



Why have trade promotion organizations failed, and how can they be revitalized?

Exports are good for growth and poverty alleviation, but they are not easy to develop.

Countries with open trade policies appear to grow faster and alleviate poverty better than others. Around the world, exports have grown faster than GDP: in 1980–98 global GDP grew 2.7 percent a year while global trade grew 5.7 percent a year; in 1990–98 these rates were 2.4 and 6.6 percent. And in developing countries export production tends to be more labor intensive than production for the domestic market, creating new jobs.

But export trade is stiffly competitive and constantly changing. Quality standards are higher than in domestic markets, where producers are often somewhat protected. Moreover, price competition is grueling because foreign buyers increasingly rely on outsourcing and business to business modes of procuring goods, while shorter product cycles place high premiums on timely delivery. Only producers and countries that can keep up with these changes will benefit from increasing globalization. Thus a challenge is to ensure that processes and incentives translate the perceived need to export into profit opportunities for businesses.

Enter the trade promotion organization

In 1964 the United Nations created the International Trade Centre under the aegis of the United Nations Conference on Trade and Development and the General Agreement on Tariffs and Trade (which later became the World Trade Organization). Intended to help developing countries

develop exports, the International Trade Centre initially focused on providing market information but later broadened its scope to include a range of development activities, including training, worker development, and institution building.

National trade promotion organizations, created in response to the strong advice and support of the International Trade Centre, have since become the central institution for many countries' export promotion efforts. These organizations have largely been state organs that deliver commercial intelligence, market research, services to foreign buyers, group promotions, and shipping, transport, and packaging advice. Some also administer incentives, train exporters, provide export licenses, and promote investment, among other things.

Is a trade promotion organization the right way to stimulate exports?

Trade promotion organizations have been subjected to close scrutiny, and a general consensus has emerged that they have not lived up to expectations. Only a few have made valuable contributions to the export performance of their sponsoring countries, among them those in Australia, Finland, Ireland, New Zealand, and Singapore. But these models are not easily exportable.

As a result some authors have favored scrapping the concept of trade promotion organizations and replacing it with systems

Countries must translate the perceived need to export into profit opportunities for businesses

Effective trade
promotion
organizations
require export-
friendly incentives

that provide enterprises with targeted packages of export support services—even subsidized prices (Keesing and Singer 1990, p. 19). Others argue that despite this poor track record, countries should not throw out the baby with the bathwater. They argue that trade promotion organizations should be revitalized and changed into effective export development institutions, because they are needed to organize and deliver the assistance new exporters require to enter the market (Hogan 1991).

This latter view emphasizes that a central institution is needed to translate national export policies into an environment that helps exporters—old and new—engage in exports. Not all exporters need the same type of support. But limiting export promotion to enterprise support would fail to generate the externalities provided by a well-functioning trade promotion organization and would eliminate an advocate for better export policies. This view is in line with the idea that institutions matter, a perspective often ignored in the past. Even the International Trade Centre in 1999 conceded that interventions by trade promotion organizations have had disappointing results and that their efforts to promote exports need to be refocused.

What makes for a good trade promotion organization?

Country experiences point to seven features that may contribute to a successful trade promotion organization.

Promote incentives favorable to exports

Trade promotion organizations can function well only if overall incentives are not stacked against exports. These organizations can overcome some biases against exports, but there are limits on their ability to operate in the face of a strong export bias. An antiexport bias often stems from an overvalued exchange rate, tariffs that provide high nominal and effective protection, non-tariff barriers resulting from dysfunctional customs practices and poor quality controls, an absence of trade finance, costly infrastructure services (roads, ports), and excessive bureaucratic control of trade.

For instance, in Egypt quality controls imposed on imports of consumer goods range from 5–90 percent of the import cost, with another 15 percent added by cumbersome customs procedures. Special procedures can shelter exporters from the most harmful effects of import protection (procedures such as export processing zones, duty drawbacks, and temporary admissions) and from the absence of a well-functioning financial system (special export finance facilities). Yet even if they work well, these procedures are no substitute for incentives that are truly export friendly.

Seek autonomous operations

Trade promotion organizations must be able to influence policies, mobilize the resources and services needed to support the export drive, and deliver those resources and services when and where needed. These requirements argue for flexible, autonomous institutions that operate with top political support and ensure formal and informal links with public and private actors. Such organizations can respond quickly to new requests and changing circumstances without first having to obtain time-consuming clearances and permissions.

An autonomous trade promotion organization can foster the confidence and mutual trust required to develop a supportive relationship with the business community and to overcome the suspicion and conflict that often dominate relationships between the state and the private sector. But most trade promotion organizations operate directly under ministries of trade, which are often poorly positioned to deal with the main issues affecting external competitiveness and have little power to mobilize the needed resources. As public agencies, most trade promotion organizations are also poorly positioned to carry weight with exporters or to argue against public policies that hurt exporters.

Support a demand-driven strategy

A demand-driven strategy requires that the private sector play a dominant role in defining, implementing, and monitoring the strategy guiding the trade promotion organization.

This approach recognizes that government sets the rules of the game for exports but that the private sector does the exporting.

Export promotion is not a technical issue, because diagnosing problems is easy and can be left to experts. Delivering solutions is more complex, and requires transferring to exporters the ownership of the problems and their solutions. Thus trust is important. There is no single model to ensure such partnership, because country circumstances vary. Thus many analysts recommend that boards of trade promotion organizations be made up mostly of recognized exporters and headed by a respected business leader of acknowledged integrity.

In the Philippines the private sector is represented on the Export Development Board by an accredited export organization. This private organization is changed every three years and must coordinate the private sector's position and defend it before the board. In Finland the export promotion strategy is considered a joint venture between government and the private sector, and is designed and executed based on a consensus among government, industry, and labor. This approach contrasts with the situation in most countries, where few heads of trade promotion organizations have the required export experience.

Strike a balance between offshore and onshore objectives

Export promotion is competitiveness promotion and so goes to the heart of how business is done. Competitiveness deals with pricing, quality standards, the availability of supportive infrastructure services (telecommunications, finance), the supply of quality domestic inputs (a goal hampered by protection), and the ability to work with new business models that emphasize outsourcing, timely delivery, and business to business relationships. Yet trade promotion organizations have traditionally focused on offshore activities such as information gathering, market research, trade representation, and trade fairs.

If trade promotion organizations were attentive to supply conditions, they would provide well-targeted enterprise support to potential exporters facing supply bottle-

necks facing. Well-designed matching grants could help reduce production costs and enhance output quality. Such a scheme could be run by others, but the trade promotion organization could advocate it. Helping enterprises achieve certification by the International Standards Organization (ISO) is just one example, but examples abound where advice from consultants can lower production costs and waste.

Such enterprise services could be supplied by both private and public providers, but these providers should compete on equal ground. Private providers should be encouraged. In the short term support should focus on existing exporters, while selective support for potential exporters may be a good target for the medium term. Many trade promotion organizations have ignored such targeting and wasted resources on firms with little or no export potential. In many countries with successful exports, small and medium-size firms have proven to be powerful innovators and exporters. Such firms may benefit the most from well-targeted support.

Ensure quality staffing

Proper staffing is crucial. A good trade promotion organization can pay its staff salaries similar to those paid by the private sector to talented staff with business experience. The staff of trade promotion organizations often work under civil service rules that make discipline and accountability difficult, resulting in unattractive pay and low motivation. In addition, such staffing practices bring bureaucracy into the organization, with the result that no one has the commercial experience required to interact efficiently with the private sector. A partial solution could be to give trade promotion organizations more autonomy in setting recruitment and salary standards and to draw on the expertise of external consultants. In addition, a well-designed training and internship program can expose staff to commercial practices and private sector concerns.

Provide adequate funding

A sustainable trade promotion organization should have adequate revenue derived

Diagnosing export problems is easy—delivering solutions is more complex

Much can be gained by charging for services, but there are limits to doing so

mainly from domestic sources. Donor financing can initially be useful, demonstrating the potential returns from effective organizations and promoting best practices. But such support should be temporary and followed by sufficient domestic resources. Much can be gained by charging for services, because fees serve as a rationing mechanism and ensure that recipients value services.

Yet there are limits to levying fees, because some potential exporters do not have the needed resources or fully appreciate the available services until they succeed in exporting. Moreover, such services entail important externalities—such as the country's image abroad, the quality enhancement of interindustry supplies, and the strengthening of foreign exchange reserves. Past problems with funding trade promotion organizations have resulted from dwindling budget transfers, fees raised that had to be transferred to the treasury, and piecemeal and badly structured donor financing.

Evaluate the results

The effectiveness and efficiency of trade promotion activities must be periodically evaluated. Doing so permits policymakers to learn from experience, to refine strategies, and to avoid self-perpetuating processes. But evaluating services is not an exact science. The impact of the activities sponsored by a trade promotion organization may be delayed, and exports are affected by many variables, only some of which are under the control of the trade promotion organization.

Still, evaluations can document export performance at the macroeconomic level and of enterprises that have benefited from the services of a trade promotion organization. Such evaluations can be supplemented by client surveys and reviews of business plans of enterprises that have ben-

efited from such services. New Zealand appears to have made the most progress with such evaluations.

Conclusion

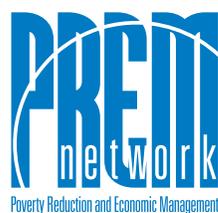
The proclaimed priority of exports contained in many development plans, Poverty Reduction Strategy Papers, and similar documents will remain hollow if it is not supported by forceful reforms that counter biases against exports. Once such reforms are implemented, much can be gained from reforming trade promotion organizations along the lines of the above recommendations—or from simply eliminating organizations that cannot be reformed.

Further reading

- Hogan, Paul. 1991. "Some Institutional Aspects of Export Promotion in Developing Countries." World Bank, Economic Development Institute, Washington, D.C.
- International Trade Organization. 1999. "Redefining Trade Promotion: The Need for a Strategic Response." [<http://www.intracen.org>] Geneva.
- Keesing, Donald B., and Andrew Singer. 1990. "How Support Services Can Expand Manufactured Exports." Working Paper. World Bank, Country Economic Department, Washington, D.C.

This note was written by Luc De Wulf (former Lead Economist, Middle East and North Africa Region) and draws heavily on mission experience, contacts with staff of the International Trade Centre, and publications issued by the International Trade Centre

If you are interested in similar topics, consider joining the Trade and Competitiveness Thematic Group. Contact Faezeh Foroutan (x37680) or Dorsati Madani (x37925), or click on Thematic Groups on PREMnet.



This note series is intended to summarize good practice and key policy findings on PREM-related topics. The views expressed in these notes are those of the authors and do not necessarily reflect the views of the World Bank. PREMnotes are distributed widely to Bank staff and are also available on the PREM website (<http://prem>). If you are interested in writing a PREMnote, email your idea to Sarah Nedolast. For additional copies of this PREMnote please contact the PREM Advisory Service at x87736.