

IPEX Mexico and El Salvador Trip

I. Objective

From February 12 – 24, 2008, the USAID-funded Trade and Investment Project organized a study tour of trade promotion activities of Mexico and El Salvador for Joao Macaringue, the President of the Mozambican Export Promotion Agency, and Ashok Menon, the Chief-of-Party of the Trade and Investment Project to:

1. Understand how El Salvador and Mexico promote exports and investment.
2. Understand specific tools and processes each country uses to promote export and investment.
3. Understand requisite budget and human resource requirements for export and investment promotion activities in El Salvador and Mexico.

II. Background

The USAID-funded Trade and Investment Project (TIP) is designed to: a) to increase international market access for Mozambican products; and b) to enhance Mozambique's competitiveness by reducing the costs of doing business. TIP provides assistance to improve trade policy, create a more supportive enabling environment; and to support targeted interventions in specific sectors. TIP provides collaborative and demand-driven technical assistance to the Directorate of International Relations (DRI) and the Private Sector Support Office (GASP)—at the Ministry of Industry and Commerce (MIC); to the Confederation of Mozambican Business Associations (CTA); and to other institutions as necessary.

IPEX requested TIP assistance in designing a strategic plan in 2006. Since then, TIP has been working on various follow-on initiatives with IPEX, including helping IPEX implement its strategic plan, supporting various strategic planning retreats, undertaking a detailed study of border trade occurring throughout the country, supporting various trade missions, and working to improve IPEX's visibility through an improved website and marketing material. This Study Mission is a final part to TIPs assistance to IPEX – to demonstrate first hand how other countries promote and coordinate export and investment promotion activities.

III. Main Conclusions

Mozambique has worked over the past 12 years on improving its business environment. At the same time, Mozambique has worked on liberalizing its trade policy, including signing and implementing the Southern African Development Community (SADC) Trade

Protocol, creating a simplified tariff structure, reducing its MFN tariff and negotiating various other free trade agreements (e.g., Economic Partnership Agreements). There is no lack of free trade opportunities, such as Everything But Arms (EBA), the African Growth and Opportunity Act (AGOA), etc., that are available to Mozambique. What is lacking are businesses to take advantage of these opportunities.

Although there remains ample room for Mozambique to continue to improve its business environment, a parallel effort to encourage exports, especially from small- and medium-sized enterprises can help to create a stronger lobby for improvement of the trade and business environment. It can also contribute significantly to objectives of increasing exports and reducing poverty. There remains ample scope for Mozambique to improve its trade promotion activities.

What follows are some main conclusions learned through the study mission. Recommendations for IPEX are presented at the end of this report. Annexes present more detailed information, contacts and other information collected during the study tour:

1. ***High Level of Commitment for Export Promotion*** – Trade Promotion (activities encompass both export and investment promotion) in both Mexico and El Salvador are done at the highest levels of government. In Mexico, a new agency was created 6 months ago. Called ProMexico, it was created by President Felipe De Jesus Calderon Hinojosa to handle export and investment promotion. The board of ProMexico is composed of various economic Ministers. In El Salvador, a new agency was created about 4 years ago which is presided over by Vice President Ana Vilma Albanez de Escobar. Called Exporta, the agency's primary focus is on export promotion. However, the Exporta is housed in the same building as Proesa, the country's investment promotion agency. Both agencies share the same Board and President, and collaborate closely on trade promotion activities. Elevating trade promotion activities in Mozambique to the Prime Minister or Presidential Level and combining various trade promotion offices should be seriously considered.
2. ***Numerous Actors Involved in Export Promotion*** – Trade promotion in both Mexico and El Salvador are undertaken by numerous actors. Business associations, Chambers of Commerce, Confederations, Export councils as well as a host of specific units within various Ministries all support trade promotion. In addition, there are numerous donors supporting trade promotion activities in both countries. It is clear that the additional human capacity has helped each country in their trade promotion initiatives. Mozambique should also try to encourage other actors, such as business associations, CTA and other Ministries, to support trade promotion activities.
3. ***A National Trade (or Export) strategy can help to promote trade/exports*** – El Salvador recently completed a National Export Strategy. The Strategy outlines [key interventions and initiatives by government to help promote exports. It provides a clear policy to guide actions of all government actors involved in trade.] Mexico is in the process of finalizing a National Trade

Strategy, which will serve many of the same functions as El Salvador's Export Strategy. [include a short summary of export strategy from El Salvador]

4. ***It is important to create a "Culture of Exports"*** – In both Mexico and El Salvador, Government was active in creating a "culture of exports" – where everyone, from immigration officers to taxi drivers to desk officers at various ministries, are aware of the positive impact that exports, investment and trade can have on the country.
5. ***Need to import to Export*** – In both countries, it was evident that exporters were importing many key components that were used in their exports. Whether it was textiles, buttons or labels for clothing or aircraft parts for assembly of small airplanes, importing material was critical for exports to succeed. In both countries, delays at Customs were minimal and the import process was predictable and efficient – two critical elements for exports to succeed.
6. ***Investment can help boost Exports*** – Both countries also focused heavily on attracting investment and promoting joint-ventures, especially investment that was focused on producing for export markets. For example, Mexico was successful at attracting Delphi, a US-based supplier of mobile electronics and transportation systems that accounts for a very large percentage of Mexico's exports.
7. ***Efficient Business Environment is crucial for trade promotion*** – There is little doubt over the importance of an efficient business environment – it can, probably more than any other factor help mobilize private sector resources to create jobs and stimulate exports. However, it is also important, especially in a least developed country with limited private sector experience, to focus on trade promotion activities at the same time – it can help build yet another class of actors that are active in pushing for an improved business environment.
8. ***Economies of Scale can be achieved from combining export and investment promotion activities*** – Sector specialists that can handle both export and investment promotion in various sectors is important for trade promotion agencies. Not only can the sector specialist have an in-depth knowledge of the products a country is selling overseas, how to market and sell the products, but the same specialist can also speak to potential investors in that particular sector. Often time, buyers and investors feel more comfortable speaking with someone with specialized knowledge rather than general and superficial knowledge of a particular product and/or sector.
9. ***Government should work on facilitating, encouraging and creating the necessary business environment and related conditions for exports*** – Governments already have a large portfolio of activities to undertake on a daily basis. In addition, the amount of work involved in exporting is immense, often mandating careful follow-up with exporters. Government should work on creating the necessary conditions for exports and trade, working to create a culture of exports among other government institutions, NGOs and the private

sector, opening door to investors in the domestic market and to purchasers in foreign markets, ensuring that government imposed obstacles and bureaucracy to trade is minimized, and to mobilizing necessary donor resources to support trade promotion. The day-to-day work for trade promotion (e.g., organizing trade fairs, organize buyer missions, assisting firms with obtaining necessary certifications, etc.) should be done by other partners (e.g., consultants, trade associations and businesses).

10. **Add value and reduce middle-men** – By focusing on adding value to products and getting product as close to final consumer as possible – eliminating middle men when at all possible – producers in developing countries can receive a premium for their exports. A Trade Promotion Agency, working in close collaboration with business associations and donor-funded projects, might be able to assist producers eliminate middle-men and get products close to the final consumer.
11. **Quality matters** – When you produce a quality product, it will almost always find a market. It is important to bring in experts for a particular sector to help work with potential exporters to improve their quality. [talk about guitar examples in El Salvador]
12. **Clients matter** – A successful Trade Promotion agency needs to manage relationships carefully. Those relationships can be with other Government Agencies, business associations, oversea contacts and ultimately the private sector. They need to identify the needs and constraints their clients are facing and understand their products and potential for exports. Without such a client base, a trade promotion agency cannot be successful.
13. **E-commerce is an important channel for exports** – Trade Promotion activities needs to understand how to export through various e-commerce channels in other markets. For instance, Amazon.com offers ability to store products in a warehouse in the US and they will ship to final consumers.
14. **Innovation is important** – Innovation is a cornerstone to producing exportable products. Even though it may appear that innovative products might not exist in your country, it can be surprising what arises. Innovation contests, for example, that offers a prize for innovative local cuisine, can help identify innovative Mozambique products, designers and other potential exportable products. Those working in Trade Promotion activities can then work with winners of the contests to commercialize and export products.
15. **Design is important** – Package design, labeling, etc. is important when exporting. Small improvements in packaging and labeling can help immensely in securing market share in foreign markets. It is important to understand the market requirements in foreign countries and design a package appropriately.
16. **Quality and standards testing and certification** are necessary if Mozambique is going to export to markets in South Africa, Europe, US. Testing

facilities don't necessarily have to be in country – many products were sent to regional laboratories or to labs in the US or the EU for testing. Certifications, such as Organic, can help in adding value to products made in Mozambique.

Testing & Certifications for Exports

Food products, producers have to get Ph of inputs and if acidified, needs additional testing. Then need to get the industrial formula of the ingredients. Then need to get the nutritional facts of the ingredients – and decide on FDA labeling requirements for displaying nutritional facts. Then need to get a shelf life analysis – products normally need a 1 year shelf life to be sold in the US. Typically this testing and certification process costs approximately US\$2,500.

For agricultural commodities exports into the US, normally a pest risk assessment (PRA) needs to be taken for each country. This process has, at times, been lengthily, expensive and difficult to request. However, USTR has been in discussions with USDA and it appears as if talks are progressing to enable the use of regional pest risk assessments – in which entire regions are certified as pest free and given clearance to export to the US.

17. ***Focus on regional markets*** – Trade Promotion efforts do not need to focus on far away markets. In most circumstances, neighboring countries offer the most potential for exports. In Mozambique's case, South Africa and the larger SADC market holds tremendous potential for exports. At the same time, costs and time spent learning the market are minimal compared with those costs associated to putting products in markets overseas. In addition, small- and medium-sized exporters often times have limited capacity to fill the large orders demanded by US and EU markets. Mexico focuses on the US. El Salvador focuses on Mexico as well as on the US markets.
18. ***Regional free trade agreements have been good for the economies*** – Businesses, associations and government in both Mexico and El Salvador unequivocally praised the benefits free trade agreements have had on their economy – creating jobs, attracting investment and reducing poverty. Although originally questioned by many in government and the private sector as a potential negative impact on Mexican businesses, Mexico's role in the North American Free Trade Agreement (NAFTA) has brought positive benefits to the economy. The same is true for El Salvador's participation in the Central American Free Trade Agreement. Both countries believe their export successes would not have arisen without free trade agreements.
19. ***Websites, flyers and promotional material are important for trade promotion activities.*** Information on possible exports, investment opportunities and the overall business environment are important for potential buyers and investors.
20. ***Packaging of potential investment opportunities and marketing those opportunities overseas are important.*** In Mozambique, access to finance, technology and know-how is often cited as a major obstacle to producing competitively and exporting. It is important for those working in Trade Promotion have a clear understanding of those firms and sectors facing finance and other investment-related obstacles so that these opportunities can be packed as investment opportunities for investors overseas.

21. ***Trade fairs are important to trade promotion activities.*** Not only do they allow potential exporters to display their products, they also enable the exporters to see the competition they are up against, analyze price points for similar products and make important business contacts. Following-up is paramount if trade fairs are to have a positive impact. There needs to be rationalization of what trade fairs to participate in – it makes most sense for Mozambique to start with South Africa and perhaps a few others as deemed necessary and appropriate. And if firms are to participate in trade fairs, there needs to be some assurance that quality products are presented in a professional manner. Follow-up from contacts on sample request requests and other information is paramount.
22. ***Reverse buying missions can also help promote exports.*** Meeting potential buyers at trade fairs and offering to bring them to Mozambique can also result in creating substantial business opportunities for exporters. Brining these buyers to Mozambique can enable them to focus only on Mozambique and not the hundreds of other exporters and countries on display at trade fairs.
23. ***Export Trading Companies can assist exporters*** – Trading companies allow for the consolidation and facilitation of exports of any number of Salvadoran products in order to successfully introduce them into international markets. Trading companies can be set up by businesses as cost centers to develop promotional marketing material, hire an export manager to undertake market studies, and assist exporters sell their products overseas. Costs of these services are prorated among companies as a percentage of total sales.
24. ***Contract Manufacturing Services and Promote Cost Sharing Activities among firms*** – Similarly, a group of small companies working together to share production costs and to create label under which they all market products together, can help build a brand, offset costs and help to increases exports. [talk about the Cocina Maya brand and the small women owned businesses selling products to Whole Foods in the US]
25. ***Need to clearly define activities for Government Trade Promotion Offices to handle.*** There can be a wide variety of Trade promotion activities – from producing products to selling the final product overseas. It is important to clearly define how each actor in the TPO chain can assist – Government should focus on creating the environment and opening doors, associations and consultants should focus on building the capacity, improving quality and doing market studies. Donors can assist anywhere they choose along the chain.
26. ***Mentoring and Internship Programs are a good way to build capacity*** – A mentoring / internship program that puts seasoned entrepreneurs, supported by University students into an advisory relationship to export-related businesses can help to create additional human resources as well as build experience in these students to hopefully encourage them to work in export-related industries. For example, students can help companies undertake market studies.

27. ***National Brand and Image can help with Trade Promotion Activities*** – Both Mexico and El Salvador recently launched a national identity campaign, creating one national logo and image for use during trade fairs and trade promotion missions. A similar strategy might be considered in Mozambique.
28. ***Backward linkages programs haven't really worked*** – El Salvador and Mexico have tried to support backward linkages from large successful exporters to smaller, less-successful firms. In most instances, there was limited success. Those we spoke to pointed to the limited capacity and experience of these smaller firms to efficiently collaborate with larger firms and to the limited patience larger firms have to work with the smaller firms. In most cases, Trade Promotion Activities have proved much more successful when working directly with small- and medium-sized enterprises to export.
29. ***A Co-Financing Scheme to Support Exports may help increase exports*** – El Salvador has numerous donors (e.g., USAID, EU, World Bank) offering co-financing for export related activities. In some instances, assistance is managed through a project out of the Ministry of the Economy, but in other instances, assistance is done through a stand-alone project or through various business associations and/or chambers with export promotion programs.
30. ***Market Access and non-Tariff Barriers in Overseas markets needs to be monitored*** – There is a need ensure that the Trade Promotion Authority has a unit dedicated to monitoring non-tariff barriers in overseas markets, working to help producers resolve these NTBs and also communicating/working closely with trade negotiators at the responsible trade negotiating ministry to work on dismantling these barriers through trade negotiations.

IV. Conclusions and Recommendations

- Create one Trade Promotion Agency in Mozambique – this agency could be comprised of IPEX, CPI, INNOQ, Made in Mozambique, etc. under the authority of the President or Prime Minister and with a Board made up of Economic Ministers, could be an attractive and effective way of promoting trade in Mozambique.
- Encourage high level support for the new agency. The new agency should be under the leadership of the President or Prime Minister and should have the necessary mandate to promote all areas of trade, including improvement of the business environment.
- Foster a culture of exports. More attention needs to be paid by all members of government, private sector, NGOs, academia and donors on helping exports from Mozambique succeed. The new agency should be instrumental in creating and fostering this culture of exports.

- Encourage business associations and CTA to begin undertaking trade promotion activities. Even though these associations may currently have limited capacity to take on new functions, such as exports, it is important that they start analyzing how they can participate in trade promotion.
- Donors should consider working closely with IPEX to design a project that supports trade promotion. Such as project could also incorporate a large amount of policy work that focuses on improvement of the business environment and at the same time supports trade promotion activities. Such an initiative could also give IPEX the necessary momentum to push for the establishment of a high-level trade promotion authority in Mozambique.