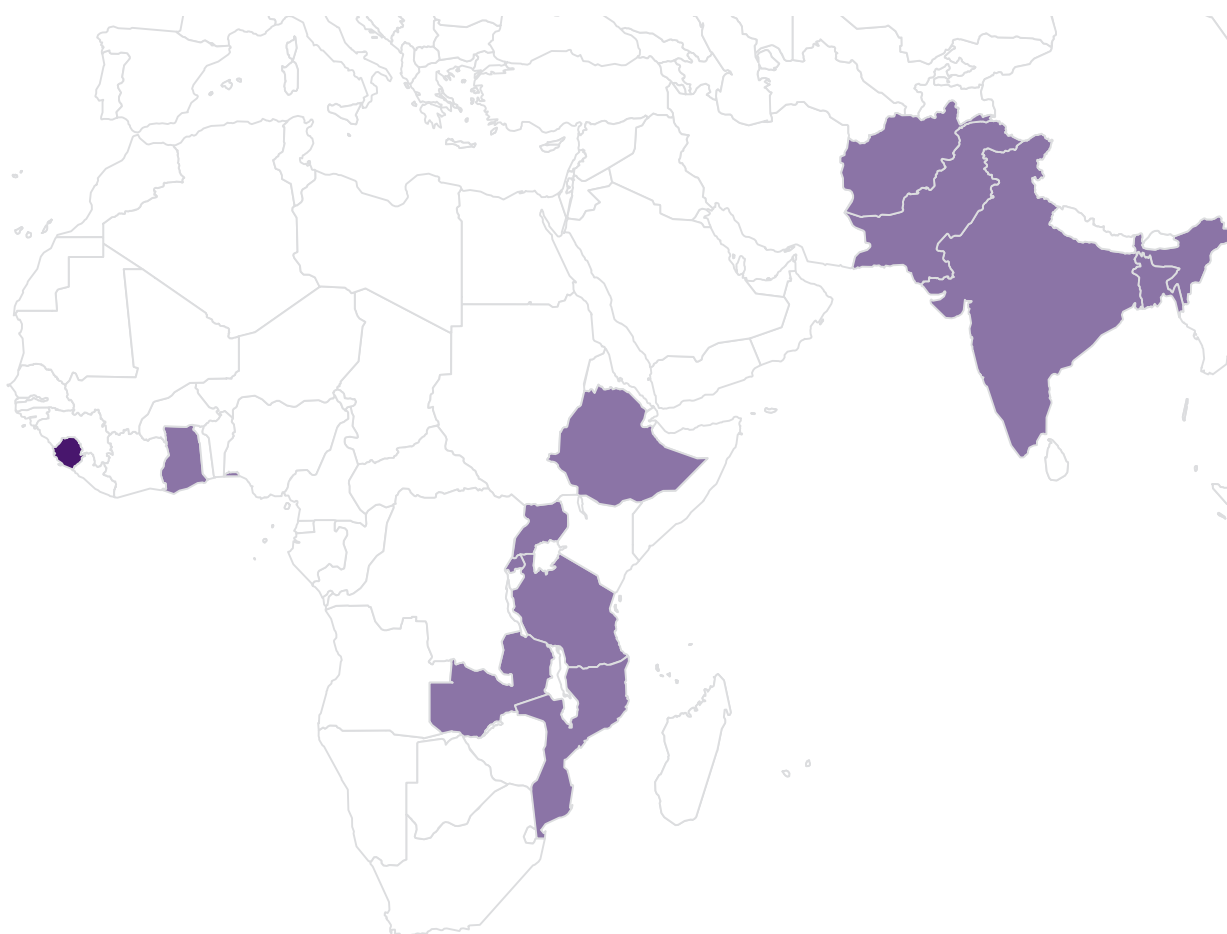


# Survey of the literature on successful strategies and practices for export promotion by developing countries

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## Contents

<b>1 Introduction</b>	<b>3</b>
<b>2 Economic justifications for government intervention</b>	<b>8</b>
2.1) Marshallian externalities and infant industry protection	
2.2) Information problems, coordination failures, credit and other market imperfections	
2.3) Comparative advantage discovery	
2.4) Spillovers and learning-by-doing	
2.5) Production of knowledge goods and R&D spillovers	
<b>3 Export promotion policies</b>	<b>12</b>
3.1) Export subsidies	
3.2) Export Processing Zones (EPZs)	
3.3) Trade finance	
3.4) Trade Promotion Organizations (TPOs)	
3.5) Other factors for successful export promotion	
<b>4 The importance of evaluating export promotion policies</b>	<b>16</b>
<b>5 Export promotion policies and the WTO</b>	<b>19</b>
<b>6 Export promotion in action: policies, instruments and results</b>	<b>21</b>
6.1) Export subsidies	
6.2) Export Processing Zones (EPZs)	
6.3) Policies to attract Foreign Direct Investment (FDI)	
6.4) Trade Promotion Organizations (TPOs)	
6.5) Trade finance provision	
6.6) Removal of trade barriers and standard compliance	
6.7) ) Improving the investment climate and other complementary policies	
<b>7 Concluding remarks</b>	<b>37</b>
<b>References</b>	<b>43</b>

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# 1 Introduction

Increasing export ranks among the highest priorities of any government in both developed and developing countries. The underlying idea is that favoring domestic export conducive to economic growth (for reviews of the empirical literature on the relation between export and growth see Giles and Williams, 2000, and Harrison and Rodríguez-Clare, 2009; see also UNCTAD, 2008b). Export promotion policies (EPPs) are the set of policies and practices aimed at affecting directly or indirectly export in a given country.

EPPs have been widely used by most of the countries around the world. Reviewing the experience by the various countries and assessing the effectiveness of the different policies implemented in the past is crucial to provide governments in the developing countries with some guidelines to identify the best practices so far. This is the objective of the present paper.

There are several possible definitions of EPPs. For instance, the OECD broadly defines EPPs as the set of 'specific measures that generally amount to the government bearing a portion of the private cost of production of export' (OECD, 1984). Instead, others have more narrowly defined EPPs as the effective exchange rate policy (eg, Bhagwati, 1990).

In general EPPs involve all the measures and programs aimed at assisting current and potential exporters in foreign markets penetration and, for instance, export subsidies, reduced tax rates to exporting firms' earnings, favorable insurance rates, advantageous financial conditions, or variations in the exchange rates. These measures may be addressed to either national exporters or multinational enterprises producing locally (or both). Export enhancing policies may also hinge on domestic regulation and, for instance, involve loosening the requirements for export licenses, easing the technology controls for exported goods, reducing the antitrust concerns in the export sector. Yet, domestic regulation is not the only impediment exporters may face. For instance, exporters' production may need imported intermediate goods and services that are subjected to import tariffs. A countervailing policy may be allowing exporters to import intermediate foreign products at accessible prices through duty drawbacks and temporary admission schemes. Other constraints that the government may want to remove may have to do with physical and human capital resources. EPPs on this side may include public investments in physical infrastructures, human capital (education), and information and communication technologies (ICTs). These measures may involve all firms producing within the national borders (in this case they are called functional) or be selective to specific regions and areas (for instance in Export Processing Zones). Interventions of this type may be addressed again to either domestic producers or multinational investors producing locally (or both).

Given the aim of increasing the sales of domestically produced goods and services abroad, government policies may also consist in providing national producers with a better knowledge of the foreign markets their products are addressed to. This means creating a 'competitive platform which permits a successful launch of exports' (Czinkota, 2002), by establishing stronger, more effective and durable contacts and representation in the foreign markets. These activities are usually carried out by the trade promotion organizations, and may concern either goods or services already available for export or new export products and new overseas markets (Trade and Investment Division, 2001).

Traditionally, governments have largely used trade policies to influence export flows. The use of selective export subsidies is currently severely limited by the WTO rules. Export subsidies and subsidies for the use of domestic (rather than imported) inputs are now prohibited for all non-LDCs countries. Local content requirements and quantitative restrictions on imports are banned. This is a significant change with respect to the past considering that these policies have been a fundamental instrument of industrial policy during the Developmental State era, even if their results, at least in terms of induced technological spillovers, are somewhat controversial (see Rodrik, 2004, and below). WTO rules instead allow the use of trade policy interventions in the form of selective subsidies to promote (a) domestic investment in research and development,

(b) regional development, (c) environment friendly activities. These may be useful instruments to increase the export quality and the export diversification.

**Table 1: Export promotion policies: comparative table, selected Latin American countries**

	Tax refund schemes	Drawback schemes	Temporary admission schemes	EPZ
Argentina	X	X	X	X
Bolivia	X	X	X	X
Brazil	X	X	X	X
Chile	X	X		
Colombia	X	X	X	X
Costa Rica		X	X	X
Ecuador		X	X	X
Mexico	X	X	X	X
Peru	X	X		
Uruguay	X	X	X	X
Venezuela	X	X	X	X

Source: Melo (2001)

Export promotion activity is nowadays pervasive and most governments intervene in one way or another, with policies ranging from providing infrastructure support to offering direct export subsidies. Tables 1 and 2 from Melo (2001) for Latin American countries and Table 3 from UNECA (2011) for African countries show that there is a vast array of distinct measures to increase exports, and each country has its own package.

Table 2: Financial incentives to support export: comparative table, selected Latin American countries

	Credit export agency	Export credit line in the Development Bank	Export credit insurance	Loan for working capital	Finance for entire investment	Finance for Marketing	Buyer's credit
Argentina	X		X	X	X	X	X
Bolivia							
Brazil		X	X	X			X
Chile		X		X		X	X
Colombia	X		X	X		X	X
Costa Rica				X			
Ecuador			X	X			
Mexico	X	X	X	X	X	X	X
Peru		X		X			
Uruguay		X	X	X			
Venezuela	X		X	X			X

Source: Melo (2001)

**Table 3: Export promotion policies: comparative table, selected African countries**

	Botswana	Cameroon	Côte d'Ivoire	Ghana	Kenya	Mauritius	Morocco	Nigeria	Rwanda	Senegal	Uganda	Zimbabwe
Incentives for export activities	X	X	X	X	X	X	X		X	X	X	X
Export processing zones (EPZs)		X	X	X	X	X		X	X	X	X	X
Export promotion (manufacturing)	X			X	X	X	X		X			
Standardization, quality improvement for export	X	X	X		X				X		X	
Measures to attract FDI for export activities	X		X	X	X	X	X				X	X
Facilitated credit for non-traditional manufacturing	X		X			X	X			X		
Selective tariff protection (peak/high tariffs)	X	X		X	X	X	X		X			
Utilisation of other trade instruments	X						X					
Export duties to favour local manufacturing		X		X	X		X		X			

Source: UNECA (2011)

Economic justifications for government intervention in trade domain are usually related to the existence of market failures. The theory of international trade suggests that when perfect competition prevails in all national and international markets (of goods, services and factors of production) free trade is better than protectionism. However, according to the theory of the second best, when one or more conditions required for the well-functioning of all the markets are missing, government intervention aimed at counteracting the distortions may be welfare enhancing.

This paper proceeds as follows. In the next two sections, we dig deeper on these issues. We start by illustrating theoretical justifications for EPPs (**section 2**) and continue by exploring in further detail the diverse forms EPPs may take (**section 3**). Then we briefly discuss the issue of how to evaluate the performance of EPPs (**section 4**) and we describe the current WTO rules concerning EPPs (**section 5**). In **section 6** we illustrate the different measures taken by governments around the world to increase exports and we review the existing empirical evidence on the effects of the different EPPs in both developed and developing countries. **Section 7** summarizes the main messages of the paper and draws concluding remarks.

## 2 Economic justifications for government intervention

Government intervenes in the export domain with two aims:

- (1) to increase export flows. This follows from the traditional argument that exports are an engine for growth, according to which openness improve resource allocation. While the empirical literature on this issue is large (for surveys see, for instance, Harrison and Rodríguez-Clare, 2009, and Giles and Williams, 2000), there is not unanimous consent on this effect,
- (2) to select the sectors in which the country should specialize. Indeed, a vast literature suggests that not only exporting but also what to export matters; see, for instance, Dodaro (1991), Piñeres and Ferrantino (1997), An and Iyigun (2004), Hausmann et al. (2007).

Why do governments need to intervene? Is not the market able to select the most efficient sectors within each country (comparative advantage) and the relatively most efficient firms within each sector? Economists answer this question by mentioning market failures. Governments' involvement is justified to correct good and factor markets' distortions, by intervening directly in the market where the failure has manifested.

A distinction can be made between functional and selective policies (Bacchetta, 2007). The former are addressed to correcting market failures with an impact on the whole national economy without distorting resource allocation between sectors (eg, public investment in physical or human capital, information and technical support provision, production of knowledge goods); the latter are addressed to altering resource allocation to favor some sectors or regions rather than others (specific subsidies or tariffs, sector specific investment). Functional trade policies, and a range of complementary policies such as building infrastructures, improving information dissemination, enhancing the functioning of capital markets and the like, are usually not controversial. The use of selective policies is instead highly debated among economists.

### 2.1) Marshallian externalities and infant industry protection

Theoretical justifications, such as the presence of market failures, are thus needed for selective interventions, such as export subsidies (Panagariya, 2000). In this case, the most traditional theories for policy justification resort to Marshallian externalities and infant industry protection (Harrison and Rodríguez-Clare, 2009). Marshallian externalities are local spillovers that increase with the industry size and originate, for instance, from industry level spillovers (Marshall, 1920), upstream and downstream linkages (Krugman, 1991), technology-based economies of scale (Krugman, 1987). A simple way to see why government protection may be useful in such a case is supposing that a given country has a 'latent' comparative advantage<sup>1</sup> in some sector, which may be revealed over time by the effect of Marshallian spillovers. Government intervention may then be justified for protecting the latent comparative advantage sector for the period necessary for the spillovers to materialize (Harrison and Rodríguez-Clare, 2009). This is the case if the government 'knows' which sectors need to develop. Empirical evidence on the existence of Marshallian externalities is provided by Rosenthal and Strange (2004).

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<sup>1</sup> According to Harrison and Andrés Rodríguez-Clare (2009) a given country has a latent comparative advantage in a given good 'if the opportunity cost of this good given the realization of all Marshallian externalities is lower than the international price' (p. 8). In other words, a country enjoys a latent comparative advantage in a given sector if the country enjoys a comparative advantage in that sector conditional on the realization of the free trade-induced exploitation of increasing returns to scale.



## 2.2) Information problems, coordination failures, credit and other market imperfections

Information problems both in national and international markets may be responsible for lack of sectoral profitability even if production is efficient. For instance, firms may be unable to select the right level of quality and so to penetrate foreign markets. In this case, rather than export or production subsidies, recommended government policies involve public information provision. The identification of potential partners and the assessments of their reliability, trustworthiness, timeliness and capabilities are costly for the private firms (Rauch, 1996; Rangan and Lawrence, 1999), while their benefits are public, so they are subjected to free-riding. Hence, underinvestment in these activities is likely if they are not properly supported.<sup>2</sup>

Coordination failures between upstream and downstream firms may cause investment to be at a different level from the optimal one. Again the best intervention is not subsidizing the given sector, but rather assisting and facilitating coordination through information provision, ex-ante subsidy schemes, incentives to activities and technologies that improve coordination (Hausmann and Rodrik, 2006).

Capital market imperfections are one of the key determinants of underdevelopment of otherwise efficient sectors. In the absence of perfect capital markets, the private cost of capital may turn out higher than the social one, and private risk evaluation by firms may be distorted.

Government interventions may be aimed at subsidizing credit and competition in the credit market in the former case, and facilitating information transmission and providing credit insurance in the latter.

Finally, an argument for trade policy intervention is provided by imperfections in the good and factor markets (see, eg, Gandolfo, 2006). Distortions in the good markets may prevent the relative price of goods from equalizing the marginal rate of transformation and so signal 'apparent' comparative advantage in the wrong sector. In this case policy interventions, in terms of subsidizing the sector in which the actual comparative advantage lies or in terms of taxation in the industry where there is apparent comparative advantage, are theoretically justified even if they are unable to reverse the pattern of international trade towards the right direction. Similarly, imperfections in the factor markets may prevent the price of factors of production from equalizing the value of their marginal productivity or the price of a factor from being equalized across sectors. The consequence, in the absence of government intervention, is an inefficient allocation of resources that can justify policies of taxation or subsidization. These should be intended to remove or correct the imperfections that generate the price distortions.

## 2.3) Comparative advantage discovery

A government may want to protect and foster specific sectors not only because of their 'latent' comparative advantage. The reason for government intervention may also be that the country's comparative advantage is unknown and the right portfolio of production activities is to be found. In particular, as shown by Hausmann and Rodrik (2003), countries face uncertainty about the specific goods and services they enjoy a comparative advantage at producing. Accordingly firms learn in which sectors it is most convenient to get specialized through a trial-and-error process. Since learning and discovering are costly in terms of effort and resources and private benefits tend to be lower than social ones, government intervention to facilitate these activities is rational. Hausmann and Rodrik (2003) show that uncertainty on what countries are good at exporting is substantial, therefore finding the right government intervention to help the discovering process is crucial for development.

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<sup>2</sup> However, in the presence of information externalities, the government support to exporting firms has an ambiguous effect on the importing country's firms and, consequently, on the importing country's government reaction (Copeland, 2008). On the one hand, the fact that a government supports its exporting firms may create positive informational spillovers to the importing country's firms since the latter can learn from the experience and the knowledge capital of the exporting firms. On the other hand, the same measures may create a first mover advantage (in terms of better networking and information gathering) for the firms receiving the support. If the latter effect is greater than the former, the importing country's government may react by subsidizing its own domestic firms.

#### **2.4) Spillovers and learning-by-doing**

Empirical evidence shows that exporters are more efficient than non-exporters (eg, Bernard and Jensen, 1995, 1999, 2004; Melitz, 2003). In the absence of market failures, resources should move from less efficient to more efficient sectors. Nonetheless, the number of exporting firms in the absence of government intervention may turn out to be suboptimal. One reason may be that there are learning by exporting dynamic effects. If learning by exporting is internalized there is no need for government intervention. However, if firms are unable to collect the necessary funds to cover the losses they necessarily incur during the learning period, this argument offers a further point in favor of intervention in the credit markets (see **subsection 2.2**). Another reason may be that the correlation between productivity and export is due to self-selection and, namely, to the fact that firms improve productivity in the view of becoming exporters (Lopez, 2005). Finally, there may be positive spillovers from export activity to other forms of international involvement through a reduction in the costs of exporting and learning by exporting (Aitken et al, 1997).

The empirical evidence on whether firms become efficient due to exporting (which is commonly referred to as the learning-by-exporting hypothesis) or whether firms export because they are more efficient is not conclusive (UNCTAD, 2008b). This is a crucial issue since government intervention would be justified only in the first case. Empirical evidence on African manufacturing suggests that the causality runs from exporting to efficiency, confirming the learning-by-exporting hypothesis (Bigsten et al., 2004; Van Biesebroeck, 2005). Learning-by-exporting is so important that it can generate long-term productivity gains amounting to 50 per cent of the total value added (Bigsten and Soderbom, 2006). Evidence for European countries is, on the contrary, mixed (see Castellani et al., 2010).

A complementary argument maintains that there are technological and informational spillovers from exporting (Clerides et al. 1998; Alvarez and Lopez, 2006). The empirical evidence on export spillovers leads to mixed conclusions however (Kneller and Pisu, 2007; Swenson, 2005; Greenway and Kneller, 2007, for a review). A first group of studies (Aitken et al., 1997; Kokko et al., 2001; Greenway et al., 2004; Greenway and Kneller, 2003) finds positive effects on domestic firms' performance from exporters and multinational firms within the same industry and country. A second group (Bernard and Jensen, 2004; Sjöholm, 2003; Barrios et al., 2003; Ruane and Sutherland, 2005) obtains less encouraging results.

#### **2.5) Production of knowledge goods and R&D spillovers**

Government involvement in protecting and subsidizing certain sectors may be justified by the argument that some sectors are crucial for the production of knowledge. This argument matters in this context as it justifies selective government intervention, even if it does not necessarily involves exporting. Since large investment in R&D are a pre-requisite for industrial development at an economy-wide level, in the presence of knowledge spillovers and considering the non-rivalry and non-excludability of knowledge goods (public goods), then private benefits from investing in innovation may turn out lower than social ones. In such a case, government may support R&D expenditure, subsidize knowledge producing sectors, and grant firms temporary monopolies by protecting intellectual property. The state of the art of the economic literature has not reached unanimous accord on the proper policy to stimulate knowledge provision.

A similar argument holds that R&D intensive sectors, which are likely to incur large fixed costs, face substantial economies of scale. Governments may then want to implement strategic subsidy schemes to promote these sectors' economic performance.

### 3 Export promotion policies

#### 3.1) Export subsidies

There is no unanimously accepted definition of export subsidies. They may relate to (see WTO, 2006)

- government fund transfers to selected entities (cash subsidies, tax exemptions, deferments, preferential tax treatment, contingent liabilities, duties drawbacks on imported intermediate inputs or duties suspension, temporary admission),
- regulatory policies (such as regulatory protection at the border, border tax adjustments, preferential rules of origin) that entail a transfer from one category to another, and
- public good provision at no cost or below market price.

Export subsidies may also be distinguished on the basis of the category of beneficiaries:

- producers, and
- consumers,

or of the nationality of the beneficiary:

- domestic entities, and
- foreign entities.

Finally subsidies may be general, if they are addressed to a wide category, or specific, if the category is narrow.

For policy purposes, however, a useful and quite accepted definition to start with is: a subsidy is 'a transfer from the government to a private entity that is 'un-requested' – that is, no equivalent contribution is received in turn' (WTO, 2006: xxiii). This definition (as National Account Statistics do) focuses on direct payments and do not consider duty drawbacks; whereas the definition adopted by the WTO under Agreement on Subsidies and Countervailing Measures (ASCM) refers to 'a financial contribution by the government or any public body' (ASCM Article 1.1(a)) that may consist in:

- i) direct transfers of funds, including potential transfers, such as loan guarantees,
- ii) foregone revenues that are otherwise due,
- iii) goods and services provided by the government other than general infrastructure,

and, in addition, 'any form of income or price support in the sense of Article XVI of GATT 1994 (ie, support which operates directly or indirectly to increase exports of any product from, or reduce imports into, a Member's territory' (WTO, 2006: 53)).

According to this definition, regulatory policies are not considered subsidies within the WTO ASCM. Of course, a strict interpretation of the definition of a subsidy is not particularly compelling for evaluating its effects (a subsidy must give a benefit to the recipient), but is crucial for WTO disputes.

Subsidies to the export sector can be either direct export subsidies or production subsidies on the export side. The former are granted to producers only on the part of their output that is in fact exported, so they are subsidies working across borders. The latter are given on the whole production of the exported good. Production subsidies to exporters are superior to export subsidies (that can be seen as negative tariffs) in the fact that they are less distortionary. Indeed, while export subsidies, as well as tariffs, create two types of distortions, on both the production and the consumption side, production subsidies generate distortions only on the production side (again see, eg., Gandolfo, 2006). Yet production subsidies are more costly for governments than export ones (because all production must be subsidized). Quotas may have some advantages vis-à-vis tariffs and subsidies since they reduce uncertainty in the sought

outcome and automatically reduce the level of protection as domestic costs fall (Melitz, 2005). However, like tariffs quotas have undesirable distortionary effects on consumption, but are likely to generate less revenue than equivalent tariffs.

Thus, in the presence of perfect markets, subsidies (as well as tariffs, quotas, and any form of protection) imply welfare costs in terms of distortions on the production side, or both on the production and the consumption side, causing a misalignment between the optimal world price and the domestic price. As we have seen in subsection 2, however, in the presence of market failures such as economies of scale or externalities, they may be used to correct existing distortions in the good and factor markets and aligning optimal and actual prices; hence they may turn out welfare improving (detailed theoretical treatment can be found in WTO, 2006: 58-62). Promoting exports rather than protecting the domestic production: (1) induces firms to increase productivity to be competitive in the international market, (2) gives incentives only to high productivity firms,<sup>3</sup> and (3) leads to market expansion allowing for the exploitation of the Marshallian externalities and makes domestic firms aware of the foreign demand.

There are a number of possible arguments against the use of export subsidies. First, the subsidy may be used by the firm for objectives other than increasing exports. In developing countries, where control mechanisms are less efficient, this case may be very likely. Second, the export subsidy schemes are often complex and usually require specific government capabilities in allocating them.

Of course, even in situations where a subsidy can be theoretically justified, there is an array of implementation issues. The evaluation of the actual situations in which in practice a government subsidizing intervention is recommended is far from being straightforward from theoretical models' consideration. Implementation issues also arise in the presence of government failures that can be responsible for results different from the desired ones. These important concerns lead to the consideration that trade (as any) policy decisions take place in a complex institutional environment, are often dictated by special interests (Grossman and Helpman, 1994) and their actual effects strongly depend on how they interact with the political power of the elites (Acemoglu and Robinson, 2006; Robinson, 2009).

There are a number of other measures that, while not being direct export subsidies, may have the same effect and for this reason are strictly regulated by the WTO. Among these, there is the duty drawback scheme which is a system to refund duties paid on the imported inputs incorporated in the finished exported good. Clearly this is a particularly advantageous scheme when tariffs for intermediate products are high, as it is usually the case for developed countries. WTO Members may establish duty drawback schemes providing that they do not configure an implicit export subsidy.<sup>4</sup> Duty drawback schemes' management is quite difficult, especially for developing countries. One of the issues debated in the Doha Round is how to provide technical assistance to countries willing to use them.

Another measure that may result in an export subsidy without being explicitly so is a tax system which favours a specific enterprise or industry. These benefits may take different forms, the most common being condoning or not collecting tax revenues. The (usually temporary) income tax exemptions and reductions also belong to this category and are a measure largely used in developing countries to attract foreign firms. They are also known as 'tax holidays' for newly established firms. Other tax incentives may include: double deduction of business expenses and insurance premiums, sales tax exemptions, reinvestment allowances, and so on.

3 Nonetheless, as noted by Demidova and Rodríguez-Clare (2009), this is welfare increasing only if there are barriers that prevent resources to flow from low productivity to high productivity firms. In any case, the optimal policy would be to remove these barriers.

4 The duty drawback scheme can be used (and so the duties are reimbursed) if: 1) duties have been actually paid on the inputs; 2) the amount of duty reimbursed is not larger than duties paid; 3) there is a verification system of the whole scheme. Nonetheless, under the Substitution Drawback System (Annex III ASCM), WTO Members may refund duties on (other) inputs if domestically-produced inputs are used to produce the export goods.

### 3.2) Export Processing Zones (EPZs)

Farole (2010a) defines Export Processing Zones (EPZs), Free Trade Zones (FTZs) and other forms of Special Economic Zones (SEZs):<sup>5</sup> they are demarcated geographical areas within a country's national boundaries where the regulation of firms' activity and the dedicated policies are differentiated from those applied to firms outside the zone, and addressed to creating a policy environment and associated infrastructures that are exporter friendly, for both domestic and foreign producers.<sup>6</sup> All the measures already mentioned in **subsection 3.1**, subsidies broadly defined, domestic taxes and custom duties exemption, regulatory policies and public good provision, can be used in EPZs as well, but limited to a given geographic location. Interventions of this kind may be aimed at (English and de Wulf, 2002):

- a) fostering production and employment in (potentially) exporting industries,
- b) increasing foreign exchange profitability of (non-traditional) exporting producers, and
- c) stimulating FDI in the given area when exporting by local producers is heavily constrained.

The reason for promoting EPZs is that it is a viable (second best) policy in the presence of strong economy-wide weaknesses and impediments to other national policies. It is always recommended the EPZ not to be insulated from the rest of the economy and efforts be made to generate positive spillovers at an economy-wide level. Examples of EPZs which are usually considered successful are those provided by Mauritius in the mid-1990s and Mexico in the 1990s (the well known 'maquiladoras'); while a negative example is offered by Senegal. Key factors determining the success of EPZs are economic and political stability, profitability of local production (and related exchange rate policies), skill-content of local employment. Of primary importance are also policies addressed to remove bottlenecks and weaknesses regarding availability of and access to infrastructures, regulatory constraints and services. Interventions in the form of pure economic incentives, such as credit liabilities and preferential tax treatments, are of second order importance. EPZs are not explicitly mentioned in the WTO agreements and are potentially in conflict with the WTO rules only to the extent that they provide firms subsidies conditional on export. These cases, as seen in **subsection 3.1**, are included in the WTO ASCM.

### 3.3) Trade finance

One of the most important obstacles to industrial development is a weak financial market, in which producers may face credit constraints and experience difficulties in finding the necessary resources to finance investments. Such constraints may depend on either inefficiencies of the financial sectors or lack of creditworthiness by private firms (English and de Wulf, 2002). Sometimes, however, the problem can be purely informational, and the misalignment between credit supply and demand may be due to imperfect risk evaluation by firms or creditworthiness evaluation by banks and financial institutions. Governments may intervene in several ways to enhance credit access. Traditional measures are subsidizing credit for small firms, spurring competition in the credit markets, facilitating information transmission and providing credit insurance, export credit and export guarantees. By definition, export credit is needed in situations where (whatever the reason) the buyer of the goods defers the payment for a certain period of time. Export credits may be in the form of supplier credits (i.e. credit granted by an exporter to a foreign buyer) or buyer credits (i.e. the exporter gets in contract with a buyer, which is financed through a loan agreement between a bank in the exporter's country and a bank in the buyer's country). Export guarantees are instead instruments that cover the risks of export credits (political or commercial) in the case of default by the borrower. In most countries, the government assumes the credit risk through

<sup>5</sup> For a detailed discussion about the differences across the various measures see FIAS (2008).

<sup>6</sup> The conceptualization of EPZs has evolved over time. Until recently the World Bank considered the creation of an EPZ (see, for instance, Madani, 1999, and Watson, 2001) a second best option to resort to only in the case the first best option of free trade is not achievable. Among the others, Stein (2008) finds fault with this view arguing that EPZs should instead be considered a viable policy instrument in the more general industrial policy framework.

specialized institutions. It is clear that both these measures may result in an indirect form of export subsidy and, for this reason, their provision is regulated by the WTO.<sup>7</sup>

In addition the government may provide

- a) foreign currency revolving funds, which is granting credit by the exporters' banks to pay the imports of intermediate inputs;
- b) pre-shipment export finance guarantee schemes, which are targeted at exporters or potential exporters that have no sufficient proof of creditworthiness by collateral but have export letters of credit;
- c) matching grant schemes, which are targeted at potentially successful exporters that overestimate the risk of the exporting project and so under-invest in it.

As in the case of export and promotion subsidies, considerations regarding pressure lobbies, interest groups involvements and government failures are of primary importance for the implementation issues of these measures as well.

### **3.4) Trade Promotion Organizations (TPOs)**

The Trade Promotion Organizations (TPOs) are aimed, on the one side, at supplying local exporters and potential exporters the necessary information to identify the foreign markets where to sell their products and, on the other side, at improving the knowledge by potential foreign customers about domestic products and firms. Market failures that justify TPOs' activities have mainly to do with information dissemination and coordination failures, such as imperfect information on the part of the domestic producers about foreign sales prospects, asymmetric information problems between domestic producers and foreign consumers, difficulties in cost and risk evaluation by exporters, barriers to entry in foreign markets because of lack of knowledge or of coordination (among suppliers, or between suppliers and buyers).

More specifically activities of the TPOs involve:

- i) image building, advertising, advocacy;
- ii) advertising and marketing of domestic products, through trade missions, trade fairs, trade shows and information dissemination;
- iii) providing support services to local exporters, in order to assist enterprises in the planning and preparation for international involvement, stimulate interest for export in the business community, acquire expertise and know-how necessary to enter export markets, provide organizational help and cost-sharing programs;
- iv) conducting market research to develop awareness of export opportunities, identify targets and potential business partners.

TPOs are now widespread in both developed and developing countries, with diversified experiences. The reason for a significant increase in the number of TPOs (that is about tripled in the last twenty years, as documented by Lederman et al., 2008) is twofold. First, changes in the regulatory environment (especially in the WTO rules) have led, in the last decades, to substantial restrictions in the export promotion activities (subsidies and similar trade policies) and have, as a consequence, induced the governments to look for new measures to circumvent such restrictions. Second, other dramatic changes in the international trade environment are occurring, such as increasing liberalization of goods, services and factor markets, redesign of regional agreements and rebalance of power, advances in information, communication and transportation technologies. These changes, on the one side, have created new profitable opportunities for exporters and investors worldwide.

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<sup>7</sup> Permitted export credits are only those included in the Annex I of the ASCM. An exception to prohibited export credits is the OECD Arrangement on Guidelines for Officially Supported Export Credits which regulates the provision of export credit conditional to a number of rules. The Annex also prohibits export guarantees that are granted at premium rates inadequate to cover long-term operating costs and losses.



But, on the other side, they have also increased uncertainty in the globalized international arena. From this it follows that potentially successful opportunities could remain unexploited because of limited information and lack of proper evaluation of the associated risks. The aim of the TPOs is to help domestic and foreign entities internationally involved to match potential opportunities with profitable experiences.

### 3.5) Other factors for successful export promotion

Effectiveness of government export promotion activities depends on a wide range of other factors that it is worthwhile mentioning (Boston Consulting Group, 2004):

- i) *Cost competitiveness* (exchange rates, wages, labour and other factors productivity). Sometimes EPPs may conflict with other national policies or be incompatible with resources availability and technological levels; cost competitiveness also depends on the organization of production (Rodríguez-Clare, 2007).
- ii) *ICT diffusion*. The technological level in the given country may also be important to facilitate the implementation of government policies. High-technology diffusion may be a long-term target for many developing countries.
- iii) *FDI* and international fragmentation of production. Changes in the international organization of production, via FDI and outsourcing, further alter the responsiveness of export performance to government EPPs.
- iv) *World demand and product mix*. Changing the basket of goods and services a given country is good at exporting takes some time. Hence the success of export strategies strongly depends on the match between domestic comparative advantage and world demand composition.
- v) *Geographical, cultural and institutional factors*. There are factors that cannot be controlled in the short to medium run and that are strongly conditioned by globalization forces: distance, cultural (religion, language, social norms) and institutional (legal practices, rule of law, contractual arrangements) diversity, and networking.
- vi) *International agreements and requirements under WTO rules*. As we have already mentioned (in **subsection 3.1** and as we will see more in detail in **section 5**), the WTO is becoming more and more restrictive about export promotion practices, in general, and about export subsidies, in particular. Specific subsidies are always forbidden and developed countries are prohibited to provide financial assistance that distorts trade in non-primary products under the WTO ASCM.
- vii) *Political institutional environment*. The success of EPPs often require changes in political equilibria in order to align incentives of the elites and of the political power endowed entities with those of the societies (Robinson, 2009; see also **subsection 3.1**). These changes take time and society-wide efforts.

## 4 The importance of evaluating export promotion policies

There are two levels at which one may want to evaluate the effects of EPPs: the country and the firm level. At the country level, the EPPs may be evaluated in terms of economic growth performance (export led-growth argument, see **sections 1 and 2**), increase in income and in foreign exchange reserves. At the firm level, the evaluation would instead consider changes in the firms' export flows, in the entrepreneurial attitudes and in the impact in the diversification of markets and products.

Evaluating EPPs is crucial for both assessing their effects and improve their functioning. Evaluation programs are already in place, for instance, in Denmark, the UK, the US and Australia. In one case (Australia) the evaluation is performed using telephone surveys on a random sample of domestic firms which are asked about their satisfaction with the services provided by the TPO. In the other countries, the evaluation is based on the direct measurement of the impact of EPPs on the export volumes conducted by external entities.

Assessing the effectiveness of the EPPs is also important to increase awareness by local producers. Empirical evidence shows that not all exporting firms apply to export support programs, even when they are accessible. One reason is that firms may be not aware of the programs' existence and effectiveness. Since applying to programs incurs some costs, the uncertainly related with their success may discourage applications. Accordingly a line of research is aimed at gauging firms' awareness, usage and perceptions of the program; see, for instance, Vanderleest (1996) for the US, Crick (1997) for the UK, Haunschild et al. (2007) for Germany, and Ali (2006) for Australia. Such an evaluation of course cannot reveal the impact of the promotion measures on export performance, but can be enlightening when planning, assessment and decision-making (Francis and Collins-Dodd, 2004).

The evaluation of the financial outcomes of export-promotion projects, both in private and public sectors, is also important (International Trade Centre, 1987; 1992). Singer and Czinkota (1994) emphasize that export promotion programs may have a positive impact on export performance because they

- a) increase firms' informational and experiential knowledge (see also Kotabe and Czinkota, 1992),
- b) stimulate managers' positive attitudes and perception towards exporting, and
- c) increase export commitment (see also Marandu, 1995).

Surprisingly, export promotion programs as determinants of export growth have not received much attention in the management literature. For instance, a very comprehensive review by Sousa et al. (2008) shows that among the 54 articles surveyed in the management/business/marketing literature published between 1998 and 2005 only 4 articles include export assistance as an explanatory variable. Relying on the scanty existing empirical evidence, management research seems to support the view that the existence of programs (sponsored by either government or non-government agencies) designed to assist firms' export activities contributes positively to the export performance of the firms (Gençtürk and Kotabe, 2001; Alvarez, 2004; Lages and Montgomery, 2005).

Additional elements make the assessment of export promotion programs' effectiveness difficult. The first is the presence of numerous confounding factors in the relationship between export performance and export support programs provided by TPOs. Volpe Martincus et al. (2010) argue that whether or not trade promotion activities result in increased trade is likely to depend on:

- a) the kinds of promotion activities and the specific instruments used,



b) the institutional features (eg, network of offices, reporting schemes, norms that govern the selection and promotion of the personnel, relationships with other public and private organization within the country) and the associated incentives structure, and

c) the country-level macroeconomic and sectoral policies that may affect the export sector.

The second reason relates to how one wants to measure the effectiveness of TPOs. This problem is obviously related to the shortage of information about the activities and the results of the TPOs, especially in developing countries.

**Table 4: Trade Promotion Organizations in Latin American countries: budget and number of employees.**

Country/Region	Organisation	Budget (million USD)	Number of Employees
Argentina	EXPORTAR	4.5	95
Cordoba	PROCORDOBA	1.7	31
Mendoza	PROMENDOZA	0.7	30
Bolivia	CEPROBOL	0.2	22
Brazil	APEX	120.0	214
Chile	PROCHILE	33.0	384
Colombia	PROEXPORT	55.0	281
Costa Rica	PROCOMER	11.8	149
Ecuador	CORPEI	6.8	91
El Salvador	EXPORTA	2.0	50
Guatemala	DPC/ME	0.4	7
Honduras	FIDE	0.9	28
Jamaica	JTI	6.7	98
Mexico	PROMEXICO	97.0	401
Panama	DNPE/VICOMEX	1.8	52
Paraguay	REDIEX	1.4	60
Peru	PROMPERO	29.0	313
Uruguay	URUGUAY XXI	0.6	22

Source: Volpe Martincus et al. (2010)

The third reason concerns TPOs' heterogeneity. For instance, as shown in Table 4, the TPOs in the various Latin American countries remarkably differ in the amount of resources spent and in the number of employees employed in their activities.

Lederman et al. (2008), using survey data on TPOs from 88 developed and developing countries, found that export promotion agencies have a strong and statistically significant impact on the countries' total export volumes. The Authors use an instrumental variable approach to deal with endogeneity issues: the causal relation suggests that an additional dollar spent on export promotion increases exports by about US\$40. They also found that the magnitude of this positive effect changes across regions, and that the marginal impact is decreasing with GDP and with the amount of expenditure. On the contrary, Görg et al. (2008) considering Ireland find little evidence that export promotions increase the number of exporters. Few other studies have

examined the direct relationship between the use of export promotion programs and export performance (see Francis and Collins-Dodd, 2004; Gencturk and Kotabe, 2001; Katsikeas et al., 1996; Kedia and Chhokar, 1986; Lesch et al. 1990; Marandu, 1995; Singer and Czinkota, 1994) and reach mixed conclusions.<sup>9</sup>

Finally, notice that, for a long time, export performance has been a primary concern for large firms only. Nowadays, given the increasing internationalization of the markets, SMEs are also involved in export and very much interested in the export promotion services (Bloodgood et al. 1996; Crick et al., 2001; Wilkinson and Brouthers, 2006). Availability of firm-level and plant-level datasets encourages empirical assessments also at this level of aggregation.

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<sup>9</sup> Williamson et al. (2009) list several contributions that appeared in the International Trade Journal in the last 25 years discussing the effectiveness of TPOs (and of governmentally sponsored export promotion strategies in general) in both developed and developing countries.

## 5 Export promotion policies and the WTO

The institutional environment EPPs face has changed remarkably in the last twenty years. The WTO has shown a more restraining attitude towards EPPs and introduced forms of intervention that permits the countervailing of prohibited export promotion practices.

Subsidies are regulated by the ASCM signed during the Uruguay Round negotiations.<sup>10</sup> The ASCM describes both substantive (types of subsidies and their elements) and procedural provisions (investigations and actions to counter illegal subsidies). Specific rules regarding subsidies for agricultural products are found in the Agreement on Agriculture (AoA).

Article I of the ASCM describes the defining characteristics of a subsidy. Article II lists the elements which make a subsidy specific and thus prohibited even if not listed under Article III, which describes the prohibited subsidies. A subsidy is specific if it is granted to: a) an enterprise, b) a group of enterprises, c) an industry, d) a group of industries, e) a group of enterprises in a designated geographical region. It is important to note that specificity may be *de jure* or *de facto*. A subsidy is not specific if granted on the basis of objective criteria or conditions (eg, number of employees). All subsidies under Article III are regarded as specific.

The agreement defines two categories of subsidies:

- a) Prohibited Subsidies (listed in Article III) and
- b) Actionable Subsidies (those not falling under Article III and that meet the requirements of Article V).

Prohibited subsidies are of two types:

- a.1) all the subsidies that, *de jure* or *de facto*, are contingent upon export performance,<sup>11</sup> and
- a.2) all the subsidies that are contingent upon the use of domestic rather than imported inputs/goods.<sup>12</sup>

Actionable subsidies are instead subsidies that are not prohibited under Article III but may cause adverse effects.<sup>13</sup> By adverse effect it is meant a harm caused to

- i) the domestic industry in the importing country,
- ii) foreign exporters competing with domestic exporters in a third market, or
- iii) foreign exporters competing with domestic exporters in the domestic market.

The WTO regulates the actions countries can take to countervail the effects of subsidies. A country may seek the withdrawal of the subsidy implemented by a rival nation or the removal of its adverse effects. There are two possible ways to counter such subsidies. At the multilateral level, any affected WTO Member may request WTO dispute settlement proceedings. At the national level, the affected WTO Member may impose countervailing duties (extra duties) after an investigation which testifies that imports are subsidized and this negatively affects categories under (i), (ii) or (iii) above.

10 The General Agreement on Tariffs and Trade (GATT) disciplines subsidies and countervailing measures in Articles III (8(b): internal taxes), VI (countervailing measures) and XVI (domestic and export subsidies).

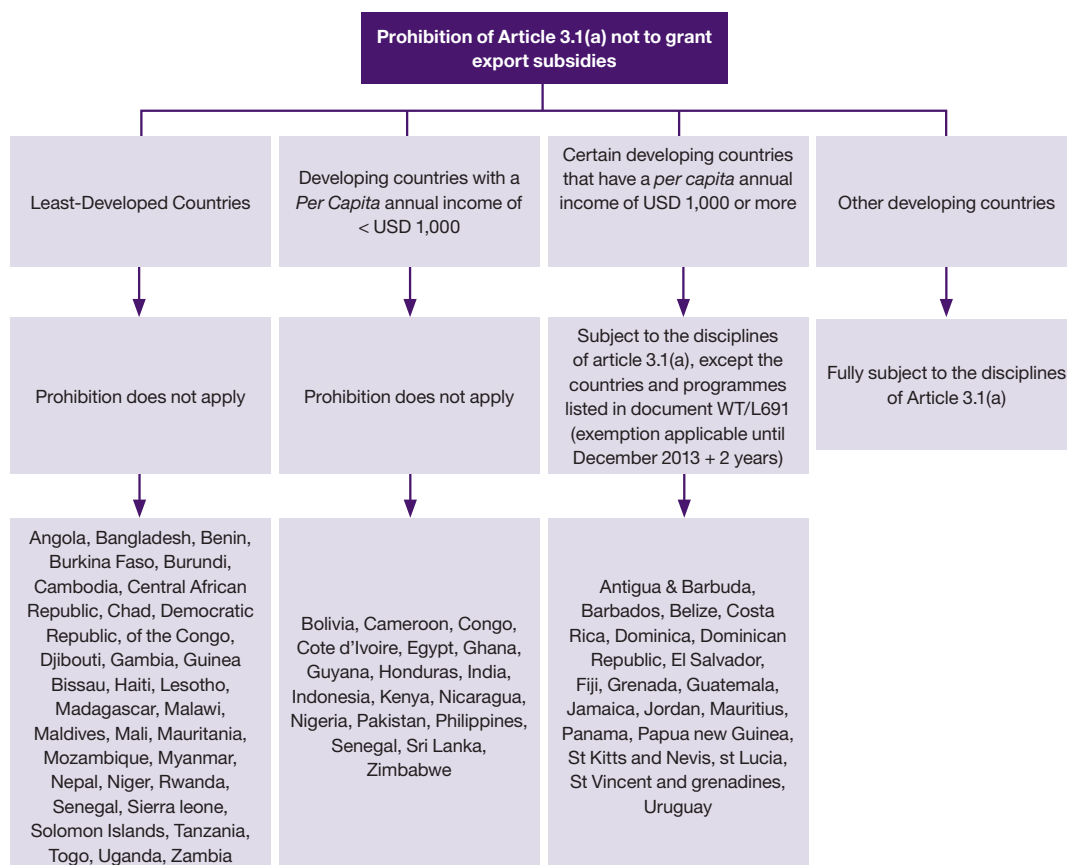
11 Article 3.1(a) of ASCM. Annex I of ASCM provides for an illustrative list of 12 prohibited export subsidies.

12 Article 3.1(b) of ASCM.

13 Adverse effects are defined by Article V of ASCM. It is the complaining country that has to show that the subsidy has an adverse effect on its interests. Otherwise the subsidy is permitted.

As many other rules in the WTO multilateral agreements, also the ASCM allows for Special and Differential Treatments (SDT). The prohibition of export subsidies may be exempted for the LDCs and for countries with GDP per capita below US\$1000 per year.<sup>14</sup> Import substitution subsidies (i.e. subsidies designed to help domestic production and avoid importing) are instead by now forbidden to all countries. Notice, moreover, that sometimes the ASCM prohibits specific subsidies and financial assistance that distorts trade in non-primary products even if article 27 of ASCM has special rules for LDCs (for a discussion of this point see Czinkota, 2002).

**Figure 1: Applicability of export subsidies in developing countries.**



Source: International Trade Centre UNCTAD/WTO (2009)

The issue of export subsidies is particularly relevant for agriculture. Agriculture is the most sensitive issue in trade negotiations between developed and developing countries. The rules concerning export subsidies and domestic support in agriculture are treated in the AoA. The Agreement states that WTO Members can only grant export subsidies<sup>15</sup> to the products and in the amounts listed in the Members' Schedule of Concessions reported in the AoA. The Special and Differential Treatment also applies to export subsidies in agriculture. This implies that flexibility regarding reduction commitments for a period of up to ten years is granted to developing countries. Moreover, there is an obligation on developed countries to undertake the 'Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries'.

<sup>14</sup> Article 27 of ASCM.

<sup>15</sup> Export subsidies in the agricultural sector are listed in Article 9 of the AoA.

## 6) Export promotion in action: policies, instruments and results

Export promotion is pervasive in developed as well as in developing countries and covers a vast array of policy interventions ranging from public good provision to exchange rate policies, from financial assistance to marketing and advertising services. National systems of export promotion in industrial countries, even if addressed to similar goals and designed to play similar roles, tend to be characterized by an organizational set-up and strategic approaches that differ from those of industrializing and developing countries (Seringhaus and Botschen, 1991; Seringhaus and Rosson, 1990). In what follows we provide a review (with no claim to be complete) of the existing empirical literature on the experience of EPPs in different countries with an attempt, when possible, to provide an evaluation of their effectiveness.

### 6.1) Export subsidies

Among export subsidies one may distinguish between direct export subsidy, duty drawback and tax exemption schemes. This section will consider them in turn. The effect of export subsidies (see **subsection 3.1**) on export performance is mediated by a number of elements such as the political environment, the administrative capabilities to distribute and monitor the use of subsidies. This implies that it is often difficult to clearly assess their effectiveness: the implementation of subsidy programs is, most of the times, complex and the resource allocation is under the control of the power endowed national and international groups (see Robinson, 2009).

#### *Direct export subsidies*

##### 6.1.a) Developed countries

Australia also has a remarkable tradition of export promotion. The public institution charged with export assistance is the Department of Foreign Affairs and Trade. Its portfolio includes a number of agencies that are responsible for the various export assistance measures, and in particular: (a) tax incentives, (b) financial assistance, (c) information transmission and marketing services (Molnar, 2003). The first of these measures is described in this section, the second in **subsection 6.5.a** and the third in **subsection 6.6.a**. Australian Government's expenditure for export promotion are among the highest in the group of developed countries, in particular higher than in Canada, the UK and the US, and much higher than in Belgium, Sweden and Germany (Molner, 2003). Nevertheless, Australian programs have always been abiding by the WTO rules. The Australian Trade Commission (Austrade) is responsible for export facilitating policies and support to the SMEs. The report published in 2002 by Austrade gives an account of such an activity that comes to operate in a continuously changing environment. Since the 1980s, the Australian economy has opened up to the international trading system, progressively removed trade barriers, liberalized international investment and implemented various microeconomic reforms. At the same time, however, the international environment has changed as well, creating stimulus and challenges to Australian firms, which are particularly disadvantaged by their distance from the most important world markets. Government effort has been primarily devoted to trade negotiations and international diplomacy to create a favorable business environment for Australian exporters (Australian Trade Commission, 2002) and, in particular, for SMEs (Mahmood, 2004). Secondly, the government has tried to develop an appropriate policy framework, finding and mobilizing resources for trade promotion organizations and aligning targets and actions of community, business and government. In particular five goals have been set: (a) spurring firms' intention to export by identifying proper companies and encouraging them to get ready for exporting and plan their international involvement, (b) increasing opportunities of accidental exporters, (c) increasing the success rate of intenders by means of properly tailored government programs, (d) encouraging new firms with global potential to export, by trade promotion at national, state and local levels, (e) increasing the number of regular exporters through continuous support and consolidation of overseas networks. One of the most important programs conducted by Austrade is the Export Market Development Grant Scheme that provides financial assistance in the form of taxable grants especially to SMEs to promote sales of their products overseas (see Molnar, 2003).

The grants concern a series of export facilitating initiatives such as overseas representation, marketing visits, communications and advertising, trade missions, fairs. Yet, since the end of the 1980s, resources addressed to these aims have not been increased and, consequently, the related effects have not been significant. The export promotion activity by Austrade is sided by Ausindustry, which is a government agency belonging to the Department of Industry, Tourism, and Resources. Ausindustry provides complementary tax-related services, the Tradex scheme which consists in the duty drawbacks on imported goods that are used as intermediary inputs in exported goods' production or exported subsequently by domestic firms. The number of users of the Tradex schemes has substantially increased starting from 2000 (Molnar, 2003).

### **6.1.b) Developing countries**

Since the 1970s, a number of papers have studied the effects of export subsidies in developing countries adopting a country-level perspective (Frank et al., 1975; Low, 1982; Jung and Lee, 1986; Nogués, 1989; Hoffmaister, 1992; Arslan and van Wijnbergen, 1993; Faini, 1994; Moreira and Figueiredo, 2002; WTO, 2006). The conclusions of these studies are mixed, with a slight prevalence of negative evaluations on the effects of export subsidies. For instance, Low (1982) documents the failure of the subsidy scheme in Kenya showing that it is related to the poor implementation and the discretionary choices made by the bureaucrats in the allocation of government grants. Similarly, subsidy schemes have been shown to be ineffective in Turkey (Arslan and van Wijnbergen, 1993). In general, however, qualitative and quantitative conclusions on the effects of such programs depend on the country and on the period considered. Nogués (1989) studies the cases of Argentina, Mexico and Brazil to conclude that only in the case of Brazil export subsidies had, as also confirmed by Moreira and Figueiredo (2002), a positive impact on export performance, but only because they had been associated to macro stabilization policies and import liberalization. The comparison of the Brazilian case with the experiences of the other two countries testifies that export subsidies schemes are neither necessary nor sufficient for export flows to increase. Indeed Mexico has registered an export growth similar to the Brazilian one but without using export subsidies. Argentina, on the contrary, has implemented export subsidy programs and experienced negative results: the allocative inefficiency has increased, oligopolistic market structures were reinforced, and incentives were captured in rent seeking activities. Even when successful, export subsidies usually do not pass the cost-benefit analysis. Hoffmaister (1992) finds a positive effect of the tax credit scheme in Costa Rica on exports, but he gauges its cost to be very high considering the export growth.

More recently, firm-level analyses on the effects of export subsidies became available. Helmers and Trofimenko (2009) using data on Colombia provide micro evidence on the fact that in most cases the amount of subsidies received by the firm was highly discretionary. In their sample, it turns out that the actual allocation of resources was not fully determined by the compliance to the officially stated criteria for access to the subsidy scheme. Nonetheless, the Authors find that, in general, subsidies exhibit a positive impact on Colombian export volumes. The impact is decreasing in the size of the subsidy and in the degree of the firm's connectedness to government officials.

### **Duty drawback schemes**

Duty drawback schemes consist in refunding duties paid on the imported inputs incorporated in the finished exported good. Duty drawback schemes are quite cumbersome in terms of administrative management. Nonetheless, they are largely used by developing countries (see also Tables 1-3). Temporary admission schemes are similar measures that allow exporting firms to import inputs, raw materials, intermediate and capital goods employed in producing the exported good with total or partial exemption from import duties.

In Malaysia, the Industrial Development Authority has among its duties that of overseeing duty exemptions on raw materials, components, machinery and equipment. In Thailand, the exemption of import duties on machinery is an integral part of the Investment Promotion Act. One of the main pillars in the export promotion strategy of the Nepal government is the provision of a duty drawback scheme and the exemption for strategic sectors from paying customs duties.

Also African countries make large use of duty drawback schemes. However, in most cases they have not worked efficiently and their effects have been negligible (Hinkle et al., 2003). Yet, some exceptions prove the rule. Among these one can find Malawi where the import of raw materials used into production and of transport vehicles is exempted from customs duties. The horticultural sector enjoys exemption from customs duty for all imported inputs. This measure is expected to contribute to the increase in exports of a sector which is considered strategic for the national economy. In Senegal, new-coming firms are given exemption from customs duties (for three years) and all firms are exempted from duties on imported raw materials. Also Kenya employs a duty drawback scheme which is part of the country's set of measures for export promotion. In particular, the scheme allows the remissions of customs duties on capital goods and raw materials if used in exported products.

Melo (2001) reports that 16 out of 26 Latin American countries have some type of drawback scheme. Dominican Republic has a simplified drawback scheme for non-traditional exports: the refund is made immediately, and no documentation of the use of imported inputs is required.<sup>16</sup> The Colombian government provides a full set of exemptions related to duties. These are contained in the 'Special Imports/Export Program' (which enables producers to ask for duty exemption on inputs used into production of exported goods) and in the 'Temporary Imports for Re-Exporting Unaltered Products' scheme (which allows firms to import products duty-free provided that they are re-exported in the country of origin of the imported goods). Interestingly, there is also a sub-set of incentives conditioned on the fulfilment of some requirements related to export performance. For instance, the 'Permanent Customs Users' is a program that allows business providers to obtain duty drawbacks if their operations exceed US\$6 million during the previous year.

While duty drawback schemes are quite diffused, empirical analyses about users' evaluation and their effects are very few. An exception is the survey study on the use of these schemes in Latin American countries presented by Macario (2000a). According to their results, the Colombian drawback mechanism, so-called 'Plan Vallejo', has been judged important for export growth by Colombian exporters. Yet, the program was abandoned because it did not comply with WTO rules (Macario 2000c). Agosin (2001) describes the effects of the duty-drawback schemes implemented in Chile starting from the 1980s. For a long period, Chile has used two different programs. The first was a standard scheme under which duties were rebated ex-post. The second, in place since 1985, was dedicated to small non-traditional exporter: it was a simplified drawback system under which exporters received a cash subsidy on the export values instead of one on the value of the imported inputs. While there are no empirical studies on the causal effects of such measures on domestic economic performance, the volume of export and the number of exporters after its introduction grew rapidly. One of the reasons why the simplified scheme is considered more effective is that it did not require costly bureaucratic procedures to be implemented: this is a clear advantage for small new-exporters.

<sup>16</sup> Also Chile had a similar simplified drawback scheme. This country had however to abandon it because it did not comply with the WTO rules.



Finally, ten Kate et al.'s (2000) analysis shows that Mexican firms have been largely using both temporary admission and duty drawback schemes. Particularly effective has been the ALTEX program that facilitates export and import formalities for firms whose exports over total sales ratio is above 40 per cent. One important feature of this scheme is that instead of refunding the paid duties ex-post, firms are exempted from paying duties in the first place. In this way, the mechanism has the additional advantage of reducing firms' working capital needs. This is considered one of the reasons for Mexican export success in the 1990s.

### ***Tax exemption/deductions***

Several developing countries implement tax exemptions and deductions schemes to favour exporting firms (see also Table 1-3).

According to Hinkle et al. (2003), at the end of the 1990s Senegal implemented a reasonably effective program for reimbursing VAT on domestic and imported inputs used as inputs in exports. But this is the only African country in which such measure is documented to have had positive effects, the remaining cases testifying negative or nil results.

Another diffused instrument to support export through fiscal assistance is to reduce or eliminate taxes on manufacturing bonds.<sup>17</sup> These policies have been used, for instance, in Kenya and Malawi. Kenya has a system of manufacturing under bond regime which grants tax benefits and investment allowances on plants, machinery and buildings. In Malawi, the government provides incentives for manufacturing under bond (exemption from customs duties on imports of capital equipment, export allowances, etc.). In addition, Malawian firms are also provided with an indefinite loss carry-forward which allows them to take advantage of allowance. In Malawi (as in Colombia) VAT exemption is granted for imported industrial machinery. In Colombia, tax exemptions are conditioned on export performance. A number of tax incentives are given only to the so-called 'Highly Exporting Users', ie, companies that export at least 30 per cent of total sales. These schemes have been designed following the pioneering Mexican tax refund system that is part of the ALTEX program (see **subsection 6.2.b**): the program allows highly exporting firms to benefit from a quick recovery of the ad-valorem tax on domestic inputs.

### **6.2) Export Processing Zones (EPZs)**

EPZs, providing benefits and exemptions to domestic and foreign firms locally producing, have proliferated in the last decade. They became popular also due to the successful experience of the NICs at the beginning of their development process (Stein, 2008).

Since the beginning of the 1990s, EPZs have been one of the most used strategies to increase exports in Latin American countries (ECLAC, 2004). Almost all Latin American countries have indeed created EPZs with the only large country exception of Chile (Melo, 2001). In Colombia, Special Customs Zones offer tax benefits to companies that set up operations in designated locations. In El Salvador firms located in FTZs are given a 20-year income tax holiday and duty-free schemes for imported materials needed for production. Countries in Central America seem to have benefited from EPZs, especially at the early stages of export growth in apparel, although the boom in some cases proved short lived (eg, El Salvador), and results are still under fierce debate (on Dominican Republic's experience see Kaplinsky, 1993, and Willmore, 1995).

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<sup>17</sup> Authorities may issue industrial revenue bonds for manufacturing and commercial projects. If the proceeds of the bonds are used to construct and equip a manufacturing facility, the interest on the bonds may be excluded from gross income for income tax purposes under certain conditions.



A comprehensive empirical analysis on the effects of EPZs is still missing. Previous research indicates partial success in some countries, but only limited to exports and employment outcomes. Yet, very few cases passed a cost-benefit assessment (Jayanthakumaran, 2003). Anecdotal evidence and some country studies confirm that results are generally disappointing: EPZs have generally been unable to generate the significant positive externalities they are theoretically predicted to yield.<sup>18</sup> There are however exceptions. For instance, Hinkle et al. (2003) argue that the EPZs created in Mauritius have achieved successful results as well as in Morocco, Philippines, Honduras and the Dominican Republic.

As documented by Ramachandran and Cleetus (1999), starting from the 1980s, the Chinese government extensively relied on EPZs and Open Coastal Cities (OCCs). The Open Door Policy was inaugurated in 1978 and consisted in favoring: (a) import of foreign capital, (b) import of advanced technology, (c) import of western management know-how, (d) export promotion and import substitution, (e) investment in human capital. The locations of the first four SEZs were identified on the basis of their proximity to the regional world trading markets of Hong Kong, Macao and Taiwan, and were: Shenzhen, Zhuhai, Shantou and Xiamen. The objective was to create a policy environment and associated infrastructures that were exporter friendly, for both domestic and foreign producers, in geographically isolated and controlled areas with favorable characteristics thanks to their location. Firms locating in a SEZ were given preferential treatments in terms of taxation, import licensing and tariffs. Furthermore, while in the rest of China investments were under control of the central planning, in the SEZs they could be made by autonomous decisions. Over time, the scope of the SEZs has progressively been extended to cover more and more issues, also including: (a) free foreign exchange by foreign-owned enterprises, (b) insurance by foreign companies, (c) foreign trade restriction exceptions for approved enterprises, (d) port facilities for foreign enterprises, (e) new securities markets access for foreign firms, (f) reduction of tariffs and quotas, (g) infrastructure and reorganization of bureaucratic systems, (h) exemption from state subsidies paid to employees, (i) tax exemption on profits remitted abroad, (j) duties drawbacks, and others. The results of Chinese SEZs have been positive in terms of output growth, exports, employment and attraction of FDI, but they have not been evenly distributed among the geographic areas or among firms. The firms that benefited the most are private firms located in coastal regions, which are closer to the most important regional world markets. Moreover, not all sectors were supported: targeted sectors were only the textiles, machinery and electronic goods, which are those where China enjoys comparative advantage. This strategy has been accompanied, starting from the 1990s, by a process of privatization of state owned enterprises, and, starting from the WTO accession of China (2001), by a progressive (but very problematic) process of trade liberalization.

FIAS (2008) reports that in 2006 there were 91 EPZs in 20 sub-Saharan African (SSA) countries. While 51 per cent of the total EPZ employment in SSA is in South Africa, a significant share of employment in EPZs is found also in Mauritius, Lesotho, Kenya, Nigeria and Madagascar (ILO, 2007). A systematic assessment of the African experience with EPZs is provided by Farole (2010a), who measures their effects on a number of economic indicators: investments, exports, employment and structural economic change. Results show that the African zones were unable to create a favorable climate for foreign investors and, in general (with the exception of Ghana and Lesotho), performed very poorly. None of the African EPZs played an effective role in triggering the expected structural transformation in the export sector. That of Mauritius is one of the few successful African cases. In this country the creation of EPZs stimulated the boom in sugar and export earnings in the 1970s, and caused an increase in the investment in joint-ventures between domestic and foreign investors in the special zones. Of course important factors of attraction were tax holidays and duty-free imports. However, the reason for the success of the Mauritius experience is in the fact that the government of this country was able to create a favorable business environment (UNECA, 2011), by fostering demand and supply of better educated workers, spurring innovation by domestic firms, improving information dissemination, and providing several supporting institutions (see also Section 6.7).

18 For a thoughtful discussion of the characteristics and results of one such program, namely the Industrial Specialization Regime (ISR) in Argentina, see Sirlin (1999).

Instead, in most of the other countries experiencing EPZs, attraction of foreign firms is primarily committed to advantageous tax treatments (Di Maio, 2009) and consequently positive effects have not materialized at a national economy-wide level. Rodrik (2004) argues that, in these cases, it would be fair to say that subsidizing foreign investors with the objective of increasing exports is a 'silly policy' because such a policy may result in transfers from poor country taxpayers to rich country shareholders.

### **6.3) Policies to attract Foreign Direct Investment (FDI)**

#### **6.3.a) Developed countries**

Different measures can be used to attract FDI, such as income tax holidays, tariff exemptions, and subsidies for the creation of infrastructures. For instance, as documented by Harrison and Rodriguez-Clare (2009), in the 1990s the British government offered between 30.000 and 50.000 US\$ per employee to attract Samsung and Siemens, whereas Ireland has attracted FDI through a corporate tax rate of (only) 10 per cent to all foreign manufacturers who moved part of their production in Ireland (Görg and Strobl, 2008). Strategies for attracting FDI in specific sectors have also been widely used. Alfaro and Charlton (2007) show that, considering a sample of 29 countries, the most targeted sectors worldwide include machinery, computers, telecommunications, and transport equipment.

#### **6.3.b) Developing countries**

Several instruments can be used to try to attract FDI in developing countries despite the difficulties that characterise those economies.<sup>19</sup> In its report Economic Development in Africa, UNCTAD (2008a) critically reviews African countries' policies and strategies related to FDI in extractive industries. The government of Senegal provides a number of incentives to firms operating under the Free Export Company regime. These are the *zero-tax* on salaries for foreign employers and dividends for foreign shareholders and no restrictions on the transfers of funds or recruitment of foreign staff. In addition, incentives for new foreign enterprises include: (a) the cancellation of VAT (for 3 years), (b) the provision of tax credits, (c) lower tax on profits, (d) the exemption from patent fee, (e) property tax and license fee, (f) zero income taxes for stocks and shares.

Kenya adopts a more sector-oriented strategy. The Kenyan Investment Authority<sup>20</sup> provides a 60 per cent allowance on investment in manufacturing and hotels and the offsetting of losses by future payable taxes. Some other countries have designed measures to attract FDI selecting only firms that are expected to contribute the more to the development process of the country.

The government of Malawi grants lower taxes on remittance and payments to foreign firms that provide training programs or that invest in disadvantaged areas. One of the missions of the Malaysian Industrial Development Agency (MIDA) is to promote foreign investment in the manufacturing and services sectors. To this aim, MIDA provides a number of incentives and different schemes. For instance, firms that have the 'Pioneer status' pay 30 per cent of statutory income for a period of 5 years; firms that operate locally for at least 12 months and incur qualifying capital expenditure to expand production capacity are granted with the 'Reinvestment Allowance'; foreign firms that invest in qualifying capital expenditure within 5 years are given 60 per cent allowance under the 'Investment Tax Allowance' scheme. Finally, the MIDA provides a set of incentives for SMEs consisting of tax exemptions. As part of the strategy to attract FDI, the MIDA also oversees the granting of manufacturing licenses and tax incentives.

19 For instance, one crucial limitation to productive investments in Africa is the lack of adequate infrastructures (land, air and maritime transportation, electricity, water, and telecommunications). A good infrastructure system is an important precondition for export growth. Poor transportation and communication systems and the high cost of electricity and the unreliability of its provision increase transaction and production costs and are large obstacles to international trade. To have an idea of their importance, consider that generators represent the bulk of investment for small manufacturing firms (UNECA, 2010).

20 See <http://www.investmentkenya.com/>

The Thailand Investment Promotion Act established the Board of Investments (BoI) to attract foreign investment, with the objective (a) to support export and the demand for domestically produced inputs, (b) to promote the quality and the production standards of domestic producers, (c) to favour the growth of less-developed regions, (d) to support and stimulate SMEs by applying minimum level of investment capital. To this end, it offers a number of incentives (eg, *easy entry* to the country for foreigners interested in studying local investment projects, possibility of repatriation of money in foreign currency). In addition, all the tax incentives which are available for domestic exporting firms also apply to foreign firms.

Since the beginning of the 1990s, Latin American policies to support export growth have mainly relied on FDI attraction (ECLAC, 2004; Mortimore and Peres, 1998). For instance, the government of El Salvador provides unlimited remittance of net profits for most types of business and manufacturing, and up to 50 per cent for commercial or service companies. It also provides no foreign exchange restrictions for foreign firms. While these policies have been largely used by Latin American countries in the last two decades, a systematic evaluation of their effects is still missing.

#### **6.4) Trade Promotion Organizations (TPOs)**

Governments have established Trade Promotion Organizations (TPOs)<sup>21</sup> to facilitate and encourage exports (ITC, 1994). The mission of the TPOs is to reduce the problems of imperfect information with the aim to increase and diversify exports. TPOs usually rely on a network of offices abroad in order to facilitate the information gathering on foreign markets and sales opportunities. TPOs provide a number of services including: (a) dissemination of information on export markets, (b) assistance in export marketing, (c) packaging and labelling, (d) quality standards management, (e) general training about export activity, (f) legal assistance, (g) assistance in obtaining export financing, (h) trade missions and trade fairs. TPOs can be government-funded or operate through the private sector.

##### **6.4.a) Developed countries**

In the US the TPOs are mainly sponsored by individual states. Wilkinson and Brouthers (2006) conduct a survey on the effects of the activity of the Export Promotion Organization (EPOs) on the international marketing efforts of 764 SMEs in the US between 1992 and 1999. Two types of intervention are considered: trade shows and trade missions. Trade shows are an important promotional tool that allows enterprises to gain customers, disseminate relevant information, acquire knowledge on the foreign markets and identify prospects and targets (Bonoma, 1983; Seringhaus and Rosson, 1991). Trade missions consist in meetings between buyers and sellers to promote sales in the overseas locations (Jaramillo, 1992), advertise goods and identify business targets (Seringhaus and Rosson, 1990), establish long-term relations with potential business partners (Seringhaus, 1989; Spence, 2003). Wilkinson and Brouthers (2006) evaluate the success of the EPOs activity by considering four measures of firm performance in foreign markets: sales growth in foreign markets, overseas market share, number of countries exporting to and overall export performance. The study hence evaluates the impact of trade shows and trade missions on these four measures, controlling for number of employees, total company sales, export intensity and export barriers. The Authors find that government sponsored trade shows have a positive and statistically significant effect, while export missions have no statistically significant impact. Decisive conclusions on the effectiveness of the US export promotion strategy are however difficult to draw. Coughlin and Cartwright (1987) using cross-state data for the 1980 find that the relation between state export promotion and export flows is positive even if there is significant diversity across states for the estimated elasticity. However, they are unable to detect causality since using cross-sectional data they cannot control for unobserved heterogeneity. Bernard and Jensen (2004), using plant-level data for the period 1984-1992, find that, when controlling for possible determinants of export decisions, the effects of state export promotion expenditures are negligible.<sup>22</sup> Gençtürk and

21 Sometimes the literature refers to them also as Trade Promotion Agencies (TPAs), Export Promotion Agencies (EPAs) and Export Promotion Organizations (EPOs).

22 However, their data are on relatively larger firms. Since most EPOs tend to target small and medium sized firms, their sample may be excluding those firms for which such programs are most effective.

Kotabe (2001) undertake a study on the effects of the export assistance program implemented by the Midwestern states' governments. The results suggest that, using Authors' words, 'these programs are neither a panacea nor a complete waste of resources' (page 66). They find that export promotion has been able to increase profitability of exporting firms but not the amount of their sales abroad. This implies that export assistance *per se* cannot be sufficient to achieve the government's purposes to foster export performance if it is not accompanied by adequately supportive activities. The reason for the limited success of these interventions by the government can be ascribed to low firms' awareness of, and often reluctance to participate in, such programs. This reveals once again the crucial role played by information dissemination. At the same time, the recorded achieved goals (in the case of the Midwestern states' export assistance program, the success in increasing firms' profitability and many other results documented in the present survey) show that these policies may be, and indeed often are, effective. Yet, given the resource constraints usually faced, such programs should be targeted to specific needs, tailored to remove specific bottlenecks and weaknesses, geared to enhance key aspects of the national environment and of the international relationships, strongly based on performance-oriented goals, and continuously monitored by means of reliable evaluation systems.

Spence (2003) studies through questionnaires the effects of the activity of the TPOs on a sample of 190 UK companies in the period 1996-1997. In particular, the Author considers the effects of trade mission participation on export performance and relation-building with foreign partners. According to the Author, the key factors for the programs' success are: (a) increasing diversification in the foreign markets, (b) acquiring specific knowledge about the targets and fostering communication with potential partners prior to the mission, (c) enhancing the use of ICTs, (d) developing a close contact with customers through regular meetings.

Seringhaus and Botschen (1991) carry out a comparative study of the Canadian and Austrian export promotion systems. Canada's export promotion service is provided by the Canadian Trade Commissioner Service. It is government-based and characterized by loose coordination, cooperation between federal and secondary levels of government and consultation with the private sector. There is however also a large number of other government-owned or government-controlled agencies that supply support to exporters, and a non negligible number of private export promotion agencies, export clubs and associations with similar goals. The Austrian system is instead primarily managed at the private or quasi-private level and is characterized by an integrated organization structure that is responsible for strategic planning and training of the internationally involved firms. The organizations operate at the national level but with special concern for regional needs. Services to exporters are mainly provided by the *Bundeswirtschaftskammer* (that is a national chamber of commerce with broad structure and mandate), industry associations, banks and management institutes. The government provides financial support to export transactions, export guarantees and insurance. The empirical study by Seringhaus and Botschen (1991) is conducted on 271 Canadian enterprises and 312 Austrian enterprises. Overall, the survey-based research suggests that in both countries support and assistance to exporting private enterprises has not been enough. Interviewed companies, both in Austria and in Canada, would welcome further help to plan and organize their international involvement, more tailored programs and greater involvement of private sector institutions, although Austrian companies result to be more willing to use the export support and training programs. Yet, Van Biesebroeck et al. (2010) document that the programs implemented by the Canadian Trade Commissioner Service have exerted positive effects on Canadian exporter performance, product and market diversification, and that exporters that make use of the program export about 18 per cent more than the non-program users. These encouraging results are confirmed by the Canada's State of Trade's report (2010). Francis and Collins-Dodd (2004) have also conducted a study of program impact evaluation on 183 Canadian SMEs in high-tech sectors segmenting firms by level of export involvement, distinguishing the different needs and obstacles they face, and found that sporadic and active exporters benefit the most from export promotion interventions, whereas permanent exporting firms receive little or no help from such programs.

In Australia export promotion is implemented by Austrade (for the organization of the EPPs in Australia see **subsection 6.2.a**). Among the various policy measures, Austrade also provides marketing services, through various programs such as the Trade Start and the Export Access, and information services, through, for instance, the Market Information Service, the Trade Watch and other programs and campaigns. Such programs exploit the advances in the information and communication technologies and, consequently, make use of Internet-based marketing tools, free online trade information, websites, besides seminars, workshops, trade fairs, missions, presentations, marketing campaigns, etc. The Australian Trade Commission (2002) indicates that there is a positive correlation between participation in government programs and number of successful intenders (that is firms that plan to become exporters): the success rate of non-users of government programs was 16 per cent, while that of the program users was 74 per cent. Australian export performance has registered a significant increase in the period between 1994-95 and 2002-03, but, notwithstanding the clear objectives stated by the Australian government of doubling exports, the positive economic conditions, and the free trade agreements signed by Australia in such a period, export flows remained stable between 2002-03 and 2006-07 (Brewer, 2009). Among the explanations for this outcome one can mention the fact that some of the problems faced by firms in general and Australian firms in particular are beyond the control of the firm managers' and cannot be dealt with at the firm level, such as exchange rate dynamics and international competition patterns (Mahmood, 2004). However, the low effectiveness of the export promotion programs also strongly depends on the low awareness about them by Australian entrepreneurs (Ali, 2006). As Mahmood (2004) emphasizes, Australian firms (especially the small ones) face many difficulties associated to the internationalization process that affect, first of all, the intention to export. Most of these difficulties are related to information, market identification, target and strategy planning, risk evaluation. Yet, besides this, even when markets are identified, there are strong constraints related to the lack of proper equipments for marketing and promotion purposes. Awareness about export promotion programs could be enhanced by interventions on the educational side (seminars, workshops, training programs), the operational side (information about technical standards, customer lists, commercial legislation) and the promotional side (export subsidies, financial assistance, consultation, and advocacy).

As testified by the empirical inquiry conducted by Piñho and Martins (2010), exporting decisions by Portuguese firms are strongly constrained by problems of lack of knowledge about overseas markets and opportunities, lack of skilled personnel and suitable human resources and financial assistance. To deal with these problems, export promotion programs have been implemented by the government, various trade associations and the European Union. Lages and Montgomery (2005) carry out a survey on a sample of 519 firms to gauge the direct effects of export promotion on short term export performance and the indirect effects through pricing strategy adaptation. The survey indicates that the final effect of export assistance on export performance is not statistically significant. Export assistance turns out to have a direct positive impact on short-term performance, but it has a negative indirect effect through the pricing strategy adaptation.

As stated in the Boston Consulting Group (2004) report, Denmark is implementing a vast array of initiatives to improve exporting performance mainly directed by the export promotion body, the Danish Trade Council (DTC) created in 2000. These involve (a) administration, (b) trade policy, (c) customer services, (d) marketing and advertising, (e) promotion of foreign investments in Denmark, (f) negotiation within the WTO arena, (g) export promotion programs for SMEs, (h) export analysis, and (i) advisory services. These activities are integrated in a broader project that is aimed at creating a favorable environment for local exporters and foreign investors (see **section 6.7**). The DTC, whose activity is assisted by a number of other trade promotion agencies such as the Danish Energy Authority, the Danish Export Credit Office and the Danish Chamber of Commerce, has actively operated in the recent years but the evaluation of the results obtained is not available yet. Nevertheless, the Growth and Innovation Framework (2004) reports that in 2001 the DTC participated in the export activity with a contribution amounting to



the six per cent of the current exports. The surveyed companies ascribed to this intervention a direct increase in exports of 0.6 per cent. The report also found that, on average, every dollar spent on the DTC's services increased the firm's turnover by 217 US\$.

Since 1999 the UK government's export promotion strategy relies on a series of export promotion measures provided by the UK Trade and Investment (UKTI) (Boston Consulting Group, 2004). The UKTI is involved in a series of regional and national export promotion initiatives that are much more addressed to new, rather than existing, exporters and to onshore activities enhancing local enterprises exporting abilities, rather than offshore activities promoting national exports. The underling mission of the UKTI is improving the supply-side to enhance the business performance of potential exporters, rather than just striving to increase exports. This has mainly implied coordination of government support for exporters and tying export promotion to economic policies to foster entrepreneurship, competitiveness and international involvement with a focus on initiatives which favor entire sectors rather than individual firms.

The New Zealand trade promotion strategy has also strongly relied on TPO but with a stronger emphasis on information dissemination and consulting, rather than on market visits, meetings, trade fairs and trade missions (Boston Consulting Group, 2004). The implemented initiatives have promoted an easier access to information for local producers and their partners, and guaranteed an improved matching between local exporters and potential buyers in the past three decades. Notwithstanding this effort and considering that without a counterfactual and rigorous analysis assessing the effective impact of the export promotion activities is difficult, the New Zealand export performance is still not satisfying.

The Spanish export promotion system has been growing in the last twenty years. It is government-based and implemented at the regional level; six out of the 17 regional governments (Andalusia, Aragon, Basque Country, Catalonia, Murcia and Valencia) have developed an extensive network of offices around the world over the last decade. Gil et al. (2008) find that EPAs have positive and statistically significant effects on exports flows and that these effects are greater for regional agencies than for national embassies and consulates.

Hauser and Werner (2010) describe and evaluate the impact of the German foreign trade promotion system. The system consists of three large institutions (the so-called 'three pillars for the promotion of foreign trade and investment') and a number (about 300) of other smaller institutions that operate at different levels and carry out foreign trade and investment promotion programs. Hauser (2006) indicates that there are about 140 and more different export support measures. In spite of this huge mobilization of resources, the German system has failed to achieve positive and significant results in terms of exporting performance of SMEs that were its main target. In particular, Hauser and Werner (2010) conduct a quantitative-empirical survey on 615 German enterprises in 2005. The package of interventions considered include: (a) business seminars, (b) company pools, (c) cooperation symposia abroad, (d) export and FDI finance credits, (e) foreign trade consultancy programs, (f) German Centres, (g) Hermes export credit guarantees (see subsection 6.5.a), (h) how-to-do-business-abroad publications and information offers, (i) investment guarantees, (j) participations in trade fairs abroad, (k) marketing assistance programme, (l) match making events abroad, (m) political support for projects abroad, (n) promotion of joint ventures, FDI and cooperation, (o) trade missions and entrepreneur trips, (p) training of foreign executives and staff, (q) services provided by Federal Government embassies and/or by representative offices of the State Governments in foreign countries (Hauser and Werner, 2010). The Authors find that SMEs access trade promotion programs less than large firms and the reason is that the system has been unable to plan and implement size-specific interventions to compensate for the lack of in-house resources available to small firms.

The success of South Korea in terms of export flows has been largely attributed to government EPPs. The Korean Trade and Investment Promotion Agency (KOTRA) was founded in 1962 and now counts about 97 offices abroad. In order to facilitate South Korean exports, the KOTRA

provides information regarding foreign business practices, cultural and market conditions and it directly supports firms through its overseas investment support centres. Kang (2010) uses data on the budgets of the KOTRA's overseas offices in 78 destinations for the period 1994–2004. The analysis shows that an increase of 10 per cent in the budget of the overseas offices has increased exports by 2.45%–6.34%. This testifies that the network of the KOTRA offices located abroad has been a critical factor in the success of South Korea's exports.

#### 6.4.b) Developing countries

TPOs are very much diffused in developing countries as well, and are characterized by considerable cross-country heterogeneity. For instance, as for the ownership structure, they may be state-owned, private or characterized by mixed ownership structure. The list of TPOs in Latin America classified by ownership structure is reported in Table 5.

**Table 5: Ownership of TPOs in Latin America**

Public	Private	Mixed
BICE (Arg)	EXPORTAR (Arg)	PROEXPORT (Col)
APEX (Bra)	FUNCEX (Bra)	
CEPROBOL (Bol)	BOLINVEST (Bol)	
PROCHILE (Chi)	ASEXMA, SOFOFA (Ch)	
PROMPEX (Per)	ANALDEX (Col)	
PROEXPORT (Col)	Corpei (Ecu)	
URUGUAY XXI (Ur)	ANIERM (Mex)	
BANCOEX (Ven)	ADEX (Per)	
PROMEXICO Mex)		

Source: Mulder (2006)

Even if different in the ownership structure, TPOs implement very similar activities. For instance, ProChile (Chile) and ProExport (Columbia) both carry out market research and, in conjunction with business associations and regional public/private consultative committees, contribute to the identification of priorities for exporters. Usually TPOs activities are sided by other institutions supporting export. For instance, in Colombia a number of institutions operate in addition to ProExport such as Banco de Comercio Exterior de Colombia S.A. (BANCOLDEX), Centro de Información y Servicios de Comercio Exterior (ZEIKY) and Compañía Nacional de Seguros para las Exportaciones (SEGUREXPO). Yet, their effectiveness in supporting SMEs in their export activity results to be poor (Carazo, 2007).

Some early studies have taken a negative assessment of TPOs in developing countries (Hogan, 1991; Keesing and Singer, 1991a, 1991b; de Wulf, 2001). In particular, Keesing and Singer (1991a, 1991b) have argued that TPOs in developing countries are inefficient because of a weak leadership, inadequate funding and inefficient bureaucratic executives.

In South Africa, the Department of Trade and Industry (DTI) implements selective interventions to promote specific sectors and their export activity. The Trade and Investment South Africa (TISA) is the institutional body that implements the policies of the DTI. The DTI has 48 diplomatic missions worldwide. Rather than providing generic export support, the TISA selects industries which are strategic to some business process and sectors which show the highest potential growth. One of the TISA's objectives is to identify new products and new markets and to facilitate exports by matching potential exporters with foreign buyers. Finally, it provides financial assistance to implement the Export Marketing and Investment Assistance (EMIA) scheme, which is a scheme to support both the export activity by domestic producers and to attract FDI in the

country (Department of Trade and Industry, 2006). Van Aarde and Viviers (2007) argue that the DTI, in order to make its activity more effective, should expand the set of areas of information collection to cover the whole set of activities included in the EIMA scheme.

There are two different ways to try to assess the working of TPOs. One possibility is to look at TPOs' programmes users' opinions about the ability of the different instruments to increase exports. For instance, ten Kate et al. (2000) indicate the key services, in the opinion of Mexican exporters, provided by the national TPO are the provision of information on foreign markets access and of financial assistance to SMEs for international involvement. The Authors also find that Mexican exporters consider the activity of the TPO to be particularly important at the initial stages of the export activity: similarly, from a survey on the Chilean entrepreneurs, Macario (2000b) documents that TPOs' services are particularly effective for firms that are about to start exporting. Hashim and Hassan (2008) report the result of a survey of Malaysian SMEs, according to which the set of incentives provided by the Malaysian External Trade Development Corporation (such as special incentives to increase export, export credit insurance schemes, TPOs activities, duties and sales tax exemptions, and technology acquisition funds) positively contributed to their success in exporting.

There are few empirical evaluations of TPOs activities in developing countries. One exception is offered by Van Aarde and Viviers (2007) who describe the South African DTI's efforts in evaluating the effects of export incentives. Results show that the Sectoral Return on Investment (ROI) for national pavilions produced 100 per cent positive results, whereas the ROI for trade missions yielded 56 per cent positive results.

Using firm-level data from Chile, Alvarez (2004) shows that the utilization of export promotion programs (in particular the participation in government-supported export committees) is positively correlated to export performance of SMEs. However, trade shows and trade missions do not increase the probability of export success.

Recently, Volpe Martincus and co-Authors have provided a number of studies on the characteristics of TPOs and on their effects in terms of intensive and/or extensive margins of export. In their analysis on Latin American countries, Volpe Martincus et al. (2010) find that in Costa Rica and Peru, the TPOs helped local firms to increase their export through diversification. In the case of Uruguay, this implied also entering new markets of destination. As for Chile and Argentina, TPOs led firms to increase both the number of markets served and the number of products exported. Interestingly, the effects are larger the smaller and the less experienced in exporting the firms are. Finally, the Colombian case shows that the combination of different measures and activities makes the intervention more effective. Summarizing the Authors' findings, it turns out that the effects of TPOs are predictably larger:

- (a) on the extensive margin of firms' exports (increase of the number of destinations or of the number of goods exported),
- (b) on more differentiated products,
- (c) on relatively smaller firms with limited past involvement in international markets, and
- (d) when services are bundled (rather than being provided by independent suppliers) and thus able to provide support throughout the entire export process.

#### **6.4.c) Comparing TPOs and Embassies**

It is important to compare the activity of TPOs and other public institutions that perform similar activities. Rose (2007) notes that embassies and consulates usually provide market information and identify sales opportunities for exporters. These activities are shown to have a significant effect on countries' total exports with export increasing by 6–10 per cent for each additional consulate in a sample of 22 exporting countries. Comparing Spanish regional agencies and embassies and consulates, Gil et al. (2008) show that the estimated impact is larger for the former than for the latter. Volpe Martincus et al. (2010) show that embassies and consulates



contribute to the increase in the export of homogenous goods but are less effective than TPOs' in increasing diversification of exports of differentiated goods. This implies that what is relevant for increasing product diversification is not only the fact that a country has some representative abroad, but that the personnel are trained and qualified to serve the specific needs of exporters.

#### **6.4.d) Trade fairs, trade show and others**

There are a number of empirical analyses trying to evaluate the impact of trade fairs on export performance. A report produced by KPMG (1994) computed the ROI of the Trade Fairs Support Scheme (TFSS) operated by the UK Department of Trade and Industry showing that the program generated positive results. The Report also found that sales of firms that attended overseas trade fairs increased on average by 19 per cent, while 17 per cent of participating firms increased employment as a result of the TFSS provision.

The different instruments used by TPOs may indeed have very different effects. Alvarez (2004), in his empirical investigation on Chile for the period 1990–96, finds no significant effect of trade shows and trade missions on export performance. On the contrary, access to market studies, frequent meetings with clients, authorities and experts and participation in exporter committees turn out to exert a positive and statistically significant impact on export.

Wilkinson and Brouthers (2000) use US state-level data and distinguish between the effects of trade missions, trade shows and foreign offices on export. They find that only trade shows are positively correlated with export. It is thus important to carefully consider the optimal combination of the different actions that a TPO may undertake and the optimal mix of actions for the different categories of domestic firms.

Volpe Martincus et al. (2010) conclude that the evidence on TPOs performance and effectiveness is too scanty to draw definite conclusions.<sup>23</sup> There is some evidence that export success is correlated with the presence of this type of organizations, but very few studies have taken into consideration the issue of endogeneity and reverse causality. Further research effort is hence needed in this area.

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<sup>23</sup> Note that this did not prevent the number of TPOs to increase around the world.

## 6.5) Trade finance provision

### 6.5.a) Developed countries

Credit access constraints still represent an important barrier to export even in developed countries because imperfections in the credit markets increase the transaction costs faced by firms that intend to export. To deal with these market failures, government may provide trade credit and trade insurance. For instance, trade credit provision is a widely used intervention both in the US (Elliehausen and Wolken, 1993) and in Europe (Egger and Url, 2006) where it is handled by the national Export Credit Agencies (ECAs). Since the 1980s, public trade insurance provision and export credit policies have however been more strictly controlled and their scope has been restricted by international authorities. In particular, the WTO ASCM's rules impose that premiums for export credit guarantees should be adequate to cover non-performing trade credit and operating costs. An attempt at harmonizing and coordinating rules and practices for trade credit and trade insurance among industrialized countries has been conducted by the OECD. Currently these measures, that require the premiums to reflect the underlying risk, are restricted to extra-OECD trade or to export credits of long duration.

Egger and Url (2006) provide an empirical study of the effects of the public export credit guarantees provided by the Austrian Public Export Credit Agency (Oesterreichische Kontrollbank) using export data for the period 1996-2002. The Authors find that the impact of export credit guarantees is relatively small in the long run and requires a very long period to materialize.

Moser et al. (2006) illustrate the instrument of public export credit guarantees available to German firms (called Hermes guarantees) to mitigate the negative effects of political risk; their empirical inquiry covers German exports to 130 countries for the period 1991 to 2003. The main justification for public intervention here is that private credit markets are unable to provide proper risk coverage to exporters and this may lead to underinvestment. There are two ways of providing export guarantees: (a) the ECA grants a supplier credit, meaning that the insurance is sold directly to the exporter; (b) the ECA gives the insurance indirectly to the exporter by covering the default risk to the bank that finances the exporter. As emphasized by the Authors, the interventions implemented by the public ECA are governed at the international level by various institutions namely: the WTO ASCM, regarding the use of export subsidies; the Knaepen-Package, regarding minimum risk-based premium fees for country and sovereign risks; the European Union, regarding the restriction of the public export credit activities to non-marketable. The Authors find that the political risk is an important determinant of exports and that public export guarantees have a positive and statistically significant impact on exports.

As a part of the Australian Department of Foreign Affairs and Trade, the Export Finance Insurance Corporation (the 'financial arm of Austrade', see **subsections 6.2.a** and **6.5.a**) is the agency which provides insurance and finance services to SMEs in order to increase export profitability and reduce the related risk (Molnar, 2003). Financial measures include: (a) export credit insurance, (b) political risk insurance, (c) fixed interest rate finance scheme for foreign buyers of Australian products, and (d) direct or indirect (through banks using Export Finance Insurance Corporation's Export Finance Guarantee) credit provision to buyers. Molnar (2003) documents that between 1992 and 2002 the export volumes of firms participating in Export Finance Insurance Corporation's programs have gradually but substantially increased.

Finally, in New Zealand, firms frequently cite lack of finance – particularly to meet working capital requirements – as a key barrier to export growth (Bell et al., 2000). Nonetheless, the University of Auckland Icehouse's experience with start-ups suggests that knowledge about access to finance is often a more crucial issue than its actual supply.

### 6.5.b) Developing countries

Melo (2001) reports that 14 out of 26 countries in Latin America have some institutional scheme to provide credit to exporters. Credit to exporters comes from ECAs in five countries in the sample, and from special credit lines for exporters in national development bank in six countries. As expected, smaller countries (particularly in the Caribbean) do not provide credit facilities but

they rely on grants from the Caribbean Export Development Agency to finance their exporters' activities. ECAs usually provide exporters with two types of loans: (a) loans to finance working capital, and (b) loans to finance fixed investment costs. The Author reports that 14 countries out of 26 provide only credit to finance working capital, while 10 have programs that in addition finance also fixed investment costs. Only seven countries provide buyers' credit (i.e. loans to foreign buyers of domestic exports) and provide credit insurance services to their exporters. In Argentina and Brazil, the national development bank offer, in addition to the activity of the national ECAs, dedicated credit lines for the export of capital goods.

Besides standard credit schemes, there are also other financial services that are increasingly used to promote exports. One of these is the factoring service that allows firms with foreign creditworthy buyers to sell their accounts for immediate cash. This financial tool entails: (a) credit protection, (b) accounts receivable bookkeeping, (c) collection services and financing (Klapper, 2006). It has been extensively used by both developed and developing countries, and, in particular, by China, Mexico, Turkey and Brazil, providing profitable opportunities for exporters and SMEs.

Evaluating the effects of export credit and financial programs in developing countries is particularly difficult because of data limitations. One possibility is to look at the users' opinions about these programs. According to Macario (2000c), Colombian exporters positively evaluate the activity of export credit provision offered by Bancoldex. Exporters extensively use these services because of two main advantages they provide: (a) interest rates lower than the market ones, and (b) credit availability for longer periods with respect to commercial banks. In their survey on Malaysian SMEs, Hashim and Hassan (2008) show that entrepreneurs agree that most of the 10 different types of incentives offered by the Export Import Bank of Malaysia (such as bank letter of credit and policy, buyer and supplier credit facility, overseas project financing facilities) played a positive role in increasing export.

## 6.6) Removal of trade barriers and standard compliance

Some Authors have argued that an effective way to increase exports from LDCs is removing trade barriers and domestic supports in developed countries to agricultural commodities such as cotton, sugar and groundnuts.<sup>24</sup> It is well known that these protectionist measures have several negative effects for LDCs, among which the reduction in their terms of trade. While developed countries have committed themselves to reduce these trade restrictions for agricultural products in the Doha Round, such agreements have not yet been implemented.

However, one should not expect too much from further trade restrictions removal to foster LDCs' export growth for three reasons. First, given the current state of the Doha Round negotiations, one cannot be too confident about the fact that these impediments will in fact be removed. Second, a number of case studies have shown that the most critical constraints on developing countries' export growth are domestic. Finally, one may also note that most agricultural primary commodities and minerals, in which developing countries have comparative advantage, are not produced in developed countries, and market access is already relatively open for export of these unprocessed commodities.

A related issue is that concerning sanitary and quality standards. A major challenge for developing countries' exporters is that of complying with increasingly demanding developed countries' health and safety norms and requirements (see UNECA, 2011). One effective way to contribute to increasing export is to provide firms producing in LDCs with the necessary support to obtain the certifications required for the access to the Global Value Chains, especially in the agro-industry.

One additional obstacle to export growth in LDCs is the use of export taxation, although this is nowadays not a very common practice (see the discussion by Henkle et al. 2003).

24 Also Latin American countries have tried since the beginning of the 1990s to increase export mainly through international trade negotiations to obtain access to new markets (ECLAC, 2004).

With regard to developed countries, Smeets et al. (2010) document that Dutch exporting firms may benefit from the removal of trade barriers: the amount of the potential benefit varies depending on the importance of the destination country, and the impact may be different depending on whether one considers the export volumes (intensive margin) or the decisions to start exporting (extensive margins). For large countries, export volume decisions are much more responsive to trade costs and trade barriers (two or three times more) than export decisions, whereas for small countries effectiveness of trade barrier removal is more or less the same for export decisions and export volumes.

The Boston Consulting Group (2004) highlights that the multilateral trade liberalization has been a key determinant of the increase in the world trade flows in the last two decades. Then a further reduction of the remaining trade barriers would be desirable. Yet, this is not an obvious outcome of the current negotiations, especially because of the actions of interest groups in both the US and the EU (for the theoretical background, see Grossman and Helpman, 1994; for empirical evidence on the EU see Belloc and Guerrieri, 2008).

### **6.7) Improving the investment climate and other complementary policies**

A complementary strategy to foster the domestic export performance consists in improving the investment climate. A good example about the way this can be done is offered by Denmark (Boston Consulting Group, 2004). Rather than investing public resources to furnish direct support to exporters or potential exporters, the Danish Government's efforts have been addressed to create a favorable economic and administrative environment for domestic enterprises and to provide them with the conditions for a successful international involvement. Such targeted policies entail (a) the removal of financial constraints, (b) education and training programs, (c) a flexible and entrepreneurial workforce (university reform, specialized training facilities, regional entrepreneur parks, tax breaks for foreign workers with skills shortages), (d) investment in R&D and advanced technologies, (e) incentives for collaboration between public and private entities, (f) improved access to venture capital (Danish Investment Fund, state-owned financial company, loans provided on commercial terms, incentive to pension companies to invest in small and innovative businesses), (g) market liberalization (such as those implemented in the electricity market – 2003, or in the gas market – 2004), (h) the removal of bureaucracy or administrative constraints to business activities (such as simplification of processes with online forms and of tax payment procedures for SMEs).

A similar strategy has also been implemented by New Zealand as documented by the Boston Consulting Group (2004). The underlying idea is fostering a positive business environment through unilateral trade liberalization, privatization and deregulation. These policies in the last years have led to a change in the destinations of New Zealand manufacturing products away from the domestic market towards export markets. However, structural bottlenecks still present in the national economic system seriously hamper international competitiveness.

To create a favorable domestic investment climate, complementarity between EPPs and additional policies is crucial. Among other factors, also important are the following (Clarke, 2005):

- a. *Improving the financial system.* In many developing countries, the financial system is unable to provide long-term credit to the local private sector.
- b. *Simplifying the tax system.* In most developing countries, the tax system is complex and its burden is borne only by the formal sector which is typically only a small part of the economic system.
- c. *Improving the customs procedures.* Administrative procedures are typically very complex and cumbersome. Ineffective trade procedures, mainly customs, are in many cases more costly than import and export taxes.

## 7 Concluding remarks

### *Exporting matters*

Increasing export is among the highest priorities of any government in both developing and developed countries. The reason is that increasing export is expected to lead to higher growth (see Giles and Williams, 2000, and Harrison and Rodríguez-Clare, 2009, for surveys). In the last three decades, the proper strategy to increase export was argued to be trade liberalization and the reduction of government intervention in the economy. The view has recently changed. First, while it cannot be denied that exporting plays an important role in the development process especially for small countries, it is now evident that the link between export and growth is less straightforward than economists were used to think and, as a consequence, needs a careful reconsideration (see for instance Vlastou, 2010). Second, it is nowadays more recognized that free trade and no government intervention are not always optimal strategies given the weak economic structure of most developing countries and the presence of numerous market failures. Yet, there is still strong disagreement on the way (and how much) governments should intervene to increase export. For instance, the World Bank has often argued that the best governments can do is to eliminate the obstacles to the well functioning of market forces and to provide information to exporting firms about destination markets and foreign competitors. However, this view is far from being unanimously shared.

### *(Almost) All countries use EPPs*

In this paper we have reviewed the empirical literature on the EPPs that have been implemented in both developing and developed countries. The purpose was identifying which practices were successful considering the countries' experiences.

As we have seen the definition of EPPs can be a very narrow (effective exchange rate policies) or a very broad one (any policy that directly or indirectly affects export performance) or any between these two extremes. Thus, the measures and policy solutions the different governments may undertake are as numerous as are their theoretical justifications.

This survey reflects the view expressed by Rodrik (see, eg, 2010) that the optimal policy is not a set of instruments, but rather a process through which each government learns which policy mix is optimal in which circumstances. The past experiences collected by other countries in the world can only provide some inspiration, starting from which each country should find its own way.

### *What does the evidence say about the effects of EPPs?*

Empirical evidence from both developed and developing countries suggests that the effects of export subsidies (in the form of direct subsidies, duty drawbacks and tax exemptions) are country specific. In general, export subsidies have not been very effective in increasing exports and, in any case, they usually do not pass the cost-benefit analysis. Regarding the use of duty drawback and tax exemption schemes the evidence is quite mixed, but somehow more in favor of their positive effects. This is especially true for the duty drawback schemes that turn out particularly useful for SMEs, which are those that suffer the most from the tariffs on imports used in the production.

A quite debated measure for export promotion is represented by the EPZs. EPZs do not appear to have been as beneficial as many policymakers expected them to be. While there have been successful cases (see, for instance, China and Mauritius), the existing literature is not conclusive about the optimal conditions for EPZs' success in terms of export increase and economic growth. In particular, EPZs have not brought about the expected results in terms of technology transfer or knowledge spillovers. In most of the cases, export has increased, but this was not sufficient to bring positive effects at the nation's economy-wide level, since the spillovers from EPZs to the other regions in the country have in general been negligible. Since the number of countries using EPZs is rapidly increasing and their creation and management are very resource consuming, a re-thinking of their role and a careful evaluation of their effectiveness are

necessary. For instance, Sierra Leone, where exporting is currently a lengthy and complicated process (World Bank, 2011),<sup>25</sup> has recently resorted to this measure in the attempt to increase export. One thus may ask: are there any guidelines that a government should follow to make EPZs most effective?

While there is not a unique model for zone design and development, Farole (2010b) describes some elements that characterize the successful EPZs. A number of preliminary conditions have to be met. First, EPZs cannot be thought to be the engine of economic growth of a given country, but they should only be used as a part of a broader package of industrial, trade and economic development policies. Second, both the government and the private sector should be involved in the managements of the EPZs. Also important is that the government's commitment in the EPZ development turns out credible and that incentive schemes are maintained stable over time. Finally, a monitoring mechanism of the activities in the EPZ and the establishment of clear standards regarding environmental, labor and social compliance are required.

The choice of the location for the EPZ is a strategic matter. First, the chosen location should be either close to large final markets or easily accessible to them. Second, it should be an attractive place due to the presence of both backward linkages (demand effects generated by the linkages from the final good producers to the producers of the intermediate goods) and forward linkages (cost effects generated by linkages from the suppliers of the intermediate goods to the producers of the final goods). Third, the location should enjoy a good investment climate and access to good infrastructure and trade facilitation. The practice (in the past much more common than today) of creating EPZs in remote or depressed zones should be avoided. Interestingly, according to Farole (2010b), wages, trade preferences and fiscal incentives are not correlated in a significant way to the EPZs' economic outcomes. This indicates that rather than focusing on cost incentives, the government should work to provide an improved investment climate, an effective legal, regulatory and institutional framework and efficient physical infrastructures. Finally, FIAS (2008) reports that there is some evidence that privately managed EPZs outperform government organized one.

Farole (2011) suggests that the activities to be located in the EPZs should be those in which the country enjoys a comparative advantage. In several developing countries these are agriculture, minerals, oil and gas, tourism. It follows that future zones should not be designed to replicate the traditional EPZ model of assembly of imported components.<sup>26</sup> Another important (and somehow provocative) conclusion is that, given the available evidence, attracting local SMEs into EPZs seems not to be an objective to be pursued. A better strategy could be trying to create and strengthen linkages between local SMEs outside the zone and the firms producing in the zone. As we said, it is crucial for the success of EPZs that the government provides the economy with a set of complementary measures, such as an automatic duty drawback schemes and a VAT system with an efficient reimbursement mechanism. It could also be recommended to allow direct duty-free import of selected inputs used in the production of exported goods. One important issue concerning EPZs relates to WTO prescriptions. At present the WTO makes no clear-cut restrictions on EPZs; however this will probably be done in the near future. As a consequence, countries could widen the scope of EPZs to reduce possibility of clash with WTO's rules.

TPOs are another important instrument for export promotion. Recently the evaluation of their effect has attracted the attention of researchers and policy makers. The evidence shows that in several cases TPOs had a positive impact in terms of increasing both export volumes and export products' diversification. TPOs have also proved to be more effective when focused to solve specific needs of firms. Still in most of the cases, survey-based research suggests that support and assistance currently provided to exporting firms is not considered enough by

<sup>25</sup> For instance, as of 2008, there was no duty drawback scheme in place (UNCTAD, 2010).

<sup>26</sup> The expiration of the Multifibre Agreement and the end of the African Growth and Opportunity Act (AGOA) have largely contributed to reduce the potentiality of such EPZs.



domestic entrepreneurs. Most LDCs are nowadays creating their own TPOs. Hence one may ask: given the collected experience worldwide, which are the characteristics that a government in a LDC that has decided to set up a TPO should focus on? Consider again Sierra Leone. The Sierra Leone Investment and Export Promotion Agency (SLIEPA) was created by the government in 2007 to promote investment and export development through personalized services and information to investors and exporters. How can the government improve SLIEPA's intervention?<sup>27</sup> While to answer such a question requires a detailed look at the particular circumstances of each country, the empirical literature here reviewed may give some clues. The empirical findings by Volpe Martincus et al. (2010) suggest that one crucial feature for a successful TPO is that it provides multiple bundled services, ie, provides support throughout the entire export process, rather than support on selected services.

Attracting FDI has for long been one of the most used strategies by developing countries to increase exports. Nowadays this idea is losing appeal also because of the disappointing results achieved in the past. In most of the developing countries, FDI has been directed mainly to (extractive) natural-resource sectors that usually have few linkages with other sectors in the economy. Since these sectors are usually highly capital intensive, they generate low labor demand. There are still very few cost-benefit analyses on this issue to draw final conclusions; however the available evidence suggests to be cautious. Governments should not push too much with this instrument unless there is a clear development strategy behind it, as in the case of the Chinese strategy to promote joint ventures in high tech sectors (Harrison and Rodriguez-Clare, 2009).

Studies on the effects of EPPs generally point out that credit and export guarantees are important to increase the probability to export especially for SMEs.

Finally, increasing access to the world markets through the removal of tariff protection is another possible strategy to increase exports. Actually, this is one of the strongest requests advanced by the developing countries during the negotiations of the Doha Round. However, the removal of trade barriers by developed countries alone is unlikely to increase significantly the exports of developing countries. Preferential treatments and the regional trade arrangements may also be helpful but eliminating domestic supply constraints is usually more effective (UNCTAD, 2008).

### *Best practices in EPPs*

This survey has shown that there are a number of instruments expected to be effective in supporting exports. Among the traditional measures, the duty drawback scheme is, as surveys of entrepreneurs' opinions seem to suggest, one of the most effective. Macario (2000a) suggests two ways to improve the duty drawback mechanism: (a) making it accessible to indirect exporters<sup>28</sup> and granting domestic companies to pay lower tariffs on imported goods used in the production of intermediate inputs supplied to final exporters; (b) eliminating any form of duty payment for exporters. This would considerably reduce the funds needed for working capital of exporting firms.

A second crucial aspect is the availability of credit for exporters. This is a particularly relevant topic for SMEs for which the credit constraints are more binding than for large firms. Since SMEs are the large majority of firms in developing countries, if export growth has to be achieved governments have to take some actions in this domain.

27 The SIEPA (2010) has also prepared a National Export Strategy Paper, which outlines plans to improve productivity standards and exports for a number of products. This is another confirmation of the commitment of the Government to reach important results in terms of export growth.

28 An indirect exporter is defined as a firm that sells its product to a trade intermediary in its own country, who then goes on to export the good.

Third, the government should simplify regulation related to export: long bureaucracy procedures affect in a negative way especially the new exporters. At the same time, governments should improve information collection and dissemination about foreign markets and requirements for exporting. Actions in this category should also be addressed to the crucial issue of making export products and services to conform to the requirements and rules of developed countries markets.

Besides traditional forms of intervention, a number of other possible measures can be implemented by developing countries to support export growth. Improving cooperation among exporters and between government and business actors has been one of the strategies suggested by UNIDO since mid-1990s. For instance, there is nowadays an increasing awareness about the possibility to use export consortia<sup>29</sup> to help SMEs to overcome the obstacles to the international markets access. This may be seen as a complement to other forms of government intervention.

Finally, also policies for long-run export growth must be considered. In this context, it is important to exploit the complementarity between EPPs and the set of policies aiming at improving local firms' productivity and technological content of domestic produced goods.

### *Evaluating EPPs*

Evaluation of EPPs is obviously a very complicated matter. There is large cross country heterogeneity in terms of evaluation practices, and the quality is in general quite low. For instance, TPOs are usually evaluated using input measures (i.e. number of missions organized) rather than output measures. Moreover, to evaluate any EPPs, one should also look at some other performance measures such as the Return on Investment (ROI) of these activities.<sup>30</sup>

Program evaluation is crucial for two reasons. First, a well designed evaluation program is likely to provide useful information to enhance the export promotion strategies. Second, knowledge about the benefits of such policies may be able to increase firms' willingness to apply for them. In fact, one of the main weaknesses of several export promotion strategies is that firms do not fully take advantage of the EPPs either because they are not aware of them or believe the policies are ineffective. Indeed, many studies have emphasized that the lack of awareness by the local entrepreneurs contributes to explain the partial failure of export promotion initiatives. Awareness about export promotion programs can be enhanced by interventions on three distinct but complementary aspects: (a) educational (seminars, workshops, training programs), (b) operational (information about technical standards, customer lists, commercial legislation), and (c) promotional (consultation, advocacy, and marketing).

The availability of ICTs has been revealed particularly useful in enhancing awareness about and use of EPPs; but also close interaction between private and public entities through regular meetings is crucial (eg, Spence, 2003). Widespread use of improved ICTs, therefore, cannot replace direct contact for relation-building and cooperation at different levels. It is interesting to note that the direct contact between exporters and high government officials was one of the characterizing features of the Developmental State in South Korea in the 1970' (Amsden, 2001).

29 An export consortium is a formal voluntary alliance of firms with the objective of promoting exports of goods and services of its members through joint actions.

30 The latter is the ratio between the total cost of export assistance and the actual export sales.

*The role of SMEs*

There is an on-going debate among economists and policy makers about the role that SMEs should play in the development process and the actions the government should direct towards them. Some Authors have expressed scepticism concerning policies aimed at training and advising SMEs for international involvement. There are two main reasons for this. First, it is argued, these policies require special government capabilities that at present cannot be (in general) found in LDCs. Second, SMEs do not export because they are not productive enough; so governments should not been committed to help them in exporting but rather to identify the reasons why they are not larger and more productive. However, there are some constraints to exporting, for instance informational problems, that are not necessarily due to the smaller size of the firm. These information problems may, in particular, be related to the quality standard imposed by foreign buyers and the rules established by the international trade agreements. In these cases, export favouring measures directed to SMEs should be considered.

*Government capabilities and the domestic institutional environment*

Export promotion strategies have historically been characterized by the participation of both the government and the private sector, at different degrees in different countries. Identifying a unique and optimal model is indeed not possible, given that either one depends on the institutional environment where it operates. However, the strategic collaboration between different levels of the government (regional and national-level for instance) and the private sector should be favored and considered as a key element for the policy success (on this see also Hausmann et al., 2008). For this to be possible and effective, however, certain government capabilities are required.

According to ten Kate et al. (2000) one successful example to look at is Mexico. The Mexican government has designed effective programs, provided a number of different services to exporters and reduced to the minimum the bureaucratic export formalities, which are fully compatible with WTO rules. The key factors for the effectiveness of these programs is increasing government efficiency and strengthening government capabilities (training and motivating human capital, for instance). Indeed, a pre-requisite of any successful EPP has to do with the given government's ability to design, apply, enforce and monitor the implemented policies. It follows that the policy mix suggested for a given country must be tailored on the bases of the specific national government and national agencies' capabilities. These considerations could lead to very practical criteria for policy design that may suggest which policy to implement depending on which governmental institution is more efficient (or, for instance, less corrupted). Adopting such criteria could minimize resource waste and reduce the risk of further favouring the domestic powerful groups and rent-seeking activities. In particular, this argument warns against relying on a certain policy mix only because it was successful in another country. The same policy implemented in two different countries may yield completely different outcomes. The country specific institutional environment is indeed crucial for policy results (see, eg, North, 1990). Institutional and policy complementarities make these arguments even more compelling.

*What can be done to improve EPPs?*

Successful export promotion strategies have clearly defined priorities, goals, and objectives, and in particular

- (1) create a favorable domestic enabling environment for potential exporters (in terms of infrastructures, regulation, access to finance, insurance, fiscal policies),
- (2) foster strategic collaboration between private and public actors and cooperation among producers, exporters and the policy makers,
- (3) improve productivity and technological content of domestic goods, and provide incentives to nurturing innovation,
- (4) enhance access to credit,

- (5) negotiate for a favorable international environment (multilateral relations, international trade forum, regional agreements),
- (6) work to build the country image in foreign markets (through marketing, information provision, advocacy),
- (7) offer targeted and tailored assistance, and rely on continuous evaluation,
- (8) are supported by monetary and fiscal policies designed to improve the enabling environment,
- (9) stimulate institutional development, also considering institutional complementarities.

Cooperation between the government and the private sector is crucial in order to identify distortions, bottlenecks and weaknesses to be addressed case by case. It is important that the policy makers understand the requirements of the exporting firms in order to create a favorable environment and design effective instruments to increase export. Tailored assistance is needed in an increasingly complex environment where the challenges being faced are context-specific, country-specific and even firm-specific. EPPs need to be designed in order to satisfy the requirements of different types of firms depending on the size, the age and the export experience. For instance, firms at different stages of export involvement have different needs. Here, identifying the target is particularly important.

- (a) In the first stage firms need to get ready and be motivated to export. This implies that they need assistance to get informed about export opportunities, degree of international competition, risks and potential benefits (besides resource availability when imperfect credit markets are present), and thus organizational and managerial capabilities/competencies should be consequently augmented (Czinkota, 1996; Seringhaus and Rosson, 1990).
- (b) In the second stage, firms need support in export planning and international involvement strategy design.
- (c) In the third and final stage, firms need support in selling their goods and services abroad.

Finally, one should consider that EPPs may affect export performance either directly, through the set of policies with direct influence on foreign trade, or indirectly, through the set of policies that have their direct influence on other aspects of the economic systems (eg, monetary and fiscal policies, production and price controls, investment policy, exchange rate policy) but, in turn, are able to indirectly influence foreign trade performance. All these policy measures cannot be considered in isolation: important complementarity in policy processes must be always taken into account. Not only matters which policy is implemented, but also which policy, in which situation, and in the context of which policy mix..

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