INVESTING IN TRADE PROMOTION GENERATES REVENUE

International Trade Centre

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UNIVERSITÉ DE GENÈVE

GENEVA SCHOOL OF ECONOMICS AND MANAGEMENT

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Abstract for trade information services

ID= 43182 2016 F-08.01 INV

International Trade Centre (ITC)
Investing in Trade Promotion Generates Revenue
Geneva: ITC, 2016. xi, 34 pages (Technical paper)
Doc. No. TS-2016-4.E

Recent analytical literature has concluded that money spent on export promotion tends to foster export growth. This technical paper discusses the findings of recent work by a team of consultants that find that a 1% increase in export promotion budgets increases exports by 0.074%, confirming results in the earlier literature. Their work also suggests that these export gains translate into very large GDP per capita gains. Indeed, a 1% increase in export budgets generates a 0.065% increase in GDP per capita. Trade Promotion Organizations characteristics that tend to generate large export growth do not necessarily generate large gains in terms of GDP per capita growth.

Descriptors: **Export Promotion, Trade Promotion, Trade Promotion Organizations, Evaluation**

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English

Citation: International Trade Centre (2016). Investing in Trade Promotion Generates Revenue - A study of Trade Promotion Organizations. International Trade Centre, Geneva, Switzerland

This technical paper was produced with the financial support of 14 European Trade and Investment Promotion Agencies.
The International Trade Centre (ITC) is the joint agency of the World Trade Organization and the United Nations.
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Foreword

This study follows the successful completion of a joint workshop on Impact Assessment by the International Trade Centre (ITC) and the network of European Trade Promotion Organizations (ETPO) in Vienna in January 2014. Financed by the network, for the network, it aimed to deliver practical assessment solutions for its members. Following the workshop, a group of ETPO members requested that ITC co-ordinate a European-wide study on their impact on trade and GDP in their respective countries.

For over 50 years, ITC[1] has worked across the globe with Trade Promotion Organizations (TPOs) and other Trade and Investment Support Institutions to build institutional capacity and to support the process of internationalization. All TPOs share certain challenges:

- how to demonstrate to stakeholders that they are delivering a satisfactory return on the investment made by governments, donors, and customers;
- how to make strategic choices about the allocation of resources to the types of exporters or potential exporters, and to different sectors and activities in order to maximize impact;
- what type of governance structure will best support the objectives of the TPO.

The best TPOs have measurement systems that allow them to partly answer these questions, but it is very difficult to provide proof beyond simple anecdote that the TPO intervention has been at the root of export performance improvements at the firm level, let alone at aggregate economic and social level. Given the time frame to grow new export markets, this is particularly difficult if successful impact needs to be demonstrated within the timeframe of budget cycles.

A broad-based macroeconomic study, therefore, that confirms the relationship between the investment in a TPO and economic growth is very welcome. The insights about critical success factors are also valuable. It is always tempting for TPOs to target large businesses that are export-ready, have high growth potential and can generate exports in a relatively short timeframe. This study reminds us that if aggregate economic and social impacts are the ultimate goals, then this choice might need to be reviewed.

It is our hope that TPOs in the developed and the developing world use the insights from this paper to:

- support their resource mobilization efforts with further evidence of the return on investment of a well-resourced and effective TPO;
- seek clarity on the expected impact from stakeholders – if economic and social impacts are the primary goal, then success measures and strategic choices need to take this into account;
- shape their thinking about which types of companies, sectors and markets to focus on to maximize both export growth and longer term social impact;
- analyse the most appropriate mix of services and delivery options to maximize the intended results.

This paper is likely to have a wide audience of TPO leaders, academics, policymakers, donors and project evaluators. If the results of this study resonate with the difficulties and decisions that you have been facing in your TPO or your project, we would love to hear your feedback and your practical insights about how this econometric pattern plays out in reality. Please contact the ITC Trade Support Institutions Strengthening Section on tradesupportnews@intracen.org, or join the conversation on our benchmarking site: http://www.tisibenchmarking.org/.

[1] ITC is a United Nations agency jointly supported by the Wolrd Trade Organization and the UN Conference on Trade and Developemnt. The Trade Support Institutions Strengthening Section of ITC intervenes to build the capacity of Trade Support Institutions globally, so that internationalizing businesses receive more effective support, including advocacy to policymakers and buyers. http://www.intracen.org/itc/trade-support/ http://www.tisibenchmarking.org/benchmarkredesign/

Acknowledgements

This study has been made possible through the financial contribution of 14 members of the ETPO network[2]. The Trade Support Institutions Strengthening Section of ITC coordinated the overall study, working closely with each participating TPO to assemble and control the validity of the data that was used in the research.

The research was carried out and drafted by Professors Marcelo Olarreaga[3], Stefan Sperlich[4] and Virginie Trachsel[5] from the School of Economics and Management of the University of Geneva in Switzerland. The research included obtaining the databases and information used in similar studies by other organizations, as well as adjusting the econometric model, processing the information and producing the technical paper that underlies this document.

The Trade Support Institutions Strengthening section, the Office of the Chief Economist, and the Communications and Events section of ITC provided support in the preparation of the executive summary and the production of this paper.

ITC wishes to acknowledge Dr. Giordano Mion of the Department of Economics of the University of Sussex for his contribution to the present technical paper.

[2] Advantage Austria, Brussels Invest and Export, Flanders Investment and Trade, Wallonia Export-Investment Agency, Bosnia and Hercegovina EPA, Ministry of Energy Commerce, Industry and Tourism of Cyprus, Trade Council of Denmark, Enterprise Estonia, Promote Iceland Islandstoffa, Italian Trade Agency, Enterprise Lithuania, Trade Malta, Netherlands Enterprise Agency, SPIRIT Slovenia, Switzerland Global Enterprise, and United Kingdom Trade and Investment.

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Contents

Tables

Figures