

Export Promotion Rationales and Impacts – A Review



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Abstract

We review the extant research on the government export promotion policy interventions, concentrating on export promotion agencies (EPA). Based on the research literature, the review synthesizes export promotion policy intervention rationale and economic justifications for the intervention, impact evaluations of the export promotion interventions, and current forms of export promotion.

We identify two types of information related market failures, information spillovers and information asymmetry, justifying public intervention and use of public funds to support firm exporting. Furthermore, four distinct economic and non-economic policy outcome objectives can be identified, accrued in the firm, industry or macro-economic level from increased exporting. Export promotion policy intervention as such impacts both export performance of firms, as well as industry and macro-economic performance of a country. However, export promotion impact studies indicate heterogeneous effects on countries, firms, export barrier types, markets and products.

With regards to policy interventions, it is especially SME firms who lack key competences to operate in the foreign markets. EPA services can help SMEs to overcome the external and internal barriers to internationalization by providing information, training, and other types of support as external resources. Public policy interventions are as such a means to share risks and to offer motivational stimuli for the SME executives to seek growth in the foreign markets.

Tiivistelmä

Katsaus viennin edistämisen oikeutukseen ja vaikutuksiin

Raportissa esitetään kattava synteesi julkisen sektorin viennin edistämisen oikeutusta ja vaikuttavuutta käsittelevästä tutkimuskirjallisuudesta. Katsaus keskittyy viennin edistämisen oikeutukseen, julkisen intervention taloudellisiin perusteisiin, vaikuttavuusarvioon ja viennin edistämisen muotoihin.

Keskeisin oikeutusperuste julkisen sektorin viennin edistämiseksi ovat informaatioon pohjautuvat markkinavirheet: Informaation läikyntävaikutukset ja informaatioasymmetriat. Julkinen interventio eritoten tukee pk-yritysten kansainvälistymistä jakamalla riskejä ja kannustamalla yrityksiä hakemaan kasvua kansainvälisesti. Pk-yrityksiltä puuttuu keskeisiä kansainvälistymiseen vaadittavia kyvykkyyksiä, jolloin viennin edistäminen auttaa yrityksiä pääsemään yli ulkoisista ja sisäisistä kansainvälistymisen esteistä tarjoten tietoa, koulutusta ja muita ulkoisia resursseja. Tunnistamme neljä keskeistä viennin edistämisen vaikutuksiin liittyvää tavoitetta: suora viennin kasvu, yritysten uudistuminen, kansantaloudelliset vaikutukset ja yhteiskunnalliset tavoitteet. Viennin edistäminen vaikuttaa täten suoraan yritysten ja kansantalouden viennin määrään ja epäsuorasti yritysten uudistumiseen ja makrotaloudellisiin muutuksiin. Viennin edistämisen vaikutusarviot sisältävät vielä poikkeavia tuloksia liittyen vaikutuksiin maatasolla, yrityksissä, vienninesteissä, markkinoilla ja vientituotteissa.

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Keywords: Export promotion, Export promotion agencies, Impact evaluation, Policy rationales

Avainsanat: Viennin edistäminen, Kansainvälistymisen edistämisen organisaatiot, Vaikuttavuusarviointi, Poliittika-rationaliteetit

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Export promotion agencies

Public policy measures to promote national export performance are common practice and widely spread across the globe (Cruz et al., 2018). In current global economy, export promotion agency (EPA) is the most typical form of institutional arrangement in promoting national exports, and the number of EPAs has tripled during the past three decades¹ (Lederman et al., 2010). Based on the extant research on EPAs (e.g. Cruz et al., 2018), it is clear that in the recent decades EPAs have been gaining more importance in country and regional level efforts to boost exports (Lederman et al., 2010), because traditional trade policy tools – such as currency rate manipulation, tariffs and direct subsidies – have become less accepted forms of policy intervention to promote exports under international trade laws, regional regulations and multilateral trade agreements (Cruz et al., 2018; Czinkota, 2002).

The main objective for EPA is to offer assistance for firms in understanding business opportunities and finding markets abroad. The EPA provided assistance can be defined “as a set of activities to help firms overcome internationalization obstacles” (Van Biesebroeck et al., 2016: 5) consisting of different forms of assistance services include foreign demand information, motivational support and risk sharing, capability training, country image building, export support services, marketing, and market research (Lederman et al., 2010; Domingues, 2018; Durmuşoğlu et al., 2012). In this report, export promotion policy intervention² is focused on explicit export promotion program services offered by EPA for current and potential exporters, these services overall being economically considered as external resources to firms (Lederman et al., 2010; Martincus & Carballo, 2010b).

Export promotion is an attractive policy objective due to the benefits associated with increased exporting, mainly including generating export revenues (balance of payments surplus), and increasing employment opportunities, business competitiveness, tax revenues, productivity and economic growth (Leonidou et al., 2011). In addition, firms that export have been found to have higher productivity than non-exporting firms (Wagner, 2007). Extant research evaluating the different impact outcomes of EPA intervention are not fully conclusive, because assessing the impact has methodological limitations es-

pecially on external validity: These limitations include data availability in the firm level, heterogenous effects (firm size, sector, experience), differences in institutional environments, differences in the degrees of economic development, and differences in bilateral relationships (home-host contexts). However, empirical studies tentatively indicate positive effects of export promotion on different export performance and beyond export performance outcomes (See recent reviews e.g. Cruz et al., 2018; Moons & van Bergeijk, 2017; Van Biesebroeck et al., 2016; Lederman et al., 2010). For instance, export promotion programs seem to have effect on both intensive and extensive margins of trade (Cruz, 2014; Martinicus et al., 2011; Broocks & Van Biesebroeck, 2017), and have spillover effects on firm-level variables such as sales, productivity and survival (Munch & Schaur, 2018; Van Biesebroeck et al., 2016; Francis & Collins-Dodd, 2004).

The main economic justification for government intervening in the operations of markets in the exporting context is to remove barriers to trade that are based on market failures. The research literature identifies two main sources of market failure: information spillovers and information asymmetry (For review, see Copeland, 2007). Information required to export is a sunk cost to a firm, and due to the market failure there can exist underinvestment in the exploration of market opportunities, and adverse selection and moral hazard due to the lack of information of foreign stakeholders (Leonidou et al., 2011; Martinicus et al., 2010). These information related sunk costs – as a form of trade barrier – decrease cross-border exporting and investment flow efficiency. Furthermore, research literature highlights that in the SME sector many executives choose not to initiate exporting because of lack in resources, capabilities, motivation and knowledge needed in successfully operate in the foreign markets (Dominguez, 2018; Lederman et al., 2010; Catanzaro, 2015; Freixanet, 2012; Francis & Collins-Dodd, 2004; Wilkinson & Brouthers, 2006; Wright et al., 2007). Policy intervention to enable exporting can serve as a stimuli and risk-sharing instrument that aims to increase SME sector export market participation, and export volumes, new market entries and new product market entries (Cruz et al., 2018). Thus, export promotion as a policy intervention strives to correct the market failures by lowering the sunk costs of exporting, and increase intensive and extensive margins of trade, particularly among SME firms, by offering external resources that share the risks entailed by internationalization.

Policy rationale and economic justification for intervention

In general, export promotion as a form of market intervention is justified when there is a market failure, and the benefits of the public policy intervention outweigh the costs (Copeland, 2007; Lederman et al., 2010). Additionally, in an ideal case the welfare benefits associated with the intervention and use of public funds would be higher than the welfare costs (Arrow, 1951). The benefits associated with export promotion by EPA could be larger in the case of positive externalities stemming from increased exporting (Lederman et al., 2010), and this seems to be the case especially for a small and open economy relying on export market success (e.g. Munch & Schaur, 2018; Broocks & Van Biesenbroeck, 2017). Based on the research literature synthesis, we divided policy rationale for intervention in three broad categories: **Market failure rationale** (Cruz et al., 2018; Martincus et al., 2010; Leonidou et al., 2011; Copeland, 2007; Wright et al., 2007), **SME support rationale** (Dominguez, 2018; Lederman et al., 2010; Catanzaro, 2015; Freixanet, 2012; Francis & Collins-Dodd, 2004; Wilkinson & Brouthers, 2006; Wright et al., 2007), and **policy outcome rationale** (Lederman et al., 2010; Catanzaro et al., 2015; Freixanet, 2012; Francis & Collins-Dodd, 2004; Durmusoglu, 2012; Munch & Schaur, 2018; Greenway & Kneller, 2007). It is worth noting that these are not mutually exclusive categories, but rather highlight different parts of the firm internationalization process that can serve as a basis to evaluate the justification to allocate public funds to export promotion.

Market failure rationale

Market failure rationale is based on the idea that free markets do not generate efficient outcome due to the failures in the market. In the trade context, market failures arise mostly due to asymmetries in information, presence of externalities, market power misuse, incomplete markets, and government regulations (Copeland, 2007). The rationale for the intervention in the exporting context is then to correct and help to overcome the failures in order to enable more economically efficient cross-border

trade and investment levels. In the research literature, two information related market failures are shown especially to justify the intervention: Information spillovers (externalities) and information asymmetry (Cruz et al., 2018; Martincus et al., 2010; Leonidou et al., 2011; Copeland, 2007; Wright, 2007).

Copeland (2007: 23–45) offers full review on the information related market failures in the trade and cross-border investment context, and separates these in terms of the information and failure type: **Information spillovers** (general information, information via experience and experimentation, and foreign demand information) and **information asymmetry** (firm specific information).

Information spillover refers to the existence of market failure due to the externalities caused by the nature of the information types, i.e. individual firms do not receive the full benefits or do not bear the full costs of their activities. In the case of export markets, firms which invest in the information acquisition and bear the sunk costs (e.g. foreign demand, market opportunities, partner networks, entry criteria, regulations) do not reap the full benefits of the investment, as other firms can benefit from the knowledge without the cost of acquiring it. This insufficient value appropriation mechanisms causes underinvestment to the sunk costs needed to enter foreign markets, and might produce less than socially efficient levels of exporting (Copeland, 2007: 24–25).

We next present more detail on the three distinct types of information and underlying spillover mechanisms, which causes underinvestment's by firms who considers, plan, or have taken up operations in a foreign market:

- **General information (public good problem):** This type of information is general for all firms in the home context or in an industry context, and includes information on how to do business in particular host context (Market opportunities, host context business culture etc). General information has many aspects of public good (non-excludable, non-rivalrous) as it has to be assembled and disseminated only once, and can thus be under-provided by the markets: It is costly to acquire, it can be distributed with low costs, and the original producer might not get compensated, once it has been distributed once by the producer (Copeland, 2007: 25–26).

- **Information via experience and experimentation (demonstration effect problem):** This type of information refers to explorative information that is not known before incurring the sunk cost to explore what works and what does not work in the foreign markets. It includes successfully finding the right path to enter markets (market entry strategies, productivity and demand for various products in host context etc), and is generated by firms as they enter host context and try new ideas through costly trial-and-error processes. The exploration – positive and negative experience – spills over to other firms, and can cause underinvestment in exploration (Copeland, 2007: 26–32).
- **Information and foreign consumer demand (free-rider problem):** This type of information includes reputation, quality and capabilities on home context product and services (e.g. wine industry, manufacturing capabilities) across foreign customers looking for final or intermediate goods and services. The main failure is the underinvestment in the information that spills across the foreign customers. In addition, there might be some asymmetries of information between foreign customers, and home context goods and services (Copeland, 2007: 41–45).

Information asymmetry in contrast to information spillovers in the trade context arises from the fact that transaction partners – domestic firms, and foreign customers, suppliers and intermediates – have private and superb information of their product and service qualities. This can lead to adverse selection and moral hazard problems causing the transaction partners to withdraw from the transaction that would otherwise occur, and thus lower trade volumes and export participation rates. Furthermore, information asymmetry creates market distortions and inefficiencies as the economic decisions are not based on perfect information. Policy intervention can target information asymmetry at least by matching domestic firms with intermediates and partner networks, and providing assistance with regulators³ (Copeland, 2007: 23–24, 32–40). We below specify firm specific information, to clarify how it differs with respect to the three previously presented types of information.

- **Firm specific information (Adverse selection and moral hazard problems):** This type of information refers to mostly idiosyncratic firm needs to enter and

operate in the foreign markets (matching focal firm with host context suppliers, distributors, partners; solving specific regulation and product quality problems). Adverse selection can occur when there are difficulties distinguishing quality of foreign suppliers, partners or intermediates. On the other hand, moral hazard problem can occur when it is difficult to observe does the transaction partner fulfills the responsibilities sufficiently enough.

To summarize, market failure rationale justifying public intervention and use of public funds to support firm exporting is based on two types of information related market failures (Copeland, 2007; Allen, 2014), information spillovers and information asymmetry. Information spillovers means that due to the externalities there exist an underinvestment in the information needed in exporting that is sunk costs. On the other hand, information asymmetry has the problems of adverse selection and moral hazard that can lead to lower levels of transaction, as the transaction partners withdraw from the transaction that would occur under perfect information. Consequently, public policy intervention can correct these failures by providing information that lowers the sunk costs and solves asymmetries in information. This removes the informational barriers to trade potentially increasing extensive and intensive margins of trade.

SME support rationale

Small and medium size enterprise (SME) support rationale is the second major justification for providing export assistance services to firms (e.g. Dominguez, 2018; Lederman et al., 2010; Catanzaro, 2015, Freixanet, 2012, Francis & Collins-Dodd, 2004; Wilkinson & Brouthers, 2006; Wright et al., 2007). The justification is based on two broad and interconnected reasons synthesized from the literature that stresses the need to support SME sector in their internationalization process: First, SME sector lacks in resources, capabilities, motivation and knowledge to find market opportunities, enter foreign markets, and operate in the host context. Secondly, many SME executives may not choose to export because they fail to estimate the real potential of host markets, and do not choose to bear the risks that exporting entails (for summary commentary, see Czinkota, 2012). Hence, policy intervention in this area mainly stresses the importance

of (1) supporting SME-sector by providing assistance that improve knowledge, motivation, capabilities and resources, and (2) sharing the risks with a potential SME exporter by lowering the sunk costs that gives motivational stimuli to enter foreign markets. The support needed in internationalization is especially apparent among smaller firms that are on the early stages of their internationalization process (Francis & Collins-Dodd, 2004; Czinkota, 2012; Freixanet, 2012). The economic logic behind the justifications is based on both trying to increase realized investments and exports closer to the potential (extensive and intensive margins of trade), and support SME sector to become innovative and productive through foreign market exposure (e.g. Acs et al., 1997).

The basis of supporting SME sector in the internationalization is based on the several findings that SMEs face more severe barriers to enter foreign markets than larger firms (Bagchi-Sen, 1999; Acs et al., 1997; Fliess & Busquets, 2006; Wright et al., 2007; Leonidou, 2004). Firms engage in exporting when they have sufficient characteristics – productivity, capabilities, resources, motivation – to operate in the foreign markets, and when they decide to take the risks and cover the associated fixed and variable costs that are sunk into the exporting. This is formally described in the heterogenous firm model as a function between firm characteristics (productivity) and sunk costs of exporting (Greenway & Kneller, 2007). However, for SME sector the barriers to enter foreign markets are harder to overcome compared to larger firms with more resources, capabilities, and experience. These include barriers such as financial market imperfections, differences in legal systems, cultures and language, imperfect information, entry barriers erected by government as well as other firms (Acs et al., 1997). Furthermore, successful foreign market entry and operation requires bearing costs to several different segments, such as transportation, distribution, marketing, personnel, and production (Wagner, 2007). Overall, based on the literature review by Leonidou (2004), barriers for SME sector are divided into internal and external categories: The internal barriers are stemming from inadequate organizational resources and capabilities, leading to informational, functional, and marketing difficulties. The external barriers originate either from home or host context that are compromised to procedural, governmental, task and environmental categories (Leonidou, 2004).

Based on the literature review, two interconnected reasons can then be found to justify the public policy intervention measures. First of all, EPA services can help SMEs to overcome the external and internal barriers to internationalization by providing information, training and other types of support as external resources. Empirical studies have found that smaller firms with less experience on internationalization have the greatest need for the assistance (Lederman et al., 2010) and benefit most from the export assistance services (e.g. Francis & Collins-Dodd, 2004; Wilkinson & Brouthers, 2006; Freitax, 2012; Munch & Schaur, 2018). The support for SMEs helps to tackle the lack in experience, resources, capabilities, and knowledge needed in successfully operate in the foreign markets (e.g. Wilkinson & Brouthers, 2006; Domingues, 2018). However, the literature is not conclusive on the antecedents of these barriers. The lack of competences needed in the foreign markets can come originate from failures in the market to provide information and assess the potential of foreign markets, and thus inhibit to seek or get funding for the investments to resources and capabilities needed in the host context. For instance, information based market failures potentially cause both underinvestment and adverse selection problems. Furthermore, in their study of U.S. SME exporting sector, Wilkinson & Brouthers (2006) view explicitly the inability to export overseas as market failure condition that justifies economically the policy intervention.

Secondly, and related to the need to provide external resources to SME firms lacking in key competences to operate in the foreign markets, studies underline the need for public policy intervention as a means to share risks, and to offer motivational stimuli for the SME executives to seek growth in the foreign markets (e.g. Dominguez, 2018; Czinkota, 2012; Wright et al., 2007). Exporting and other forms of internationalization expose SMEs to novel risks and problems in the host context, such as foreign currency, new partner and supplier networks, regulations and product quality requirements, that require specific competences in relation to the new challenges (Dominguez, 2018). Then, an SME that would become an exporter has to invest to information, resources and capabilities, and these costs are sunk before profits from the successful exporting are realized. These sunk costs together with difficulties to begin exporting and uncertainty concerning the success in the

foreign markets form attitudinal, resource, operational and strategic barriers for SMEs on the organizational level (Wright et al., 2007). Thus, there exist a “market gap” produced by “profit and risk inconsistencies”, i.e. rising risk levels together with temporarily decreasing profitability (See Czinkota, 2012). External resources offered by EPA serves as a stimuli and risk-sharing instrument to encourage SME executives to overcome temporarily occurring motivational and competence barriers, which can arise from risk aversion, bounded rationality, incomplete markets and lack of information (Wright et al., 2007; Czinkota, 2012). In principle, if SME sector full export market performance potential is not realized due to the aforementioned barriers caused by the shortcomings of markets, public intervention is justified. This seems to be the case especially concerning interventions that correct market failure based economic inefficiencies (Copeland, 2007).

Lastly, an important issue to consider is whether the assistance by EPA concentrates on SMEs that would become exporters regardless of the intervention. In trade literature, this is known as self-selection to exporting - more productive firms will choose to export (Wagner, 2007). However, this is highly simplified assumption as there exist several failures in the trade context (Copeland, 2007) to find business opportunities and assess the export market potential. Furthermore, studies indicate tentative support for two other types of selection modes to the foreign markets: Learning-by-exporting and conscious self-selection (Cruz et al., 2018; Cruz, 2014; Alvarez, 2004; Alvarez & López, 2005; López, 2005). The former refers to the idea that exporting causes firms to become more productivity as operating successfully in the foreign markets requires improved performance. The latter means that firms that are seeking exporting opportunities will improve their productivity ex ante in order to enter foreign markets (López, 2005). Export assistance offered by EPA can then support firms that are already exporting or that would become exporters regardless of the assistance, and firms that would not become exporters without the intervention. In the first category, the rationale to offer firms external resources is to increase export volumes, new market entries, and new product market entries. In the latter category, the rationale for assistance is to increase export market participation.

Policy outcome rationale

The policy outcome rationale to justify export promotion refers to economic and non-economic outcome objectives accrued in the firm, industry or macro-economic level from increased exporting. The aim to increase export performance in a country has been widely spread policy objective (Cruz et al., 2018) due to both **direct effects** (export performance; increased export revenue and trade surplus) and **indirect effects** (beyond exporting outcomes; firm, industry and economy level) from increased exporting. The research literature further indicates that both of these effects are especially relevant for small and open economies (e.g. Durmusoglu et al., 2012; Munch & Schaur, 2018) that rely on foreign sector providing technologies, new markets, productivity gains and revenue. Lastly, the existence of EPAs and similar type of trade and investing promoting institutions around the globe in virtually all countries participating to the global economy (Cruz et al., 2018; Lederman et al., 2010) signals that increased exports and trade from home context to host contexts has been remarkably spread and desirable policy objective. Based on the literature synthesis, we have compressed the policy outcomes to export, firm, economy and non-economic categories.

We next discuss each of the policy outcome rationales in more detail.

First, and most obviously, export assistance services are justified through their impact on export performance of a country (e.g. Cruz et al., 2018; Munch & Schaur, 2018; Martincues & Carballo, 2010b; Lederman et al., 2010; Greenway & Kneller, 2007). For instance, Lederman et al. (2010) justify government involvement in export promotion by the fact the assistance that provides firms resources and capabilities increases the overall exports, and thus the rationale is to seek to maximize the export potential of the country.

The second policy objectives category from export promotion is linked to the outcomes in the firm-level of analysis that are moderated through the increased exposure to international markets. Public intervention is justified by the positive effects to firms that include increasing firm growth potential (e.g. Catanzaro et al., 2015), productivity (e.g. Greenway & Kneller, 2007; Cruz, 2014; also Wagner, 2007), SME competitiveness

(e.g. Lederman et al., 2010; Freixanet, 2012), employment and sales (Munch & Schaur, 2018), and firm survival during and after economic recessions (Van Biesebroeck et al., 2016). In addition, López (2005) and López & Alvarez (2005) find tentative support in their analysis of Chilean firms that export assistance can support both learning-by-exporting and conscious self-selection, meaning that the policy intervention would increase both firm productivity and export market participation rate.

Thirdly, economic outcomes refer to various macroeconomic objectives that can be additionalities to the increased export performance of a country. It is out of scope of this report to evaluate comprehensively how exports and foreign sector has an effect on macroeconomic variables (Growth, GNP, balance of payments, tax revenues, employment), but Leonidou et al. (2011: 2) summarizes the national exports as a mean to influence “ – employment opportunities for local people, generate foreign exchange to finance imports, enrich public funds with additional tax revenues, create backward and forward linkages in the economy, and achieve higher economic growth and living standards”. Furthermore, several additionalities are mentioned in the research literature that include country and industry competitiveness (Francis & Collins-Dodd, 2004; Durmusoglu, 2012) and macroeconomic stability (Durmusoglu, 2012).

Fourth, promoting national exports can become as a mean to advance other than purely economic objectives. In the international trade context, establishing trade links can serve as foreign policy tool to improve bilateral or multilateral relations, for instance diplomatic missions can also contribute to the trade performance (Spence, 2003; Spence & Crick, 2004), while serving other than economic purposes (See Rose, 2007; Moons & van Bergeijk, 2017). However, we found only one article that justifies the intervention with purely non-economic goal that relates to promoting sustainability (Kanda et al., 2015): In their study of Swedish environmental friendly technological firms, Kanda et al. (2015) rationalize that when markets inhibit failure to connect supply and demand of environmental technologies in international context, government intervention can serve as development tool to promote the diffusion of environmental friendly technologies.

Impacts of export promotion

Based on the research literature⁴, we have compressed the impact of export promotion policy intervention to two separate categories: Impact of export promotion on export performance (aggregate and firm level), and impact of export promotion on beyond export outcomes. Additionally, we evaluate briefly the heterogenous effects resulting from export promotion.

Export performance: Impact of export promotion on national exports

The research literature concerning export promotion agencies has evaluated the impact of export promotion to aggregate trade outcomes, mainly using cross-country data and exports of goods and services as the dependent variable. Overall, in their recent summary of anatomy and impact of EPAs, Cruz et al. (2018) cautiously summarize the effect of EPAs on exports being positive, based on various studies reviewed in the article. In meta-analysis of the research literature, Coudounaris (2018) finds that various export promotion programs offered by EPA explain 31.3% variance in export performance, that indicate the moderating role of export promotion programs in the growth of total exports. Based on survey results of 88 export promotion agencies worldwide, Lederman et al. (2010) find that EPAs have positive effect on exports on average, and budget of EPA is positively correlated with national exports (10% increase at the mean is associated with a 0.6 to 1% increase in exports). Regarding the use of public funds, a dollar increase in the budget is associated with a 40 dollar increase in exports. Supporting the findings, Munch & Schaur (2018).

Closely related on EPAs, Rose (2007) studies diplomatic missions, which also include trade promotion functions, and finds that the presence of a mission engaged on export promotion leads to a 6 to 10% increase in exports. In their meta-analysis of 32 primary studies on economic diplomacy, Moons & van Bergeijk (2017) find support on positive and statistically significant effect of economic diplomacy. Concerning particular countries, Gil-Pareja et al. (2014) find that the export promotion offices by Spanish regions correlate with higher levels of exports. Also, Ferguson & Forslid (2014) find similar results that

establishing Swedish embassies increases number of domestic exporters. Lastly, Hayakawa et al. (2014) find positive results of EPAs on exports in Japan and Korea.

Export performance: Impact of export promotion on intensive and extensive margins of trade

Studies have also evaluated the impact of export promotion using firm-level trade data together with EPA client information and customer register data. The research utilizing firm level data, and control groups or other type of control estimators (See e.g. van Biesebroeck et al., 2016), have focused on assessing the impact on intensive and extensive margins of trade. As summarized by Cruz et al. (2018), intensive margin means increasing the value of exports among already exporting firms, whereas extensive margin refers to “a) Exports by new firms (pure extensive margin); b) Exports by existing firms of a new product to a new market; c) Exports by existing firms of a new product to an existing market; d) Exports by existing firms of an existing product to a new market” (Cruz et al., 2018: 11). Furthermore, few studies have also evaluated the subjective export goal achievement reported by firms that receive export assistance and support from EPAs (e.g. Durmusoglu et al., 2012; Francis & Collins-Dodd, 2004).

Summarizing the studies assessing the impact of export promotion at the firm level, van Biesebroeck et al. (2016) finds positive and statistically significant effects on the firm-level exports. Also, Cruz et al. (2018) concludes that EPAs have positive effect on both intensive and extensive margins of trade. More in detail, Mion & Muùls (2015) conclude in their report assessing the impact of EPA in the United Kingdom (UKTI) support on positive effect on both extensive and intensive margins of trade from export promotion. Furthermore, using data of Canadian firms, Van Biesebroeck et al. (2015) find that export promotion services increased intensive margin of trade. Also, utilizing database consisting of 259 SMEs, Karoubi et al. (2018) finds 16.27% increase in the export intensity. Martincus et al. (2011) both EPAs and foreign missions are associated with larger extensive and intensive margins. Lastly, in recent study Comi et al. (2019) find regional export promotion policies having positive effect on intensive margin among internationalized and small firms.

The question regarding the pure extensive margin, i.e. exports by new firms, can be more difficult to assess, as it requires to evaluate the potential of exporters in a country (van Biesebroeck et al. 2016). However, there exist tentative support of positive impact of export promotion on all extensive margin categories. First, regarding the pure extensive margin, there is evidence of positive effect from EPA services (Munch & Schaur, 2018; Broocks & van Biesebroeck, 2017; Cruz, 2014; Lederman et al., 2016; Schminke & van Biesebroeck, 2015). Cruz (2014) finds that in the Brazilian context export support increases the probability of non-exporter to begin exporting. Lederman et al. (2016) also use data from Latin American countries, and find positive influence of export promotion in helping firms to enter markets. Schminke & van Biesebroeck (2015) study the impact of export assistance on likelihood to start exporting outside the EU single market by using firm-level data from Belgium firms. They find support of non-exporting firms becoming exporters.

Secondly, considering the other categories in the extensive margin of trade, studies have found that export promotion increases exports of differentiated goods (Martincus et al., 2011), exporting to new countries and export of new goods (Martincus & Carballo, 2010b), and probability to enter foreign markets (Broocks & van Biesebroeck, 2017). Additionally, two recent studies on the extensive margin of trade should be still discussed, as the context is similar than Finland (small and open economy). Broocks & van Biesebroeck (2017) study the impact on firms in Flanders (Belgium) to enter markets outside the European Union. They find positive evidence on the export market participation rate as firms receiving export promotion services have 8.5% higher probability for market entries outside the European Union. Secondly, Munch & Schaur (2018) research export promotion in Denmark between 2002-2012 using both export promotion data from Danish EPA (Danish Trade Council; client register) and firm-level data from Statistics Denmark (after merging data 20,992 observations). They conclude export promotion affects both entry into new export markets and helps to continue success on existing markets.

Lastly, studies also indicate positive effects from export promotion services and programs on internationalization goals set by the firms. However, as impact evaluation criteria, the achievement of goals is not a perfect indica-

tor of export assistance impacts, as these are subjective evaluations of executives answering the surveys. Hence, these relate more on how adequately EPA services and programs fit for the firm needs, and can be used by EPA to assess their service quality, reach and scope. From empirical studies, Durmusoglu (2012) finds that export promotion services contribute to four distinct performance dimensions that are financial goal achievement, stakeholder relationship goal achievement, strategic goal achievement, and organizational learning goal achievement. Also, Francis & Collins-Dodd (2004) find that the use of program is positively and significantly associated with the achievement of export objectives, but the results vary by the exporter type (see also Dominguez, 2018; Freitax, 2012).

Heterogenous effects from export promotion on firms and products

Export promotion impact studies indicate heterogenous effects on countries, firms, export barrier types, markets and products. The reason for heterogenous effects is that the same independent variables are not constant or same across firms, countries and products, and the variables might compress several subgroups that can be analyzed especially with the firm-level data: Countries differ in terms of institutional environments and levels of economic development, firms differ in their product and market strategies and levels of international experience, and products and services differ in their complexities and functionalities. Overall, literature points that the impact of export promotion is larger (1) to smaller firms (e.g. Munch & Schaur, 2018), (2) when EPA services are bundled together (Martincus & Carballo, 2010a), (3) to increasing the exports of heterogenous goods (Martincus & Carballo, 2012), (4) as information problems are present (Lederman et al., 2010; Martincus, 2010; Van Biesebroeck et al., 2016), (5) to first market entry (Broocks & van Biesebroeck, 2017; Munch & Schaur, 2018), and (6) to new product or destination market entry (Martincus & Carballo, 2010b). Furthermore, Olarreaga et al. (2017) find differences between countries as how much one percent increase in EPA budget influences export growth.

Even though these are not fully conclusive and external validity has to be considered in relation to a specific coun-

try or industry, the tentative results might help to plan and develop the public intervention and export promotion services in terms of maximizing their impact on clients and utilizing the public funds most effectively. For instance, Martincus & Carballo (2010a) find support that clients using bundled services is more effective than using services in isolation. They conclude that successful internationalization is a process that requires comprehensive and systematic strategy which should combine bundled services (e.g. counselling, trade fairs, trade agenda, and trade missions) from the pre-exporting stage to the later stages of building solid presence in the host context. Hence, export promotion should be integral part of the firm internationalization development process. This also resonates partly with Cadot et al. (2015) who propose that the effects from export promotion are not durable, and continuous support is needed to keep the increased levels of exports.

Beyond exporting outcomes

Research literature indicates impact results from export promotion that are beyond export performance outcomes. As a general remark, the export promotion conducted by the publicly funded EPAs have objectives that relate not only to direct export performance outcomes, but which seek to add value to the whole economy of a particular country, and thus generate effects through increased export performance on productivity, employment, tax revenues and economic growth⁵ (e.g. van Biesebroeck et al., 2016; Lederman et al., 2010). Furthermore, as productivity leads to exporting (Wagner, 2007), there might be some feedback loops back to firms as they operate in the foreign markets, or even when aiming to enter foreign markets (López, 2004; Alvarez & López, 2004; Atkin et al., 2017), that would indicate productivity gains from increased export performance of a country within the firms.

However, most of the studies we found assess the beyond exporting impact on the firm-level. These include outcomes such as firm survival during economic crises (van Biesebroeck et al., 2016), firm performance (Bannò et al., 2014), profit and product quality (Atkin et al., 2017), and sales, value added and employment among small firms (Munch & Schaur, 2018).

Bannò et al. (2014) study public financial assistance to internationalization of Italian firms between 1994–2008, and find in the context of outward FDI that incentives advance firm performance measured by domestic turnover and productivity growth. Van Biesebroeck et al. (2016) provide evidence that during economic crises firms receiving assistance are more likely to survive in export markets: The supported firms have higher probability to continue exporting and have higher volumes than control group firms. The effect is larger host context or products that are most affected by the economic crises. Also Lederman et al. (2016) get similar results that export promotion helps firms to survive in export markets. Munch & Schaur (2018) find several firm-level improvements from export assistance among smallest firms (1–20 employees) that include employment (4% increase), and value added and sales (8–9% increase). Lastly, Atkin et al. (2017) studied in Egypt learning-by-exporting through randomized experiment in the context of rug producers. They find that firms receiving export assistance (treatment firms relative to control firms) had higher profits (16–26%), improvements in quality and increased technical efficiency.

Policy intervention in exporting

Current forms of policy intervention

In the export promotion context, accepted forms of policy interventions have shifted from macroeconomic tools, such as exchange rate devaluation, direct industry subsidizing, and trade barriers, such as tariffs and quotas, to export promotion programs that provide services and other type of assistance to firms in order to increase export market performance in a country or region (Cruz et al., 2018; Gillespie & Riddle, 2004; Lederman et al., 2010). For instance, van Biesebroeck et al. (2016: 659) define the export assistance programs as “set of activities to help firms to overcome internationalization obstacles ... including ... providing data on the general export process and on specific markets and overseas business contacts, by disseminating information on domestic firms’ products and services, by assisting in the preparation and follow-up of firms’ participation in international marketing events such as fairs and missions, or by co-financing

travel costs through matching grants”. The focus in this report has been on these types of export promotion services, even though EPAs around the world can include also limited indirect financial support (e.g. sponsored trade fairs), loans and financial incentives (e.g. Belgium Broocks & van Biesebroeck, 2017).

The main objective for EPA is to offer assistance for firms to understand business opportunities and find markets abroad. Common element among the export assistance programs is that these serve as “external resource” to firms (Lederman et al., 2010). Thus, several programs exist among EPAs including sales promotion (trade shows, trade missions, brand promotion), information on foreign markets, seminars, newsletters, training, foreign trade offices, financial support, starting to export support, consultancy program, export groups or consortium, personalized advice, and investment support (Freixanet, 2012). Lederman et al. (2010) summarize the services offered by EPA in four categories:

1. Country image building (advertising, promotional events, but also advocacy);
2. Export support services (exporter training, technical assistance, capacity building, including regulatory compliance, information on trade finance, logistics, customs packaging, pricing);
3. Marketing (trade fairs, exporter and importer missions, follow-up services offered by representatives abroad);
4. Market research and publications (general, sector, and firm level information, such as market surveys, on-line information on export markets, publications encouraging firms to export, importer and exporter contact databases).

This is mostly line with Domingues (2018) study on SME export support in which the services by EPA are divided in four categories: Motivational, informational, operational, and financial support. First, motivational support attempts to demystify the internationalization process. This refers to motivate and encourage executives by helping to overcome the risks and barriers that foreign markets entail. Second, informational support attempts to provide SMEs knowledge that enable cross-border trade.

Thirdly, operational support refers relational assistance to build contact networks with foreign customers, suppliers, intermediates and partners through e.g. trade fairs and business meetings that can give the first contacts to in new markets. Lastly, financial support relates to providing financial resources to SMEs including lending, subsidizing, guarantying and insuring operations. The lack of proper financial resources can be a major trade barrier for SMEs.

Firms also differ in their needs of EPA services. As the heterogeneous effects from export promotion indicate, firms size and international experience can influence in how much they benefit from the programs. Moreover, as there is tentative empirical support that the programs from EPA are more effective when used in a bundle as an integral part of internationalization process (Altomonte et al., 2013; Martincus & Carballo, 2010a), the service offering from EPA should be considered in segments in terms of which groups of firms different services are offered. For instance, Dominguez (2018: 66–67) separates the needs of firms based on their internationalization level. Starting exporters that have none or very limited experience abroad need access to information, estimates of foreign market potential, and support for motivation. Thus, they can benefit from basic services (information, assistance to begin exporting, financial aids such as sponsored trade shows). Regular exporters may proactively to seek to internationalize, but lack in key competences to successfully seize opportunities. Thus, they need "(1) support to develop sales, (2) training and information to improve export competencies, and (3) assistance in identifying contacts and opportunities" (Domingues, 2018: 67). In addition, Freixanet (2012: 1070) also separates different export assistance programs in five different stages of internationalization based on the program needs:

1. Starting exporters (direct promotion, information, assistance to start exporting, financial aid);
2. Regular exporter with little structure (direct promotion, information, consultancy, export groups, financial aid);
3. Regular exporter with complete structure (direct promotion, information, consultancy);
4. Consolidated exporter with permanent sales (direct promotion, consultancy, and investment support);

5. Industrial multinational (consultancy, investment support).

To summarize, the export promotion programs consist of foreign market information, foreign demand and customer network knowledge, motivational support, and capability training, and thus aim to reduce the sunk costs of exporting (Copeland, 2007; Van Biesebroeck et al., 2016). Providing services that correct market failures and reduce transaction costs avoids the problems associated with tariffs, quotas, currency devaluation and large-scale industry subsidies that can lead to the 'beggar-thy-neighbor' policies in international trade context.

Changing rationales for export promotion

The accepted forms of policy intervention the trade context have shifted during the recent decades to focus more on services provided by EPA. It is possible that the change continues to occur due to the shifts in regulations, business practices, global economic structures, and technologies. In addition, the changes in the business environments and global economy might shift the support firms need in their internationalization attempts. For instance, the modes of internationalization already vary from exporting to establishing joint ventures and subsidiaries, and there are small born global firms seeking access to international markets even before establishing themselves fully in the home context. More particularly, we identify especially one key source of change stemming from technology: The development of novel information technologies, digital economy and multisided platforms. These technological changes can influence the market failures occurring in the international trade context. If market failures are based on information, the changes in information technologies can affect how severe the failures occur in the market (spillovers, asymmetries), and thus influencing the rationale of public intervention to correct the failures. For instance, business models that are based on multisided platforms could potentially help to overcome inadequate value appropriation mechanism currently present in externalities (e.g. public good type of information). Additionally, digital services and platforms have potential to enhance access to information, enable better matching and verification, such as peer and customer reviews that could potentially solve some of the information asymmetry issues in the trade context.

Endnotes

- ¹ World Bank survey contacted 149 countries in 2010, from which 116 had EPAs in place. Most of the growth has been in the developing countries as 65% of current EPAs were created in late 1990s, whereas in the developed countries there is longer tradition of export assistance programs and agencies of various sorts (Cruz et al., 2018)
- ² Other categories of policy intervention in the trade context area are macroeconomic tools (such as currency rate), 2. direct financial resources (such as subsidies), and 3. diplomacy (Van Biesenbroeck et al. 2016). Some studies include indirect subsidizing in their export promotion evaluation (e.g. Broocks & Van Biesebroeck, 2017).
- ³ However, there exists also private sector intermediates, and government intervention has to consider the crowding out effect when initiating intervention by providing export assistance services to help overcome information asymmetry problems (Copeland, 2007: 34–40)
- ⁴ For reviews, see Cruz et al., 2018; Van Biesenbroeck et al., 2016; Lederman et al., 2010. For meta-analysis, see Moons & van Bergeijk, 2017, and Coudounaris, 2018.
- ⁵ Currently, we are not aware of studies in the EPA literature focusing on the macroeconomic impacts influenced by export assistance. However, the findings on the firm-level outcomes can influence for instance employment, tax revenues, growth and productivity in the country level, but the considerations of the effect size on the macroeconomic variables is out of scope of this report. One way to assess the impact could be to evaluate the effects of exports (and the increase in the performance by EPA intervention) to these variables in a particular country.

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