

Trade promotion, export growth and GDP: Fresh data and fresh insights

Context

Trade Promotion Organizations (TPOs) play an important role in helping businesses to grow by successfully engaging in trade. In particular, TPOs can ensure that when small firms take risky steps into new markets or new products, they can access the knowledge and the networks to reduce the market entry risk and speed up success. In times of uncertainty or rapid change this support is even more important. This new report confirms in numeric terms that the value of these interventions by TPOs accrues not only to the firms that are directly served, but also delivers a multiplier to the economy as a whole.

Trade promotion support given to firms generally improves firm revenue and profitability, and has effect on other firms in the supply chain, as well as on the local community. Export-led growth by multiple firms delivers macro-economic impact including increased foreign exchange, the diversification of market/product mixes, better and more innovative products, and the establishment of trading routes, relationships and brand awareness in target markets. The combined direct and indirect impact delivers the multiplier co-efficient identified in this report.

This report is very timely with government budgets currently under relentless pressure. TPOs have a longstanding problem of proving to government stakeholders that the investment of public funds into trade promotion delivers a positive return to firms, sectors, communities and countries.

Maximising the multiplier relies on TPOs being effective, efficient and highly connected organizations, credible to the private sector, and with the people and processes in place to fully deliver on their own mandate as well as on the ambitions of the firms and the governments they serve.

This latest research commissioned by Trade Promotion Europe from the University of Geneva provides an update on previous analysis and offers new insights on how TPOs can adjust their approach. In collaboration with TPE, the International Trade Centre has prepared this summary document of insights and findings, including the implications for the stakeholder management, strategy, resource allocation, services and results measurement of TPOs.

Trade Promotion Europe is to be congratulated for commissioning this research. The findings are thought-provoking, yet coherent with what we know about the work of TPOs. This report with this covering analysis should form the basis for strategic discussions by TPOs everywhere.



Download the report from [Trade Promotion Europe](#)

Discussion of the research findings and recommendations

Finding 1.

There is confirmation of previous research that investing in trade promotion has a positive effect on both exports and GDP growth.

The call on government budgets to support the work of TPOs has always solicited questions, including claims that support to profitable businesses is not in the general interests of the taxpayer. This updated research proves that this investment by governments results in a much broader positive impact on the economy, well beyond that accrued to individual firms. The increase in export earnings helps balance the economy by earning foreign exchange and reduces economic risk by diversifying markets. The flow on effects on GDP show that when businesses do well, everyone benefits. With the productive linkages to local supply chains, both exporting firms and others in the value chain increase sales, increase profitability, enhance skills, improve product compliance and foster innovation.

Maximising returns on trade promotion relies on organizational excellence while addressing market failure.

It is via a combined set of interventions that TPOs help to overcome barriers that no single firm can resolve, and to deliver the improved economic outcomes demonstrated by this report. There are six types of intervention which are key to TPO success in ensuring that more firms choose to export, more succeed, and that special interest groups of importance to broader social and economic objectives receive special attention.

When businesses succeed in international markets, benefits are accrued to the business and to the wider community. But nevertheless, there is still reluctance for businesses to engage in the risk taking associated with international trade because of the sunk costs inherent in the development of an unknown market. TPOs therefore play an important role in reducing sunk costs and sharing risk. They also play a role in offering government support to exporters to reflect broader economic, social and environmental considerations. Combined, this response to market failure forms the intervention logic for taxpayer-funded support of trade promotion.

But high performance is key. Institutional excellence is derived from the governance, structure, culture and strategy of the organisation, as well as the efficient and effective provision of solutions that deliver on the following intervention logic. These intervention areas are being affected by rapid changes in the application of new technologies to trade, and can be further described below:



Overcoming information asymmetry, by providing information for business decision-making on expected demand, markets, market entry models, regulatory requirements, competitive positioning and potential partners. No single business would be able to afford the network of information sources required, justifying the investment by the government in missions abroad and databases of information.

Digital platforms and artificial intelligence are new factors, using big data and web analytics to deliver highly customised information about export potential, marketing, sales and logistics. Trade promotion organizations around the world are adapting with innovative partnerships to contribute to and benefit from this new use of data and technology.



Co-ordination for scale and scope. A catalyst is often required to reduce costs and improve profits via a co-ordinated approach to market entry. This can take the form of a shared trade fair stand, a collaborative approach to tendering for a project, a shared sector brand or marketing strategy, a complementary product offering to a single buyer, shared procurement of inputs, and shared training or innovation costs. TPOs are often the first to become aware of the opportunity for clustering, and they have the neutrality and the resources to support collective efforts.



A credible bridge between the public and private sector. To deliver services, TPOs need to understand business needs. If they are also good advocates, this can lead to an improved business environment. In particular the positive impact of free trade agreements or other mechanisms are maximised if the needs of businesses have been taken into account and if businesses are fully informed of the opportunities. Agencies that are credible to both business and government are an excellent two-way communication and advocacy partner.



Imprimatur and brand building. A government funded agency carries with it the authority of the government. For businesses this provides credibility and improved access to senior officials and diplomatic networks. This imprimatur includes partial responsibility to both harness and protect a country brand. In today's digital world, this country branding is not a traditional static logo, but a carefully curated set of narratives, supported with traditional and social media, and flexible enough to be relevant for tourism, trade (in a wide variety of sectors), investment, diplomacy, as well as sports and cultural activities on an international stage.



Sharing risk and reducing sunk costs. Many traditional trade promotion activities reduce the risk and sunk costs of new market entry by building expertise, access, profile and networks into unfamiliar markets, in advance of exporting businesses.

Research confirms that trade promotion activities deliver more value at these “extensive

margins”¹. With increasing fiscal pressures, and a growing number of emerging export markets, it is not possible for a trade promotion agency to build this knowledge and networks for all markets. This means that agencies have to make some strategic decisions on behalf of exporters. Increasingly this also means new partnership models with other organizations in the public or private sector, and a growing dependence on diplomatic staff to deliver on firm level objectives for new export sales.²



Investing for social value, positive externalities and the long term.

Government funded organisations are able to allocate resources based on a broad perspective that takes into account the positive and negative externalities associated with the internationalisation of businesses. This social responsibility to support marginalised groups, as well as the opportunities represented by the digital economy is driving BSOs to work with businesses at an earlier stage in their lifecycle and to do more to support entrepreneurship and innovation. To do this means that the traditional trade support activities, for example export information seminars, need review. These have been shown to be most effective for businesses that are already export ready and can even be counter-productive for businesses that need to build capacity first³. Trade promotion activities are also being adapted to support the needs of women, and to respond to expectations of growth that is also environmentally sustainable.

To maximise the potential for return identified by this research, TPOs need to maximise organizational performance overall, alongside a careful alignment of their activities with the intervention logic above. Many trade promotion activities (eg participation in a trade fair) will succeed because all of the areas of intervention are seamlessly combined. This intervention logic therefore provides a useful check list to review the full portfolio of services offered by the TPO to maximise value to all stakeholder groups.

Finding 2:

Returns are increased when TPOs focus on smaller businesses (but also on existing exporters)

This study highlights a strategic tension in the allocation of resources for TPOs. The market failure that TPOs seek to address is more keenly felt by small businesses and who therefore place a high value on the support they receive from TPOs, than larger businesses who have access to more internal resources and knowledge. Despite the value delivered by the TPO, in the short term, small businesses, even if their percentage growth rate is high, will not contribute significantly to macro-level results. It is by investing in business with high growth potential, in emerging sectors and markets, that TPOs contribute to export and market diversification, with related longer-term benefits of innovation and resilience for the economy. With smaller firms it often works well to work with groups and clusters, keeping costs down.

At the same time, support for existing exporters should not be overlooked. Protecting the core of the export economy, responding to competition and troubleshooting market challenges are

¹ Christian Volpe Martincus & Jerónimo Carballo & Andrés Gallo, 2010. "[The Impact of Export Promotion Institutions on Trade: Is It the Intensive or the Extensive Margin?](http://www20.iadb.org/intal/catalogo/PE/2012/09589.pdf)" IDB Publications (Working Papers) 3191, Inter-American Development Bank.

² This shift to new types of global delivery channels for TPOs is increasing the demand for training for non-professionals in the art of foreign trade representation. ITCs specialist publications, workshops and courses in commercial diplomacy seek to address this.

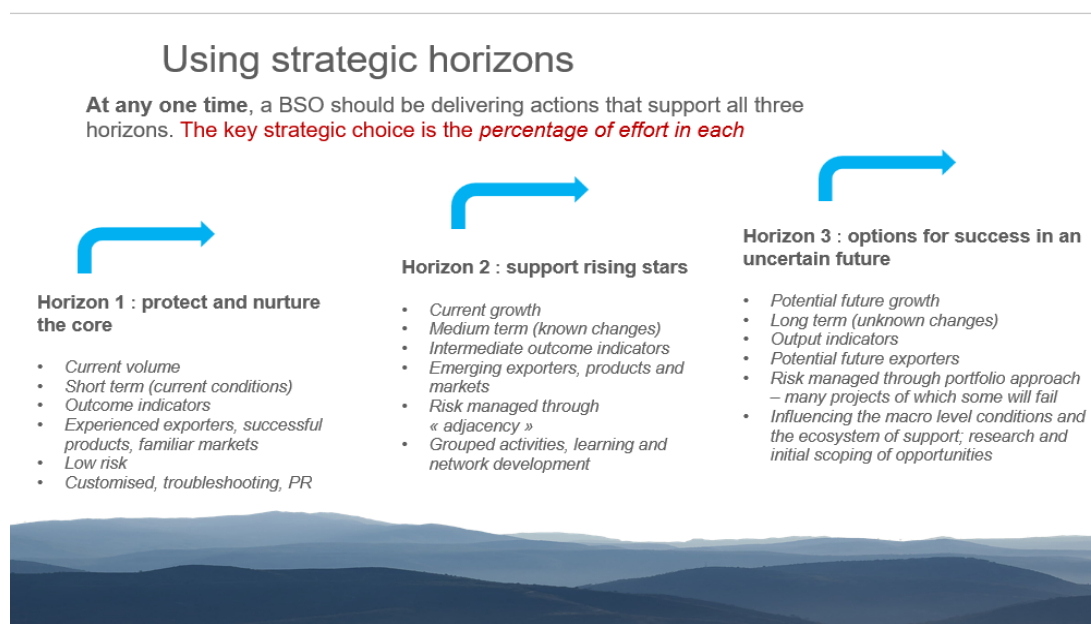
³ Yu Ri Kim, Yasuyuki Todo, Daichi Shimamoto, Petr Matous, 2018. [Are seminars on export promotion effective? Evidence from a randomised controlled trial.](https://doi.org/10.1111/twec.12658) [https://doi.org/10.1111/twec.12658](https://doi.org/10.1111/twec.12658#_W-7g_K4TKmE.twitter)

all critical to maintaining existing levels of competitiveness in a volatile global context. Furthermore, existing exporters provide important role models and are well placed to support growth and diversification by delivering new products into an existing market, or existing products into a new market.

Allocating resources across multiple horizons can help maximise overall returns over time

To resolve this strategic tension a horizon model has proven useful. The big strategic decision then becomes the allocation of resources against each horizon that will best deliver on the objectives of key stakeholders.

For TPOs, the horizon model for business support organizations (BSOs) more generally can be applied, as set out below:



Under this model, *at any one time*, resources should be allocated to activities in each horizon. This means helping existing exporters to protect current markets - and deliver on short term volume and value indicators of export sales (Horizon 1) while also building new and sometimes risky pathways to new markets for new products or new exporters, with results that describe percentage growth and trade diversification (Horizon 2). Horizon 3 activities ensure that the business environment fosters a pipeline of future success stories, including a portfolio of small projects to support new sectors, innovation and entrepreneurship.

In summary, depending on the timeframe and the definition of success for a TPO, strategic tensions are likely to emerge. These tensions require TPOs to balance their allocation of resources across multiple horizons, with different client segments, different risk profiles, different types of success indicators, and different types and formats for intervention. Key to success is managing expectations with key stakeholders about the implications of a specific focus on activities in any one horizon. In a healthy business support ecosystem, this balance can be also achieved by co-ordination among complementary agencies.

Finding 3:

The success of one TPO does not undermine the success of others (it is not a zero-sum game) and in fact can improve the returns for other TPOs

This result could be driven by a number of interrelated factors, and the direction of causality may not be straightforward. Historically, demand for quality products and services outstrips supply. A high performing TPO in one market will not service all the demand, due to constraints in both volume and the types of products available. In fact, it is possible that the expertise, credibility and connectedness of a high performing TPO has a halo effect on neighbouring TPOs who benefit from buyers or consumers improving their awareness of the regional offer, building their level of comfort and trust in the opportunities for trade of products and services or combining business or tourism visits to several countries at once.

TPOs benefit from both formal and informal opportunities for collaboration

This means that there is no downside to TPOs engaging in regional collaboration or along value chains. Peer to peer learning, shared platforms, and regional promotion activities bring benefit to all.

Bilateral or regional collaboration among TPOs can be an informal and reactive response to a specific opportunity, it could be a semi-formal commitment to engage on a regular basis, or it could be a formalised network or regional working group, with structures, strategies and a formal shared workplan. All are valid approaches to benefit from the halo effect described in this report, and it generally makes sense to move gradually from less formal to more formal structures. The Framework for Pacific Regionalism⁴ is a useful approach to consider various levels of formality, as well as providing tests for regional action. It is worth noting that this collaboration can be based on something other than geography for example the REDIBERO network connects Latin American organisations with their peers in Spain and Portugal.

General recommendations for consideration by TPO leaders

1. Use the multiplier demonstration as a basis to justify government resources for trade promotion activities.
2. Reinforce this demonstration with good results measurement at the firm level.
3. Recognise that this multiplier will only be maximised if other internal and external conditions are met: eg organizational excellence and customer segmentation, overall effectiveness of interventions, removal of barriers to trade.
4. Commit to continuous improvement, seamlessly combining the activities that support the intervention logic, and being prepared to understand and adapt to the needs of specific segments, sectors and markets.
5. Use a horizon model to balance and broaden resource allocation for different types of firms, sectors and markets.
6. Proactively engage with peer TPOs via formal and informal networks to benefit from shared know-how and networks.

The International Trade Centre has a team of experts and proven methodologies to help TPOs maximise their performance. Our platform for business support organizations (itcbenchmarking.org) provides more information.

⁴ [Pacific Regional Operations Business Plan 2015-2017 - Supplementary Linked Document](#)