

Reacting to the economic crisis: El Salvador's Exports and Investment Promotion Agency's (PROESA) experience

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I. Redefining a promotion Agency's role within an economic crisis' context

Since 2008, El Salvador is undergoing one of its deepest and longest economic crises in its recent history. During these last 4 years, its Gross Domestic Product has grown with a 1% average rate. This places El Salvador on the lowest levels of Latin America's rankings for economic performance.

Having such a small and open economy (GPP \$22,000 Million/ Economic Openness Index 68%), the performance of the Salvadoran economy is highly dependant on foreign trade and foreign investment flows. These two indicators are precisely the ones that have experienced the most negative impact during this crisis.

It wasn't until 2011 that El Salvador reached once again the value of exports reported before the crisis. For 2012, nevertheless, a negative growth rate is expected. This indicates that the apparent recovery has been laid out on fairly weak foundations that don't secure long term sustainability.

Regarding Foreign Direct Investment (FDI) and according to The Economic Commission for Latin America (ECLA), El Salvador has held for two consecutive years the bottom places in the most attractive countries for investment rankings. El Salvador's FDI flow has been equivalent to 1.3% of GDP on average during 2009, 2010 and 2011.

This bleak scenario forced us a couple of years ago to ask ourselves the following questions:

- a. What is the role to be played by a Trade and Investment Promotion Agency to face a crisis of this nature and magnitude?
- b. Should it assume a passive role and wait for a more favorable environment to resume its promoting role?

- c. Should it lower its profile and take advantage of the situation in order to redefine its institutional role and its work tools?
- d. Should it be proactive in the anti cyclical policies that the government promotes or should it step aside from macroeconomic policies?

These are a couple of questions we had to answer ourselves towards the end of 2010 when we assumed the executive direction of El Salvador's Exports and Investment Promotion Agency. Not only in the midst of a profound economic crisis, but facing an institution not prepared to cope.

What I'm about to share with all of you, are a couple of the decisions we have made and the steps we have taken in order to continue to do our job; fully aware that uncertainty has become our most loyal travel partner; but also entirely confident that opacity and stagnation are not feasible alternatives to face such a complex scenario.

II. A step back: from promoting trade to productive development

Our agency has always been characterized to have a predominant role only towards the end of the export process value chain. Since its creation in 2005 as a trade promotion agency, most of its resources were devoted to try to position the Salvadoran export supply abroad by participating in international trade fairs, organizing trade missions, searching for potential buyers and developing promotion campaigns for sectoral brands.

Since 2010 we made the decision to take a step back. We understood perfectly that overcoming the crisis would only be possible, among other things, only if El Salvador made profound changes in its productive structure and in the way how it inserts itself in the trade and investment global chains.

Thus we took over the task to create new work tools. These tools are mainly targeted to expand our companies data base and to create internal competitiveness conditions that will facilitate the insertion of these companies in the overseas market.

We left behind the more traditional "trade promotion" concept in order to move forward to a broader concept: "productive development". Productive development

is a concept where our beneficiaries are no longer just the exporting companies, but rather local companies that have not initiated their exporting process.

This change, that probably seems slight to most of you, meant a fundamental change in our agency. This shift of our way of thinking has implied changes in our organizational structure, in our way we assign priorities and in the kind of support tools we offer to the companies. But mainly, it implied a change in the way we understood our work and in the way we measured the impact our actions had.

The first conclusion that I can share with you regarding our experience, is that the reaction of a Trade Promotion Agency facing a crisis or sudden changes in its environment, makes you “think outside the box”. It demands breaking some paradigms and abandon institutional practices that had become norms.

III. Rethinking our target: selecting winners or broadening our approach

Another important institutional policy we have adopted due to the crisis is directly linked to our clients: the companies to whom we offer our support and guidance for international insertion.

Traditionally, our agency has worked with companies with some exporting expertise. Mostly medium sized companies that required our services to expand their target markets, contact potential buyers or position new brands. Working under this approach, PROESA attended in average, 350 companies a year. Most of these companies came back year after year looking for our services.

In 2010, we expanded our work horizon and we took on the task to go out and search for new companies throughout the whole country. We made public announcements, visited the countryside, established alliances with unions and private sector clusters. Anyway, we went to meet our small and medium sized non exporter companies in order to improve their entrepreneurship and stimulate them to venture in overseas markets as a viable alternative to support the development of their business.

For PROESA, all of this meant a new way of acting. We had to build more effective tools to diagnose exporting potential, design more robust entrepreneurship training programs, venture into business topics that until now were unknown to us. We had

to assume a brand new indicator that measures our impact: not only measure the increase in exports, but also the surge of new exporting companies.

That's how 2 years later; we can show our first and humble results. We can say that as a result of these decisions, we now have more exporting companies. They still have a low impact in terms of global trade, but having positive effects on job and income generation. This shows how a promotion agency can contribute to strengthen anti cyclical policies without abandoning its function of promoting global trade.

IV. Redeploying our target markets: running away from the global crisis

Salvadoran export promotion suffers from a strong market concentration problem. Close to 8 out of 10 USD exported, have only 2 destination markets: the United States and Central America. This marked tendency to concentrate our exports in so few markets oriented largely our trade promotion efforts. This became a trap for PROESA: if most of the trade was oriented to those destinies, most of our promotion efforts we doing exactly that.

These economies were precisely one of the hardest hit by the 2008 global crisis. As a consequence, the transmission of the crisis to our country was mainly through the substantial reduction of our exports to those markets.

We then faced a harsh reality. Those who were basically, up to that day, our only buyers, stopped demanding our products; and we had not created the conditions to endeavor into other markets. The impact was such that facing the 2008 US economic crisis; our total exports dropped 16% in 2009.

We then saw the need to start to study new markets, mainly South America and the Caribbean. We studied these markets in order to identify new incursion opportunities for our exports; and offer our users brand new options that would substitute the lost markets and reduce vulnerability of our global trade.

This led us to broaden our work horizon towards markets that we had little or no knowledge about them. It made us study and analyze consumer preferences and country access conditions that to our knowledge, could offer attractive opportunities for Salvadoran companies. It demanded us to establish contact with companies and private sector clusters to whom we have never talked to. But mainly, it meant a strong institutional effort to diminish fears among Salvadoran exporters

of going into new markets; precisely at a time when their company's performance was not optimum.

We studied close to 15 new destinations, did trade flow research, analyzed their economy's performance, did in situ research and finally we can now proudly state; that we are on the road to expand our destination markets for Salvadoran exports. We are taking advantage of the peak of some Latin-American economies and putting in perspective, a sustainable diversification strategy for our global trade.

In El Salvador, as we speak, the first trade mission to Ecuador is in the making. Ecuador is a country which our business relationship has been historically inexistent. But according to our analysis, it offers favorable conditions to position some Salvadoran products, mainly products from the plastic and pharmaceutical industries.

We have already done our first promotion activities in Cuba and Colombia. Looking into the future, we are betting on other growing economies such as Peru and Panama.

V. In conclusion

The World has entered in a strong and accelerated economic changes cycle. Today the crisis and uncertainty have become omnipresent variables in the trade and investment scope. If in the past, the capability to plan in the long run constituted a desirable feature of promotion agencies, today is the ability to react and adapt to the constant changing environment the feature that can make the difference between a successful agency and another that's not.

Today the center of the economic World is no longer in the West. While the US and Europe debate in an unprecedented crisis; South America and Asia are positioning themselves as emerging regions with great growth perspectives.

Trade Promotion Agencies can't allow themselves to be deluded nor irresponsible; we need to act according the new global dynamics. We need to break paradigms and change institutional practices. But for the most part we all need to improve our ability to timely read what happens in the world and build capacity in our organizations to react quickly and efficiently.

We need to understand that it's not possible to obtain different results if we continue to do the same.