Is Export Promotion Effective in Latin America and the Caribbean?*

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OUTLINE

➢ The Project: Motivations, Goals, and Methodology

➢ Survey: Two Key Findings

➢ Export Diversification: Agencies’ Own Offices vs. Diplomatic Representations

➢ Impact Evaluation: One Case Study

➢ Agenda Ahead
Expanding and diversifying exports are two common goals of trade promotion agencies in Latin America and the Caribbean as declared in their statement of purposes.

These agencies provide firms with information on the export process and foreign markets and disseminate information on domestic products.

They thereby attenuate the problems of imperfect information prevailing when firms attempt to cross borders.

As a consequence, from a theoretical point of view, actions performed by export promotion agencies may result in increased trade, both along the intensive and extensive margins (i.e., increased and diversified exports).

Is this really the case? What does the evidence tell us?

This is a key question. Export promotion is not free and is one of the several possible alternative allocations of frequently scarce public resources...

The problem: We do not have yet a clear answer to that question.
THE PROJECT: GOALS

The IDB project aims at uncovering the effects of export promotion in Latin America and the Caribbean.

The main goal is to derive useful policy recommendations for the agencies and to accordingly identify potential action areas for the IDB in their implementation (in coordination with other organization such as the ITC).
THE PROJECT: METHODOLOGY

Whether trade promotion activities result in increased trade is likely to depend on:

- the relevant macroeconomic and sectoral policies;

- the institutional features (e.g., network of offices, reporting schemes, norms that govern the selection and promotion of personnel, relationships with other public and private organization within the country, etc) and the associated incentives structure; and

- the kinds of promotion activities and the specific instruments used.
The Project: Methodology

Our project accordingly consists of two main parts:

- A survey of the institutional characteristics and the promotion strategies of the agencies in the region and those of some representative agencies out of the region (detailed questionnaire).
THE PROJECT: METHODOLOGY

**Age, Legal Structure, and Goals:** When was the agency created? What is the legal structure of the agency (public, private, combination of both public and private, etc.)? What are the purposes/missions of the agency as stated in its bylaws?...

**Size: Geographical Coverage, Budget, and Personnel:** Does the agency have own offices abroad? Where? How many employees does the agency have? What is the annual budget of the agency?...

**Funding:** Who determines the budget of the agency? Which are the agency’s sources of income?...

**Mechanisms of selection and profile of personnel:** How many employees have master degrees?

**Activities:** How is the budget allocated among the activities of the agency? What services does the agency offer? What type of companies use the agency’s services?

**Inter-institutional Relationships:** What are the coordination mechanisms between the agency and other private/public institutions responsible for foreign trade?...

**Evaluation:** Does the agency have impact indicators? If so, how is the agency’s impact measured?...
Collection of highly disaggregated trade data (both at the country-product and firm-country-product levels) and a series of exhaustive statistical analyses to assess the impact of some of the institutional characteristics and activities on the export performance of countries and firms.
The Project: Motivations, Goals, and Methodology

Survey: Two Key Findings

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**SURVEY: TWO KEY FINDINGS**

**Own Offices vs. Diplomatic Representations:** There is an important heterogeneity across countries in the region in terms of how agencies operate abroad. Some organizations have an extensive network of own offices abroad, whereas others just rely on their countries’ diplomatic representations (embassies and consulates). Further, these representations do also exhibit substantial variation in terms of geographical coverage.

What does this Imply for Export Outcomes? Are both Schemes Equally Effective?
**Evaluation:** While there is also heterogeneity across countries in the region in terms of evaluation practices, the overall picture is that the region lags behind in this area. Several agencies evaluate their performance using input measures (i.e., number of missions organized) instead of output measures and others rely on post-event questionnaires, whose responses to are potentially affected by political economy problems.

Examples of answers to the questions “Does the agency have impact indicators? Which ones?”

“…”

“Number of firms that participated in the activities organized by the agency”

“Number of staffs that attended missions and fairs”

“No”

Are trade promotion activities effective in helping firms expand their exports?
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The average impact of the offices of export promotion agencies (black) on the number of products exported by the countries is markedly higher than that of diplomatic representations (red).

In particular, agencies’ offices have a positive significant effect on a larger number of sectors than diplomatic representations (38 sectors vs. 11 sectors in the 2-digit SITC).
DIVERSIFICATION: OWN OFFICES vs. DIPLOMATIC OFFICES

- Trade promotion agencies favor diversification of exports of differentiated goods.
- Embassies and consulates contribute more to the expansion of the number of homogenous goods.

![Graphs showing Estimated Coefficient distributions for Differentiated Goods, Reference-Priced Goods, and Homogenous Goods across Sectors.](Image)
DIVERSIFICATION: OWN OFFICES vs. DIPLOMATIC OFFICES

Former results should not be linearly interpreted as necessarily suggesting that all agencies should have own offices abroad. However, they raise several questions:

- Do all diplomatic representations have commercial sections properly endowed with qualified personnel to perform the (not easy and highly specific) task of export promotion?

- Are existent institutional coordination mechanisms linking agencies and diplomatic structures enough and well designed?

- Are there incentives within the diplomatic structure that effectively foster trade promotion activities?
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Using highly disaggregated firm-level data over the period 2001-2005, we find that:

The rate of growth of exports is 17.00% higher for firms assisted by PROMPEX (currently PROMPERU), while those of the number of countries and the number of products are 7.79% and 9.86% higher, respectively. This implies that assisted firms would have a rate of growth of total exports 3.60 percentage points higher than non-assisted firms.
Export promotion has had a positive and significant effect on all these firm export outcomes. In particular, it has helped firms expand their exports of given products through diversification of markets. The growth rate of exports per product is 7.00% higher for firms assisted by PROMPEX and this is mainly explained by a higher growth rate of the number of countries to which these products are exported (4.8% higher).
Export promotion seems to favor an expansion of firms’ exports, essentially along the extensive margin, i.e., an increase of the number of countries served and that of the number of products traded, thus enabling the introduction of new destinations and export goods.

In contrast, the activities of the agency do not seem to have a robust significant impact on the intensive margin of exports.

This result pattern coincides with the priors. Informational problems tend to be more severe when entering a new market or starting to export a new product than when expanding operations on products already traded or in a country already served. Export promotion actions aiming at ameliorating these informational problems are therefore likely to have a stronger effect in the former case.
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AGENDA AHEAD

➢ Finish the institutional analysis, based on the answers to the questionnaires, interviews, and secondary sources of information.

➢ Countries whose agencies participates: Argentina, Australia, Bolivia, Brazil, Colombia, Costa Rica, Chile, El Salvador, Finland, France, Guatemala, Ireland, Israel, Japan, New Zealand, Netherlands, Panama, Peru, Singapore, South Korea, Spain, Thailand, United Kingdom, and Uruguay.

➢ Other countries: Denmark, Ecuador, Honduras, Italy, Jamaica, Mexico, Nicaragua, Paraguay, and Portugal.

➢ Regions: Catalonia (Spain), Córdoba and Mendoza (Argentina).

➢ Finish impact evaluation exercises in selected countries (as determined by data availability): one additional case (studies for three other countries are already done)…

➢ Finish the Report: **Beginning of 2009**.