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**Enhancement of the Business Environment in the
Southern Mediterranean**

National Seminar for Lebanon

**« How to build successful Export Promotion
Strategies? »**

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1. Definition

Defining Export Promotion Strategy is not as simple as may appear, and broadly speaking can be done from two different angles.

Firstly the strategy as defined by its target (i.e. Non-domestic), which can be designed by an individual, a company, a cluster, a region or a National entity. Secondly, the strategy as a public instrument of macro-economic management, by a sovereign State or a mandated Institution.

These two approaches yield two distinct definitions.

Definition 1

- Strategy for economic development that stresses expanding exports. The rationale is to exploit a comparative advantage to seek profitable trade with outside markets.
- Contrasts with “Domestic Marketing”

Definition 2

- Public policy measures which enhance exporting activity at national level. Export promotion is a government tool to influence the volume and type of goods & services exported from their areas of jurisdiction, especially where over-valued currency or other handicaps create biases against exports
- Contrasts with “Import Substitution”

The present seminar clearly addresses the latter of these Export Promotion Strategy two definitions and it is therefore the first issue that needs to be examined critically. The first question that deserves an answer is whether Export Promotion, as a Government Strategy is always justified:

- Rationale based on the observation of market failures and the idea of creating positive externalities
- All economic transaction imply transaction costs and risks, in international trade, some transaction costs and risks are significantly higher than in domestic business

Positive dimensions of a Macro-economic Export Promotion Strategy are usually considered on their own, to the exclusion of any possible costs or risk. These can be synthesized as :

Macro-economic benefits from export promotion include :

- Foreign exchange earnings
- Favourable balance of payments position
- Reduced burden of increased foreign debt
- Increased employment opportunities
- Attraction of foreign direct investment to augment local capital
- Stimulation of efficiency through exposure to foreign competition and technology
- Internal economies of scale to local industries
- Technology and expertise transfer
- Trade linkages with international markets

2. The Specific Context of Lebanon Exports

In the unique Case of Lebanon and a Government-led Export Promotion Strategy, we can determine some of the major context-specific drivers that would justify and encourage such an investment at Macro-level :

Local Market insufficient

- Limited market, more competitive and open, reduced margins, short product cycle, lower client fidelity
- Lack of scope and depth of local demand to allow investment and economies of scale
- Production costs, sales costs, logistics and infrastructure, Human capital issues

Export Markets attractive

- Large volumes and networks, different competition structure, higher consumer revenues,

Positive fallout to SME from exporting

- Required improvement to product, higher range,
- Exposure to innovation (product and management)
- Productivity increase, conformity to standards, «Technology skip», quality leap to meet demand
- Access to partnerships, technology & expertise transfer, FDI & JV opportunity

Macro-economic drivers

- Trade barriers reduced, exchanges facilitated, support for export

Additionally, the justification for a high-impact proactive Lebanese Export Promotion Strategy can be sought in the particular situation of the Country's exporters and potential exporters in terms of the unique set of "Barriers to Export", which only an external action can alleviate. These Barriers to Export can be described as a number of serious handicaps that are Country- or context specific and that justify public involvement:

Competitiveness issues:

- Production costs, logistics, HR conditions, slow capital investment
- Internal dominant positions and monopolies, weight of tradition
- Infant industries, start-ups & young entrepreneurs, expatriation problem
- Old value-chain structures not adapted, slow product-to-market cycle

Information & knowledge issues:

- Access to market and export data and to existing export-promotion instruments
- Export-shyness, Management ICT skills, competence in legal & regulatory, poor risk assessment
- R&D, innovation and competition surveillance, late update in technical equipment

Cost & finance issues:

- Poor access to local & international finance, credit and insurance
- Low capitalisation, low leverage
- Insufficient FDI opportunity, informal JVs and partnerships

National issues:

- Security and political, uncertainty, stability risk, communitarism
- Exchange rate

3. Justification of an Export Promotion Strategy

While numerous examples of Countries with a determined and voluntary Export Promotion Strategy (Singapore, China, Brazil, Denmark etc..) confirm the value of such a macro-

economic strategy, is this an option which is always and systematically valid, how is the strategy to be designed and implemented and what are the downsides, if any ?

To ensure that Lebanon's public resources are not utilised to pursue unsustainable or over-reaching objectives, it is imperative to identify the parameters that underlie any design, implementation and evaluation of a National Export Promotion Strategy.

This will allow the Government to optimise the policies and instruments that compose the Strategy and avoid causing waste and /or encouraging negative behaviours from the exporting community.

National Export Promotion Strategy (NEPS), as a component of a country's foreign trade policy, focuses on promoting and developing those products and markets that offer the best opportunities for a country

- Competitiveness-based or market-based ?
- Who chooses which products & which markets ?
- Priority to internal and external barriers to exporting ?
- Where in the export process is assistance most effective ?
- How specific vs. how general should support be ?
- What criteria for selecting export promotion approach ?
- How is impact / value-added measured ?

Such Parameters are the logical building-blocks of a Strategy and require careful analysis from all parties to the issues linked to Lebanese exports.

The establishment and the definition of such a Strategy is of concern to numerous exporting and non-exporting enterprises (including trading enterprises) and to the entire Nation, inasmuch as a modification of Export patterns is certain to have a significant impact on living standards and purchasing power, above and beyond any effect it may have on national wealth creation.

It is therefore to ensure that any reflexion of the Strategy is subject to analysis by a large group of stakeholders and reflects a degree of consensus. Stakeholders should at the very least include representatives of all interests and notably:

- Business Actors
Enterprises, Groups, Federations, Sectorial Representatives, Syndicates, Industrial lobbies, Export Promotion Boards,
- Civil Society
CSOs, Labour organisations, Gender / environmental Groups, Lobbies
- State actors
Ministries : Trade, Foreign Affairs, Training, Legal Affairs
Specialised Bodies : Guarantee funds, Standards & metrology, Sanitary / phyto-sanitary, laboratories, Business-support Organisations,,
- International Institutions
ODA Institutions, Development Banks, Credit rating agencies, Global Trade Organisations, Transport & logistics
- Financial & Insurance Institutions
Banks, Trade insurance, Credit guarantee organisations, Factoring Firms,
- Legal & Judiciary Entities
WTO, UCTAD, International Chambers of Commerce, Arbitration Bodies,

4. Targeting the Strategy in Lebanon

One of the first tasks that Institutions and interest are involved in the Export Promotion Strategy must determine are its targets: any macro-economic strategy will be aimed at modifying the behaviours of a number of economic actors, even if the intended result is ultimately expected to impact a much broader population.

A National Export Promotion Strategy is therefore defined by which segment or segments of the “Export Value-Chain” it addresses. This is a highly important parameter, since it determines not only the ultimate effectiveness of the Strategy, but also the means by which its economic effects are expected to operate.

If such a “target selection” is poorly done, it can create serious and damaging internal economic distortions, social stress and civil unrest.

The Government may choose to focus the efforts undertaken (whatever their nature) on specific production sectors, socio-economic categories, regions etc... Such focused Export-promoting actions are likely to require political justification, since they create an imbalance and may foster resentment on the part of the segments not touched by the Strategy.

Economic areas where State intervention is necessary?

- Poverty alleviation
- Reduction in income inequalities
- Investments in health, education, infrastructure, tech transfer, establishment of R&D capability
- Protection of the environment
- Sustainable development
- Some protection of industries in initial phases
- Support for the private sector

Whatever the segment or sector selected, there will be political and economic consequences, and there is opportunity for compounded consequences to be generated by governance issues and /or non-economic manipulation of factors of Export-support privileges and benefits.

This means that the narrower the scope, the larger the danger of a problematic application of the Strategy.

Main dangers:

- « **Picking winners** » : not a Government competence
- Macro-economic objectives are not always **aligned with micro-economic** ones
- Social strategies may be **conflicting with export-based strategies**

5. Selecting the Instrument (s) of the Export Promotion Strategy

In parallel to identifying the target(s) of the policies and Government actions within Lebanon, it is clearly a necessity to identify, from the broad typology of possible export incentives or export-encouraging macro-economic policies, which is most suited to the particular conditions of Lebanon.

Between the possibilities offered by multiple types of demand-driving measures and supply-sided measure, it is the responsibility of economic analysts and political deciders to ascertain which combination is optimum for the unique set of circumstance affecting Lebanon.

Clearly, the limited allocation of limited budgetary resources does not allow for all policies (even once they have been identified as having a potential positive impact on exports activity and balance of payments).

Choices therefore need to be made between a vast panorama of possible component of a global strategy:

- Government sets the export dimension of the overall economic direction and trade development in terms of appropriate economic instruments and export promotion measures :
- Export subsidies
- Export Processing Zones (EPZs)
- Policies to attract Foreign Direct Investment (FDI)
- Trade Promotion Organizations (TPOs)
- Trade finance provision
- Risk mitigation measures
- Removal of trade barriers and standard compliance
- Improving the investment climate and other complementary policies

6. Methodology of Implementing the Export Promotion Strategy

The Government cannot act on the economy without the leverage of the economic actors (production and trading enterprises, taxpayers, consumers, Civil Society etc..) so that the implementation of an Export Promotion Strategy requires a concerted effort to create the best conditions for the Strategy to function and bear the fruits it was designed to bear.

The economy, especially in a free market environment such as Lebanon, cannot be managed by decree: economic actors have to operate and they will do so in line with the perception they have of their best interests. This means that any policy stemming from the Government's choices needs to be "adopted" or at least "acknowledged" by those whose economic actions contribute to increasing export volumes and value.

Such a result can only be achieved through ongoing dialogue:

Collaborative effort between all stakeholders requires:

- Consensus on priorities, operating modes, time-scale, cost-sharing,
- Common definition of means, targets and objectives
- Allocation of tasks and responsibilities
- Agreement on monitoring and supervisory roles

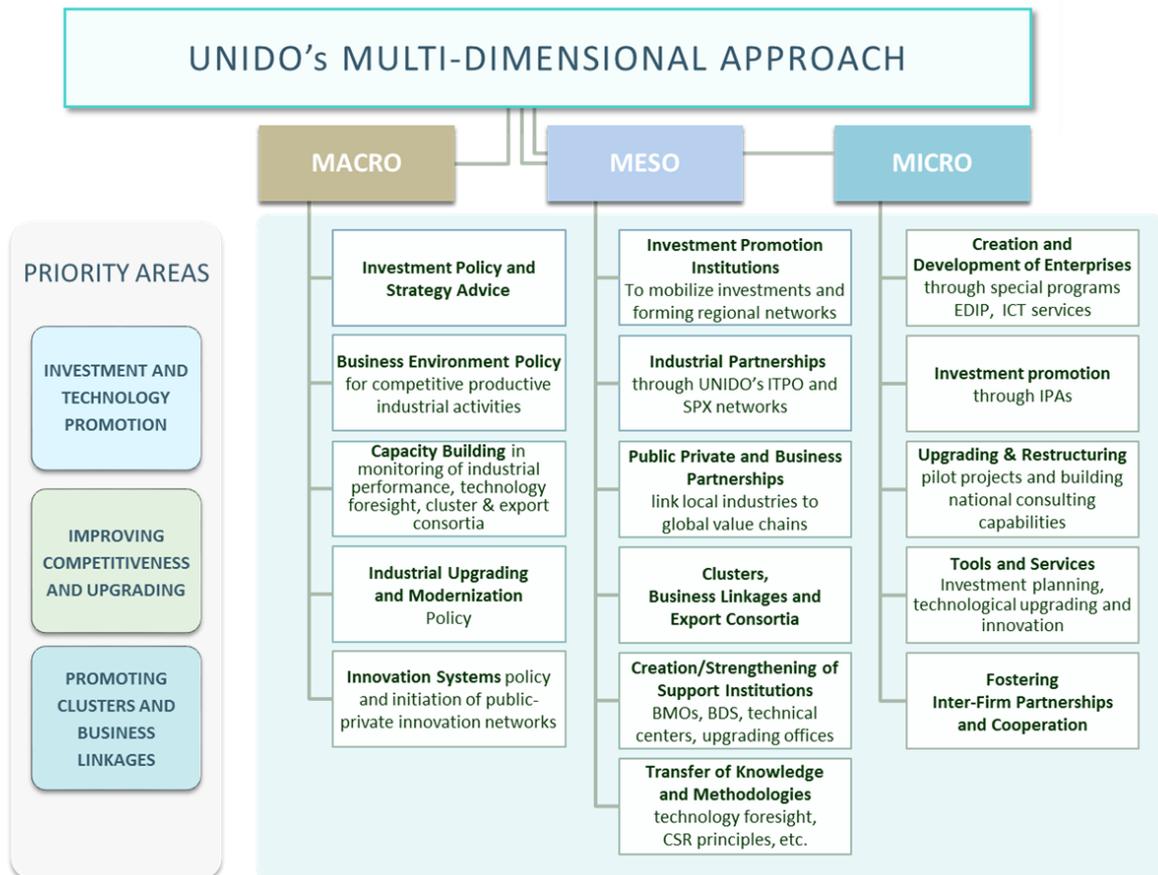
The converse risk is that attempts to get all possible economic actors on board and seek the approval and participation of all enterprises in Lebanon with export potential can lead to a bloated organisation and a strategy that gets bogged down in discussion and debate:

Main dangers:

- Excessive number of actions & dispersion of efforts leading to low impact
- Poor choice and coordination of stakeholders
- Lack of transparency (or bias : political/ regional/ sectorial/ social)

7. Micro Meso Macro: Choice of the Economic Level of Action

There are excellent macro-economic strategies at every possible level of action, but the policy instruments identified as an optimum Export Promotion Strategy for Lebanon must be tuned to a specific level.



The ultimate purpose of such a Strategy, whatever the level it is applied at, remains to increase the export capacity (in volume and value) of Lebanese companies and ensure an improved trend for the flow of trade between Lebanon and the rest of the World.

This objective implies that the specific nature of Lebanese exports be understood and that the trading vocation of the Country be clearly built-into the policy instruments.

As a simple example, it is clear that for Lebanon imports and exports are positively correlated, because a large volume of incoming trade exists only to create value-added for re-export.

This "contextual structure of trade" must inform the decision-makers of the sector-by sector differences between the value-adding chains leading to export.

Levels of action of Export Promotion Strategies

- Individual Level
- Enterprise Level
- Sector / Industry Level
- Regional Level
- Country Level

- Regional (Multi-Country) Level

The Strategy must obviously take into account questions like : what types of product and service are exported ? what size and geography of markets are targeted ? what components of exports are extracted, imported or created ? by what type and form of enterprise ? etc....

Failing to understand in detail the nature of existing export context (not to mention the context for potential or even hypothetical exporters) makes it likely that a Strategy will be too blunt an instrument.

It would then be unable to have meaningful impact on the real economic, cultural or social factors that affect existing or potential exporters.

By identifying the characteristics of the “marginal exporters”, the policy-makers can fine-tune the policies to avoid wasting resources on companies that would export anyway or on companies that are unlikely to export whatever the context.

Main dangers:

- Lack of leverage if action level chosen without understanding of context
- Poor targeting based on assumptions and past experience
- Getting stuck in a «good-money-after-bad» policy

8. Conception and Design of a National Export Strategy

Besides all the guidelines proposed in the previous sections, there remains an important aspect of any Strategy: benchmarking Lebanon’s situation with similar or comparable Countries.

The Small Business Act implementation assessment has precisely proposed such a useful source of data and information (Implementation of the “Small Business Act” For Europe in the Mediterranean Middle East and North Africa 2014) and its results are of particular interest to Lebanon, since, as a trading nation, its comparative advantage is strongly linked to its ability to export.

No.	Policy Dimension	Lebanon Percentile	Average outside Lebanon	Lebanon
1	Entrepreneurship (including for women)	77,21	1,9	1,5
2.1	Bankruptcy procedures	96,55	2,9	2,8
2.2	Second chance	102,55	2,2	2,3
3.1	Institutional framework for SME policy	77,12	3,4	2,6
3.2	Better legislation and administrative simplification	87,50	2,6	2,3
3.3	Public private consultations	78,36	3,8	3,0
3.4	Entreprise networks and business associations	76,36	3,9	3,0
4.1	Company registration	87,50	3,3	2,9
4.2	Other indicators on registration, notification, compliance	43,13	3,0	1,3
5.1	Business support services	96,75	3,5	3,4
5.2	Clear and targeted information for enterprises	91,86	3,2	2,9
5.3	Public procurement	85,45	3,0	2,6
6.1	Sources of external finance for SMEs	98,44	3,7	3,6
6.2	Legal & regulatory framework for external financing	96,67	3,0	2,9
6.3	Financial literacy	93,33	2,1	2,0
7	Euro-Med networks and partnerships	74,87	2,7	2,0
8.1	Enterprise skills and innovation	80,10	2,9	2,3
8.2	Policy framework for SMEs innovation	89,15	3,0	2,7
9	Promoting environmentally sustainable Green Growth	102,28	3,1	3,2
10.1	Implementing a proactive trade policy	69,70	3,3	2,3
10.2	Simplification of procedures for international trade	85,37	3,5	3,0

The results of the SBA ranking illustrate some of the points made in numerous SWOT analyses regarding the Country's characteristics, and show that a number of points that are bottlenecks to export are uncorrelated to external or contextual parameters.

Quite to the contrary, it clearly shows that Lebanon's strongly under-powered exporting activity is largely due to internal factors. In essence, the problems that are often blamed for the levelling and relative decline of export as a proportion of GDP are not the most significant "levers" of weak exports.

In fact, Countries with highly unstable borders and threatening neighbours are frequently able to generate a high level of value from such an environment (Jordan, Djibouti, Tunisia). The fact that Lebanon has not been able to "capitalise on chaos" indicates a deteriorating ability to create internal economic, administrative and infrastructural conditions that allow businesspeople to make, sell and export their goods.

Reversing this situation calls for collective responsibility into establishing better business conditions and improved standards of administration, governance and participation.

Formulation and implementation of a national export strategy requires :

- a mechanism for policy formulation and co-ordination
- active participation and a sense of responsibility by relevant organizations and agencies
- persistent application of regulation and development programmes

Major Design Factors: Successful Export Promotion Strategy

An Export Promotion Strategy should not be a declaration of principle, a theoretical contextual analysis or a political manifesto.

First and foremost it is an action-oriented set of policies that strive to modify the behaviour of one or more sets of economic actors, with the objective of improving the competitiveness of a country's exporting activity.

There are hundreds of approaches to such a goal, and only with a combination of three elements can a Government seek to design and implement a successful strategy.

The first is an excellent understanding of the economic, socio-political and psychological contexts of existing and potential exporters

The second is a sound and realistic analysis of the policies and their possible impacts (both negative, neutral and positive) on export activity

The third is a communication, consensus-building and listening capacity to ensure that the policies are known, understood, used (and not abused).

It is a sterile debate better left to retired economists and doctoral student to evaluate if such a policy is necessary, in large part because any economic policy has an impact on exports, so that any economic policy is *_to a degree_* an Export Promotion Strategy (or all too frequently, an Export Discouraging Strategy).

Export Promotion Strategy is both a «Public Service» and a «Public Good»

There is no duality between «State Intervention» and «Free market» : all economies have some form of Export Promotion Strategy

Only issue is: «how to dedicate resources to this objective with maximum efficiency & effectiveness »

The major dangers identified in the conception, design and implementation of a National Export Promotion Strategy are linked to the desire or will of the State to exercise its regal prerogatives and establish a set of normative and rigid policies, not taking into account the realities of the production and trade levels of the economy.

Export is always a micro-economic decision, so that macro-economic decisions can only create an environment in which the micro-economic actors are more likely to find it in their interests to take risks and seek reward in foreign markets.

Major Lesson learnt:

- Need to coordinate / integrate all NEPS stakeholders to ensure needs are prioritised, implementation is flexible and transparent
- The State's role is to listen to all stakeholders and to act as arbitrator between special interests and the National interest