

# TRADE PROMOTION APPROACHES TO STRENGTHEN THE INTERNATIONAL COMPETITIVENESS OF ENTERPRISES

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## Abstract

*Starting from the concept of export promotion in the new world economic context, there are presented the role and attributions of Trade Promotion Organizations, institutional structures created by UNCTAD in cooperation with WTO, implemented in many countries all over the world, Romania included, with a logistic and methodological support on behalf of the initiating organizations.*

*Trade Promotion Organizations (TPO), governmental and non-governmental, are representing the main institutional link in the above mentioned field of activity, with a wide range of attributions in supplying the exporting companies with specialized services.*

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

## Introduction

International trade depends on a range of factors that may change in the future and influence not only the extent but also the nature and impact of trade.

Trade is principally driven by countries' production possibilities, which can be described, for instance, by technology and endowments of labour, capital and natural resources, the demand for traded goods and services (which depends on people's preferences and incomes), as well as trade costs, both geography and policy related.

A trend emphasized throughout a recent WTO report, with a major impact on other developments is the emergence of global supply chains. Countries and producers increasingly specialize in certain stages of production depending on their particular comparative advantage.

The need for firms to organize their supply chains across different countries has led to an increasing demand for regional agreements that cover more than preferential tariffs. The harmonization of standards and rules on investment, intellectual property and services has become a standard part of new trade agreements.

In order for international supply chains to operate smoothly, certain national policies need to be harmonized – or rendered mutually compatible – to facilitate business activities across borders. This generates a demand for deep forms of integration. Developed countries were the first to sign regional agreements aimed at providing rules to accommodate internationally fragmented production. With the expansion of international production sharing, developing countries too began to enter into deep integration agreements, especially at the regional level. Both North-South agreements (between developed and developing countries), such as the North American Free Trade Agreement or the Euro-Mediterranean agreements, and South-South agreements (between developing countries), mostly in Asia, include provisions that go beyond preferential tariff reductions.

Trade in services has grown faster than trade in goods over the last two decades, advances in information and communication technology enabling a rapid expansion of services trade. The share of services in both manufacturing firms' inputs and outputs has increased and the "frontier" between goods and services is increasingly blurred.

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Based on a study of the Swedish manufacturing sector, Kommerskollegium has identified a trend of the “servicification” of manufacturing. In particular, the study identifies two developments. First, it notes that purchases of services account for an increasing share of a manufactured product’s total cost. In other words, manufacturing companies are purchasing more and more services. Secondly, the study finds that services account for an increasing amount of manufacturing firms’ sales. Put differently, manufacturing firms are selling more and more services. According to Kommerskollegium, these developments mean that trade in services and trade in manufacturing are becoming more interdependent.

The extent to which countries will adjust to change and take advantage of trading opportunities depends in no small part on government commercial policy. In many areas, action needs to be taken at the national level in areas such as education policy, infrastructure investment, innovation incentives, legal certainty or social protection. In other areas, like international economic relationship promotion, joint action at the national and international level is required in order to coordinate regulatory approaches, mobilize political support and develop adequate resources.

The importance of international trade is widely recognized not only by the business sector, but also by governments. Governments all over the world have reviewed and streamlined their trade policies during the last decades. Significantly, efforts have gone beyond the commercial policy framework. Nearly all countries have adopted special trade promotion and development programmes. These programmes have focused on providing more efficient trade support services in areas such as trade information, financing, logistics, customs procedures and communications.

A recent survey issued by the International Trade Centre UNCTAD/WTO estimated that the budgets for public trade promotion programmes, alone, amount to an average order of magnitude of 0.1-0.2% of national exports per year. This is equivalent to global expenditure on trade promotion of some US\$ 18-20 billion for 2012. If one includes the budgets of non-commercial trade support services by non-governmental institutions such as chambers of commerce and industry associations, the amount would be significantly larger.

In spite of this considerable resource endowment of trade promotion programmes, these programmes need to be selective in terms of products, functions and/or markets. An equal distribution of trade promotion resources over all products, functions and markets would obviously not make sense, as resources would be spread too thinly to reach anywhere a critical mass.

### **1. Strategic Guidelines in Export Promotion Activity**

Trade Promotion Organizations (TPOs) have a broad mandate to provide or coordinate trade support services in the above mentioned area.

Certain basic conditions must be present for a trade promotion organization (TPO) to be effective, no matter what form the organization takes. Studies on experiences of TPOs show that the following conditions should be present:

- The organization’s main role and field of action should be clearly defined commensurate with the authority, resources, and autonomy granted to the TPO. The definition will have an important influence on the structure of the organization.
- The organization should have a legal position within the overall governmental structure to provide it with the means and required authority to implement its task. There should be a close and logical relationship between the position and authority it is granted and the responsibilities it is assigned.
- The organization’s corporate purpose should be clearly stated in order to minimize or avoid any confusion about its aims and any duties unrelated to its main objectives.

- Adequate human and financial resources must be available. The technical nature of the TPO means that it should also be given the necessary freedom to manage its staff adequately, despite limits resulting from civil service regulations and practices.

According to analysis of statutes and other regulations that govern the creation and operation of TPOs in various countries around the world, their objectives are defined in two ways. One definition covers promotion and support of all export products. The second definition covers promotion and support of those products considered to be non-traditional, in order to diversify the export mix.

The organizational features of a TPO should be flexible enough to allow for several strategic options, because different strategies may be appropriate for different products and markets.

Their strategic options include the following:

- Market penetration is selling more of existing products to existing markets. This strategic option offers limited possibilities. Sales growth is often constrained by market growth. This strategic option would be appropriate when resources for promotion are limited, and when it might not be possible to expect more ambitious results.
- Market development is selling the existing range of products in new markets. This strategy may give more promising results compared to product development. However, it may block growth and diversification of the export supply, because it takes attention away from the possibilities of diversifying the export supply.
- Product development is the development of new products for existing markets. New products are developed based on current knowledge of the needs and preferences in existing markets and on the capabilities of the supplying country.
- Product and market development is the development of new products for new markets. This may be the most difficult strategy to follow, because it involves adapting products and having promotional activities in new foreign markets.

Certain factors will have a strong influence on the efficiency of any TPO, and they should be examined carefully. These factors include:

- Responsibilities and activities of each unit within the TPO affect efficiency. There should be a detailed methodology that clearly describes organizational functions and specifies areas of responsibility and scope of action for each division, department, and section. This should include clear job descriptions for all positions. The descriptions should specify the technical qualifications, including professional experience, required for each position.
- Adequate, effective mechanisms for co-ordination within the TPO and with other bodies in the public and private sectors should be established. Such coordinating mechanisms can be provided by management committees and similar units or working groups to deal with specific problems.

## **2. Relations of A TPO with the Business Community**

The TPO should not work in isolation from the business community. A TPO must be ready to adjust the scope and nature of its services according to the requirements of the export sector.

Having representatives from the business sector on the coordination board of the TPO will improve relations between the TPO and the business community. In most cases, however, additional measures are needed, and the following recommendations can be considered:

- TPO staff concerned with manufacturers and exporters should maintain frequent contacts with them, and information obtained should be recorded systematically on standard forms. TPO staff should respond to all requests, in order to improve confidence in TPO-business relations.

- Working groups should be established to study, design and implement specific promotional programmes, and activities. Working groups should include key representatives from relevant sectors in ways that take their points of view into consideration.
  - Industry advisory groups/committees should be established under the sponsorship of the TPO and act as a feedback mechanism to provide the TPO with inputs for implementing industry-specific promotional programme and activities. These committees should include key representatives from relevant sectors, and their points of view should be taken into consideration.
  - The staff of the TPO should keep in close contact with export associations, sectoral groups and organizations and chambers of commerce and industry. Such contacts are the most effective channels of communication with the business sectors in many countries.
  - The TPO should organize market and industry seminars to disseminate information as frequently as possible, in order to motivate the business sector towards greater involvement in the export trade.
  - The TPO should have consultations, dialogues, and workshops with the business community to discuss external trade impediments affecting their exports to overseas markets. These views could be incorporated in lobbying representations and market access negotiations, either on a bilateral or multilateral basis.
  - The TPO should also have periodic dialogues with the transportation and logistic sectors about ways to enhance the effectiveness of the trade administration system.
- In summary, the TPO should act in response to the needs of the private sector when developing its interface with the world market.

### **3. Overview of TPO Functions**

In practice, trade promotion activities are a function of several factors in any country. There is usually one central governmental export promotion body to provide the policy framework and mechanism for co-ordination and consultation among the various sectors or organizations involved in foreign trade. Such TPOs can specialize in a few key functions or perform a broad range of services. The type and extent of their activities depend on the resources available to them, such as the experience of the organization, the quality of its work force, its network of linkages and financial resources.

Typical TPO activities may be classified into four general categories:

- Identification of products and markets.
- Promotional activities abroad.
- Trade information services.
- Specialized support services.
- Preparing profiles on products and companies.

***Identification of products and markets.*** A TPO has a significant role in laying the groundwork for an export promotion programme. The TPO can give assistance by doing the necessary studies to identify what products to promote and decide which markets offer the greatest opportunity for export growth. Moreover, the TPO could participate in designing and developing marketing strategies for specific sectors and products, incorporating into these strategies all recommended measures and actions for achieving export targets.

A useful and practical approach in this respect is to adopt the product-market framework for an export promotion programme. As the term suggests, each programme concentrates on a specific product or group of products. Activities are directed mainly at helping the specific sector or a selected group of companies to gain entry into certain markets.

The product-market framework means allocating resources to focused activities for maximum impact designed to achieve export targets. Three features of this approach are:

- Products are identified for the purpose of designing a marketing strategy for a specific sector, including all necessary action and support activities that help generate or increase exports.
- A programme based on the product-market framework can address specific concerns of the sector, particularly obstacles to export growth, and provide the bases for coordinated or co-operative actions, including joint export promotion and marketing activities.
- The programme can help individual companies to develop their own marketing strategies and programmes and to identify specific areas where support or assistance is required.

Planning and implementing a programme with a productmarket framework could be done by a central export coordinating body, although institutions and organizations from both the public and private sectors might also participate. The significant role of the TPO is to lay the groundwork in preparing the programme and to do the necessary studies to identify the products to be promoted in identified markets.

In many cases, a country does not have a clear idea of what products to promote in international markets. This leads to haphazard trade promotion efforts, often as a reaction to inquiries made by foreign buyers, with uncoordinated, ineffective export assistance. Identifying priority export products is necessary to maximize the impact of all activities and efforts aimed at achieving national export targets.

**Promotional activities abroad.** The main thrust of the export promotion and marketing efforts is to attract the attention of targeted markets abroad and to project the desired image for the country as a source of products. Trade promotion activities abroad are thus crucial functions for most TPOs. The availability of resources and international commercial representation will determine the extent of a TPO's activities abroad. The TPO can provide an invaluable service to exporters by intensifying its promotional efforts in selected foreign countries. Activities related to trade fairs, sellers' missions, inviting foreign buyers to visit local manufacturing plants and facilitating subcontracting arrangements are some examples of a TPO's efforts. A TPO's overseas network of commercial representatives will play an important role in the planning and implementation of the overseas marketing programme.

**Trade information services.** The quality of business decisions depends on pertinent and timely information. Exporters need to stay current in their awareness and understanding of market developments and trade opportunities in order to maintain their positions or establish edges over their competition. A TPO should pay attention to the trade information needs of exporters and have appropriate mechanisms for acquiring such information systematically and disseminating it in a timely way. Moreover, a TPO provides basic and useful support to the export community if it can facilitate contacts between foreign buyers and exporters.

**Specialized support services.** Specialized export services aim at providing exporters with skills in various foreign trade techniques, thus helping them to become more competitive in the international market. Training, advisory services and facilitation services, plus other forms of technical assistance, may be provided concerning export procedures and documentation, export financing, packaging, costing, pricing and legal procedures. The range of assistance and services can be as wide and as varied as manufacturers and exporters may require.

**Preparing profiles on products and companies.** A TPO's effectiveness can be measured by its ability to respond to trade inquiries and facilitate matches between foreign buyers and local exporters. When a foreign buyer makes urgent inquiries, a TPO should be

able to immediately provide accurate information on the names of reliable exporting companies, appropriate descriptions of their products and exportable quantities that meet with the buyer's requirements. In order to be effective and efficient, one of the most basic and useful services of a TPO is the preparation of registries or directories of exporters to be disseminated to foreign buyers and to the country's commercial representatives abroad.

Preparing product profiles is primarily aimed at giving foreign buyers written information about types and groups of available products. It is possible for a TPO to prepare product supply survey. The product profiles will describe the different exportable categories and give some details of the nature of the products, volumes available for export, prevailing prices, and information on producers and exporters.

Company profiles, based on the export supply survey, will show not only the general characteristics of the companies, but also information on their products and production capacities. The product and company profiles should include:

- Categories of exportable products and exporters.
- Industry capacity and export volume.
- Price variation.
- Company characteristics.

This data will be useful to a TPO as an information base for:

- Registries or directories of exporters.
- A target base for company participants for specific trade promotion events/activities.
- A dissemination list for international market news.
- Initiating an industry grouping or core group of exportready companies for dialogue sessions on developments affecting the industry.

The publication of registries or directories of exporters, as well as product and company profiles, are extremely useful tools for the promotion of high-priority products. Moreover, these publications complement efforts by individual companies or groups of companies to publicize and promote their products abroad and gain entry into certain markets.

#### **4. Conclusions**

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.

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