mm th</td>
</tr>
<tr>
<td>8802</td>
<td>49.5</td>
<td>58</td>
<td>7.2</td>
<td>aircraft, powered; spacecraft &amp; launch vehicles</td>
</tr>
<tr>
<td>3815</td>
<td>41.0</td>
<td>36</td>
<td>13.1</td>
<td>reaction initiators &amp; acceler &amp; catalyt prep NESOI</td>
</tr>
<tr>
<td>9403</td>
<td>36.3</td>
<td>36</td>
<td>5.0</td>
<td>furniture NESOI and parts thereof</td>
</tr>
<tr>
<td>4409</td>
<td>30.4</td>
<td>93</td>
<td>49.3</td>
<td>wood, continuously shaped (tongued, grooved etc.)</td>
</tr>
<tr>
<td>6907</td>
<td>27.2</td>
<td>94</td>
<td>32.4</td>
<td>unglazed ceramic flags &amp; paving, hearth tiles etc</td>
</tr>
<tr>
<td>8401</td>
<td>17.6</td>
<td>100</td>
<td>6.6</td>
<td>nuclear reactors; fuel elem (n-i); mach isotop sep</td>
</tr>
<tr>
<td>8455</td>
<td>17.5</td>
<td>51</td>
<td>5.7</td>
<td>metal-rolling mills and rolls therefor; parts</td>
</tr>
<tr>
<td>8516</td>
<td>12.5</td>
<td>35</td>
<td>4.6</td>
<td>elec water, space &amp; soil heaters; hair etc dry, pt</td>
</tr>
<tr>
<td>4421</td>
<td>12.0</td>
<td>89</td>
<td>16.7</td>
<td>articles of wood, NESOI</td>
</tr>
<tr>
<td>8411</td>
<td>11.9</td>
<td>50</td>
<td>11.8</td>
<td>turbojets, turbopropellers &amp; oth gas turbines, pts</td>
</tr>
<tr>
<td>6109</td>
<td>10.4</td>
<td>47</td>
<td>14.7</td>
<td>t-shirts, singlets, tank tops etc, knit or crochet</td>
</tr>
</tbody>
</table>

| Total exports 39,876,069 | 69 | 2.4 |


Table 2. High growth, high value sectors with large exports to OECD. Non-differentiated

<table>
<thead>
<tr>
<th>HS4</th>
<th>Exports 2005 (US$ M)</th>
<th>To OECD (%)</th>
<th>Growth †</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2603</td>
<td>1026.9</td>
<td>42</td>
<td>318783</td>
<td>copper ores and concentrates</td>
</tr>
<tr>
<td>2204</td>
<td>303.7</td>
<td>67</td>
<td>6.8</td>
<td>wine of fresh grapes; grape must NESOI</td>
</tr>
<tr>
<td>4107</td>
<td>268.1</td>
<td>41</td>
<td>57.8</td>
<td>leather of animals NESOI, no hair NESOI</td>
</tr>
<tr>
<td>7210</td>
<td>166.6</td>
<td>51</td>
<td>6.3</td>
<td>fl-rl iron &amp; na steel nun600mm wd, clad etc</td>
</tr>
<tr>
<td>7108</td>
<td>145.4</td>
<td>70</td>
<td>16.2</td>
<td>gold (incl plat plated), unwr, semimfr or powder</td>
</tr>
<tr>
<td>2008</td>
<td>130.5</td>
<td>70</td>
<td>5.4</td>
<td>fruit, nuts etc prepared or preserved NESOI</td>
</tr>
<tr>
<td>2905</td>
<td>110.0</td>
<td>65</td>
<td>5.3</td>
<td>acyclic alcohols &amp; halogenat, sulfonatd etc derivs</td>
</tr>
<tr>
<td>0806</td>
<td>75.7</td>
<td>60</td>
<td>5.2</td>
<td>grapes, fresh or dried</td>
</tr>
<tr>
<td>7224</td>
<td>54.0</td>
<td>99</td>
<td>1144.5</td>
<td>alloy steel NESOI in ingots, oth pr frm &amp; semif pr</td>
</tr>
<tr>
<td>2302</td>
<td>52.1</td>
<td>91</td>
<td>5.1</td>
<td>bran, sharps etc from working cereals &amp; leg plants</td>
</tr>
<tr>
<td>7214</td>
<td>39.6</td>
<td>64</td>
<td>8.5</td>
<td>bars &amp; rods, iron &amp; na steel NESOI, h-r etc</td>
</tr>
</tbody>
</table>

45
<table>
<thead>
<tr>
<th>Code</th>
<th>% Branch</th>
<th>% Export</th>
<th>Value</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2827</td>
<td>38.0</td>
<td>70</td>
<td>149.2</td>
<td>chlorides etc; bromides etc; iodides etc.</td>
</tr>
<tr>
<td>2901</td>
<td>30.1</td>
<td>60</td>
<td>27.1</td>
<td>acyclic hydrocarbons</td>
</tr>
<tr>
<td>0810</td>
<td>28.9</td>
<td>99</td>
<td>126.8</td>
<td>fruit NESOI, fresh</td>
</tr>
<tr>
<td>3913</td>
<td>24.9</td>
<td>34</td>
<td>166.4</td>
<td>natural (inc modified) polymers NESOI, primary forms</td>
</tr>
<tr>
<td>2836</td>
<td>19.4</td>
<td>62</td>
<td>21.6</td>
<td>carbonates; peroxocarbonates; comm amm carbonate</td>
</tr>
<tr>
<td>0811</td>
<td>11.1</td>
<td>72</td>
<td>434.6</td>
<td>fruit &amp; nuts (raw or cooked by steam etc), frozen</td>
</tr>
</tbody>
</table>

| | | | | **Total exports** |
|---|---|---|---|
| 39,876. | 69 | 2.4 |