

NEW CHALLENGES FOR TRADE PROMOTION ACTIVITY IN ACTUAL GLOBAL WORLD ECONOMIC FRAMEWORK

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Abstract

Export promotion strategy has to play an important part in the development strategies of countries, especially of developing countries that seek to make exports an engine for economic growth. General category of Trade support institutions (TSI) exist in every country to help businesses development, promote and sell their goods and services abroad.

Within TSI, we can consider that a TPO traditionally has a the leading role in "promoting" international trade, focusing on the most important activities in the field, in cooperation with the other component institutions of a national TSI. There may be more than one TPO per country, they are not homogeneous and can take many forms.

There has not been a revolution in trade promotion activity over the the past 20 years, but there has certainly been an evolution in the context of new prerequisites of the global world economic framework).

Keywords: *foreign trade promotion, services, TPO, efficiency, export.*

1. Introduction

Export promotion schemes can play an important part in the development strategies of countries, especially of developing countries that seek to make exports an engine for economic growth. Membership in the World Trade Organization (WTO) is a critical tool for participation in the multilateral trading system. It requires opening domestic markets to international trade – where exceptions and flexibilities have not been not negotiated – but also provides huge market opportunities for domestic producers.

To design successful export development strategies, it is fundamental that governments and private exporters have a clear understanding of the applicable WTO rules and their implications for their specific individual characteristics.

The rules are complex. This book highlights the relevant rules contained in the WTO Agreement on Subsidies and Countervailing Measures (ASCM), covering manufactured goods, and the WTO Agreement on Agriculture (AoA).

In recent decades, global integration – together with openness to trade – has been a catalyst for strong economic growth for many countries, generating employment and reducing poverty.

Countries that have reaped the most benefits from international trade have focused on national trade policies and regulatory reforms that created a business-friendly environment so that firms could achieve export success. However, because trade policy is a complicated process that demands balancing competing and disparate interests, the process of reform is challenging for both the public and private sectors. Meeting these challenges calls for action on two fronts.

First, governments must take a holistic view of the policies, laws and regulations needed. They must

be implemented in the right sequence to create a mutually reinforcing framework that fosters competitiveness and a business-friendly environment. Policies, laws and regulations should work together in synergy to achieve 'export impact for good'. Ministries, departments and government agencies must work in tandem to ensure policy coherence.

Second, for the reform process to strike the right balance among various interests, governments must secure the buy-in of all stakeholders, especially from the private sector.

2. Actual global economic trends

After growing by an estimated 2.6 percent in 2014, the global economy is projected to expand by 3 percent this year, 3.3 percent in 2016 and 3.2 percent in 2017, predict the World Bank specialists, in January 2015.

The fragile global recovery lie increasingly divergent trends with significant implications for global growth. Activity in the United States and the United Kingdom is gathering momentum as labor markets heal and monetary policy remains extremely accommodative. But the recovery has been sputtering in the Euro Area and Japan as legacies of the financial crisis linger.

Risks to the outlook remain tilted to the downside, due to four factors. First is persistently weak global trade. Second is the possibility of financial market volatility as interest rates in major economies rise on varying timelines. Third is the extent to which low oil prices strain balance sheets in oil-producing countries. Fourth is the risk of a prolonged period of stagnation or deflation in the Euro Area or Japan.

Growth in high-income countries as a group is expected to rise modestly to 2.2 percent this year (from 1.8 percent in 2014) in 2015 and by about 2.3 percent in 2016-17. Growth in the United States is expected to

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accelerate to 3.2 percent this year (from 2.4 percent last year), before moderating to 3 and 2.4 percent in 2016 and 2017, respectively. In the Euro Area, uncomfortably low inflation could prove to be protracted. The forecast for Euro Area growth is a sluggish 1.1 percent in 2015 (0.8 percent in 2014), rising to 1.6 percent in 2016-17. In Japan, growth will rise to 1.2 percent in 2015 (0.2 percent in 2014) and 1.6 percent in 2016.

Trade flows are likely to remain weak in 2015. Since the global financial crisis, global trade has slowed significantly, growing by less than 4 percent in 2013 and 2014, well below the pre-crisis average growth of 7 percent per annum.

3. A new concept of trade promotion institutions

General category of Trade support institutions (TSI) exist in every country to help businesses development, promote and sell their goods and services abroad. This category includes institutions governmental and nongovernmental institutions with a wide range of activities (TPOs – Trade promotion organizations, ministries - with an interest in export development, chambers of commerce and industry, economic development agency - with export focus, foreign trade representatives/offices, regional economic groupings -ith export focus), as well as specific sectoral bodies (exporters' associations, trade associations, chambers - agriculture and other sector specific, sector based bodies - industry and services) and institutions with specific functions (export credit and financing bodies, standard and quality agencies, export packaging institutes, international purchasing and supply chain management bodies, training institutions, trade law and arbitration bodies).

There is no standard format for a TSI and often more than one exists in each country.

Within TSI, we can consider that a TPO traditionally has a the leading role in “promoting” international trade, focusing on the most important activities in the field, in cooperation with the other component institutions of a national TSI. There may be more than one TPO per country, they are not homogeneous and can take many forms.

In some countries TPOs are part of governmental bodies, in others they are statutory agencies created by public law, in others, private sector bodies (e.g. chambers of commerce in Austria). Sometimes they are a combination of public and private enterprise (e.g. Swedish Trade Council).

One TPO may represent smaller nations while larger nations may be represented by TPOs at regional and local/city levels. However, one is generally recognised as the national TPO in international meetings because of its public law and funding status. Nevertheless, export customers will use the most convenient TPO that can best meet their needs. A few TPOs have responsibility for promoting tourism, but

more combine their exporting role with that of promoting inward investment.

TPO services can be those demanded by the exporting community, perhaps in response to a customer needs analysis, or in response to an analysis of the requests received. TPOs may also use information from around the world to identify opportunities in markets and sectors as yet unnoticed by the country's exporters. This would be seen as proactive work by the TPO, with the balance of responsive and proactive services being at the TPO's discretion. However, many TPOs offer only a fraction of large range of specific activities due of limited resources or legal powers, customer demand, or competition from other component of the national TSI.

The main groups of functions with the greatest potential for a TPO are the following:

Information. The main objective of a TPO is to put sellers in touch with buyers abroad and facilitate the development of that contact. TPOs can provide information about buyers and sellers, for example size, turnover, contact details, market reputation, customer attitudes, competitiveness, methods of doing business, market size, TPOs assemble and distribute information via publications, websites, selective e-mail and in person at enquiry points. They may also delegate this task to provincial offices and agencies closer to the exporter.

TPOs can make information available to exporters via the following channels:

- Websites (either open access, or access limited to registered users).
- Distribution systems which attempt to match information to users by means of a pre-established profile (often known as Selective Dissemination of Information). This is normally sent by e-mail or by text (SMS) or postal delivery where the infrastructure or culture does not support e-delivery.
- Publications.
- Information centres (with personal, telephone or e-mail contact with TPO staff, or combinations of methods)
- Announcements in newspapers, trade magazines or on radio where other more targeted methods cannot be widely used.

Advisory services. The TPO is seldom organized in such a way that it could provide advisory/consultancy services of that kind. It essentially provides intelligence on foreign markets, and then connects potential suppliers and purchasers. Where a TPO can provide such advisory or consultancy services, it would be a very useful adjunct to the NSB's conformity assessment services, as the conflict of interest would not arise. In this case the NSB and TPO should cooperate closely to ensure that the TPO advisory/consultancy service is successful in helping upgrade the product, process or service so that it meets stated requirements, and can be tested and certified.

Promotion in target markets. Once a TPO has identified details of potential buyers and markets, and the exporter has decided to develop the opportunity, it can facilitate contact between buyer and seller. This could involve providing and/or subsidising participation by the exporter, either alone or with other enterprises, at an international trade fair. It can also organise buyer/seller missions to and from the target market. All these activities are aimed at developing the contact between buyer and seller, and making the exporter more aware of the export market conditions.

Support abroad. TPOs with networks of offices or representatives overseas can provide additional help to the country's exporters – this is particularly important for SMEs without agents or distributors in a new market able to deal with local requirements in the local language.

SMEs often need to use the TPO's overseas offices, the country's embassy or other representatives to make these introductions and identify translation and interpreting services. Larger TPOs with extensive overseas networks can assist exporters with such local market knowledge. However, TPO employees are expensive to relocate in foreign markets, and are usually supplemented by local staff who can provide local language capabilities and knowledge at lower cost.

Import promotion offices have been established in some developed economies to support SMEs from developing economies gain access to their markets. Typical examples include the Netherlands Centre for the Promotion of Imports from Developing Countries (CBI), or the Swiss Import Promotion Programme (SIPPO).

Role of TPOs in trade development. The TPO focus changed with the arrival of the Internet, enabling exporters to search for market information directly rather than through a TPO, and to contact potential buyers via e-mail, business networking sites or electronic marketplaces. In response, some TPOs began to intervene earlier in the export process (“going-up-stream”) to help exporters become export-ready in developing and adapting their products. This has challenged TPOs to equip themselves with additional skills. If TPOs do not provide assistance in export-readiness then it may become the responsibility of separate small firms agencies (the United Kingdom's Business Link network is one example). Some TPOs (e.g. those of Sweden and Norway) in developed countries provide more detailed support (“going downstream”) and offer full cost consultancy services in competition with the private sector.

TPOs in developed markets usually direct customers to sources of advice rather than themselves becoming involved in specializations such as packaging, transport, financing and insurance, which require knowledge and skills not usually possessed by government officials. Thus they have not traditionally provided information about technical regulations or standards required by exporters to meet market needs.

In view of the globalisation of trade and greater movement of goods between countries, it is more important than ever that exporters have better information on market entry requirements.

Actually, TPOs service has been extended to helping exporters set up overseas subsidiaries and generate profit from manufacturing abroad (outward investment). In parallel with globalisation and the transfer of manufacturing facilities to lower cost economies is a dependence on selling services (such as professional advice, construction activities, transport). TPOs have had to develop mechanisms to assist service suppliers, whether professionals – e.g. architects, lawyers, accountants, or consultants – e.g. business or internationally tradable services. The tools developed for selling goods (e.g. trade fairs) are not necessarily relevant to selling services. Here, trade missions that concentrate on personal introductions have generally been more effective. However the provision of market information is common to selling goods and selling services.

Although the range of TPO services provided may seem quite wide, in reality it is relatively narrow. Surveys show that, even in developed markets like the UK, some 40 % of exporters are unaware of the existence of a TPO. Large companies tend not to need TPO services because they generally sell established products to established markets, and know their buyers and markets well. If they wish to enter a new market, they will probably appoint an agent or distributor, or set up a local office and not require TPO services. An exception might be a service organization, such as a large distribution or construction company, requiring diplomatic support to reach decision makers in the local ministry. Service organizations such as banks, and professionals such as architects and surveyors will rarely call on the TPO because it is unlikely to have the necessary knowledge and expertise.

TPO customers tend to be SMEs. In most sectors, micro businesses are normally considered to be too small to export, particularly if substantial amounts of working capital or effort is required to penetrate a foreign market. SMEs wishing to enter new markets or sell new products into existing markets may seek TPO help to find buyers and undertake market research. Such a service is likely to be low cost or free of charge.

4. The value chain approach

The value chain approach is used by many organizations to show how fragmented activities can be coordinated to reveal interconnections and inter-dependences between international traders and economic operators in different countries. Value chains highlight the fact that most products and services are produced by a complex and sequenced set of activities. Developments in global markets over the past few decades have greatly increased the complexity of inter-company linkages and the ways in

which the activities of different organizations are coordinated.

From a policy perspective, value chains are increasingly utilized to address two key issues in business development and trade promotion:

How to mobilize, and work with, the private sector to promote development, reduce poverty, and shift from supply-side to demand-side interventions.

How to support the productive activities of small producers and marginalized populations in the context of globalization.

Developing a value chain for a product or service in a specific country will focus attention on the coordination of fragmented production and distribution systems, and the options open to an enterprise in managing relationships along the chain. It is also an opportunity to identify the points at which TPOs could lend support. Any gaps can be easily identified, and programmes to develop appropriate capacities can be established. This may be more valuable to the SME sector than to large exporters already familiar with the sequence of processes and players, who have developed their own methods of dealing with potential gaps.

Case study – Tourism. Tourism is a multi-dimensional service industry. In most countries where the importance of tourism is recognized, the industry falls under the auspices of a specific government body or tourism board.

The principal role of the TPO would be to help promote home market image building and tourism during trade fairs and similar events. This is as important as promoting any manufacturing industry, particularly as tourism is a major foreign exchange earner in many countries. Links between TPOs and tourism boards can be of significant value where home market image building is planned. The challenge however, is that the key TPO home country customers are more likely to be exporters than hotels, restaurants and tourism service providers.

Similarly, the normal TPO target audience in foreign markets would be the retail consumer seeking to buy the product, rather than the business community.

The service sector is growing, and the international standardization community is increasingly involved in developing standards to provide guidance in the quality of service delivery.

5. Conclusions

Generally, TPOs have become more global in their outlook. Once they would have helped only those firms exporting products manufactured or originating in their own country. Today, if there is enough added value in the TPO's country as part of a global supply chain, the TPO recognizes the need to assist this customer (foreign companies, as a part of the global supply chain).

More and more, TPOs have a mandate to assist enterprises in their country to invest overseas in order to increase efficiency and reduce costs by outsourcing. This generates dividends that can be repatriated to the home country. Some TPOs have also embraced the role of encouraging foreign direct investment, which gives them the supply capability to export competitive products.

Other TPOs have joined forces with tourism promotion in Western Europe, a sizeable export earner in its own right in many countries. Yet others have pursued the development of an enterprise upstream by taking on responsibility for the development of small firms and exploitation of new technologies.

The way TPOs communicate with their customers has certainly evolved over the past 15 years. From a situation where all contact was by post, telephone or telex, TPOs now communicate by e-mail, through web sites or SMS, and have organized their enquiry response facilities in call centres, frequently offshore.

Customer care has also been streamlined. An enquiry from an enterprise was once handled by a local office, routed to headquarters and then sent to the overseas network if the headquarters deemed it necessary. This rigid way of working has been replaced by TPOs, such as those in the UK and France, making substantial reductions in the size of their headquarters. They now facilitate the transfer of enquiries directly from customers or local offices to the overseas network of trade representatives and vice versa. This trend is likely to strengthen in the years ahead, with continued reductions in head office staff.

These are clear indicators that TPOs have been moving with the times and the situation is not as it was two decades ago.

Not only are national TPOs continuing, but in several European countries, such as France, Spain and the UK, there exist important regional TPOs. This trend has emerged with the devolution of powers within countries, but is also driven by customer demand for a service that is more focused on their area and their individual needs.

The number of customers who continue to seek assistance also supports the need for TPOs. The way in which they expect their needs to be satisfied may be changing (such as using the TPO web site rather than the traditional trade information centre), but they still appear to be seeking support.

However, while recognizing the value of their service to the needs of small and medium-sized enterprises (SMEs), we should not overlook the fact that in virtually every Western European country, most exports and most outward investment goes on without any intervention or knowledge by the national TPO. This situation has not changed in the last 40 years.

What TPOs are doing might be described as being at the margins. The average European SME knows about marketing and selling and needs little help from government organizations to do this in the

home market. But to go abroad, they need help in accessing information, perhaps in analysing it and certainly in having an outreach.

TPOs, with a network of offices abroad, have a major advantage. The TPO can assist SMEs, which usually have no such network and need help to make contacts in an overseas market and to set up meetings. A large enterprise usually has no such need, unless it is the political influence of an ambassador to open the doors of a large public organization.

Services, once called “invisible exports”, account for the majority of a country’s production. Getting information on overseas markets and penetrating them when there is nothing tangible the exporter can show is quite a different challenge. Most TPOs do not yet recognize this, partly because they do not know how to respond to enquiries and partly because their staff do not have the skills and knowledge to do so.

In keeping with the experience of the EU countries in field of specific practices and techniques aiming to foster their international economic relationship, foreign trade promotion activity has to represent for Romania, one of the most important components of the national economy development strategy. This activity has to be developed in accordance with the provisions of the international agreements in which Romania is a signatory part, as well as with the international market rules and procedures. Within this framework, the promotion of the Romanian companies dealing with foreign trade activity by an adequate conceived system of governmental and non governmental TPOs is acquiring new dimensions, having to become one of the main pillars of the XXI century economic development of the country. This problem has to be taken into consideration by the Romanian

governmental and non-governmental bodies, taking in view that each economic operator acting in the field of foreign trade should take big efforts in order to penetrate and maintain its position on a very competitive international market.

Being aware of both the importance of the promotion activity in attaining the strategically objective of growing efficient exports and the fact that the high costs implied by the export promotion activities could be prohibitive for many Romanian exporting companies, especially for SMEs, the governmental decisions makers together with the Romanian business community, have to take a lot of measures looking for redressing this situation.

For a national export strategy to be effective, strong linkages with other economic and developmental strategy initiatives are required. Strategy makers must look beyond existing export capacity and work towards ensuring that new export capacities are generated.

Promoting export-oriented foreign direct investment must go in tandem with promoting exports in the international market place.

Developing higher value-added export performance must be directly supported through, for example, developing strong backward linkages in industry and forward linkages in agriculture. Romanian strategy makers must look at “on-shore” domestic production issues, as well as “off-shore” market development issues when developing their future responses.

For a strategy to work, the private sector — perhaps the key player in implementing export strategy — has to be fully involved and committed to the overall process. The private sector has to “buy in” and feel responsible for the success or failure of the strategy. There must be a real and effective partnership between the public and private business sector.

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