

Empirical Evidence on the Success of Government Export Promotion Schemes

Theory suggests that export promotion or assistance programs could play a role in helping firms overcome some of the information problems associated with entering new markets. A natural question is whether such programs have been effective in achieving their goals. The literature on this question is quite thin. A few studies in the international business and management literature examine the effect of export promotion programs on managers' attitudes (see Diamantopoulos et al., 1993). Only a few papers have attempted to use data on outcomes to estimate the effects of such programs on trade flows.

Coughlin and Cartwright (1987) look at US state-level export promotion expenditures in 1980 and find that they are positively associated with state-level exports. They infer from this that export promotion programs do stimulate exports. However, they use only cross sectional data, and state-level expenditure could be correlated with something else that is a cause of export success. That is, they are unable to control for unobserved heterogeneity. Similar problems affect a study by Wilkinson and Brouthers (2000) who use state-level data and distinguish between the effects of trade missions, trade shows, and foreign offices on exports. Trade shows are associated with more exports, but the other indicators are not.

Lederman, Olarreaga and Payton (2006) use survey data on export promotion agencies from a cross section of 104 developed and developing countries to investigate the effects of export promotion expenditures on the volume of exports. They find a strong positive correlation between export promotion expenditures and exports. They use an instrumental variable approach to deal with endogeneity issues and interpret their results as implying that each additional dollar spent on export promotion increases exports by about \$40; however, the effect is diminishing with GDP and with level of expenditure.

Unobserved heterogeneity and endogeneity are the key problems to be overcome in any study of this type. Are the types of firms that are successful at exporting (independently of