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**The Basic Challenge in EU Countries  
Promotion Strategy in Exporting Commercial Services**

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**Abstract:** The global financial and economic crisis which started in 2007 had a considerable impact on the international exchange of goods and services and on the intensity of global financial flows and business activity. Starting with 2010, the EU-27 economy returned to its previous trend of progressively more integration with the international economy in terms of its level of credits and debits relative to gross domestic product (GDP), having experienced a reversal in 2009. The average value of EU-27 trade flows of goods corresponded to 11.6 % of GDP in 2010, up from 9.8 % the previous year. The level of trade integration of services rose to 4.0 % of GDP in 2010, up from 3.9 % in 2008 and 3.8 % in 2009. The basic challenge in EU countries promotion strategy in exporting a commercial service is to convince a foreigner to try a service that does not exist yet. The foreigners have to believe that the service will be of good quality and will meet their needs. Usually the foreigner forms that belief based on recommendations, referrals, or somehow seeing the service provider in action. There are also several roles that trade promotion activities can play in building that belief or credibility. A national TPO needs to find or reinforce some special quality that its country has so that when potential customers hear about a service supplier from this country, their first response is, “Oh yes, I’ve heard good things about services from your country.”

**Keywords:** EU-27; commercial services; foreign trade promotion; TPO; efficiency.

## **1. Introduction**

The importance of international trade is widely recognized not only by the business sector, but also by governments. Governments all over the world have reviewed and streamlined their trade policies during the last decade. Economic reform programmes have improved the overall policy framework and created a more favorable environment in many countries.

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

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In the context of globalization and increased competitiveness in the world market in general, and in Central and Eastern European countries, in particular, structural adjustment programmes and trade policy reforms are preconditions for economic growth and healthy trade performance. However,

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macroeconomic initiatives need to be complemented and supported at the microeconomic and operational level, in order to ensure a dynamic, outward-oriented and competitive business sector. Firstly, there is a need to improve the export supply response through institutional strengthening and enterprise-oriented assistance in areas such as product development and adaptation, trade finance, export quality management, export packaging, and better management of imported inputs. Secondly, efforts towards market expansion and diversification must be intensified, for example through the strengthening of business information networks.

Trade Promotion Organizations (TPOs) have a broad mandate to provide or coordinate trade support services in these areas.

A Trade Promotion Organization (TPO) is defined by the International Trade Centre UNCTAD/WTO from Geneva like a private or public institution with the main task to facilitate entry into foreign markets for a collective group of exporters and manufacturers of the home country. Governmental TPOs are those bodies set up by government as part of its infra-structure in order to facilitate foreign trade in general, but exports more in particular.

## **2. Main Trends in International Trade with Commercial Services**

World exports of commercial services increased 8 per cent to US\$ 3.67 trillion in 2010 after dropping 12 per cent in 2009 (Table No.1)

Transportation was the fastest growing component of commercial services exports in 2010, with an increase of 14 per cent to US\$ 782.8 billion. The faster growth of transport services is not surprising since they are closely linked to trade in goods, which saw record growth last year. Travel grew in line with commercial services overall, whereas other commercial services (including financial services) advanced more slowly.

Europe's exports and imports were both larger than any other region's in 2010 (US\$ 1.72 trillion and US\$ 1.5 trillion, respectively) but they were also the least dynamic, with growth of just 2 per cent on the export side and 1 per cent on the import side. The reason for Europe's poor performance can be found in the weakness of travel services, which declined by 3 per cent on the export side and 2 per cent on the import side.

The United States exported US\$ 515 billion in commercial services in 2010, or 14 per cent of the global total, making it the world's largest exporter. The other countries in the top five were Germany (US\$ 230 billion, or 6 per cent of world exports), the United Kingdom (US\$ 227 billion, also 6 per cent of world), China (US\$ 170 billion, 5 per cent of world) and France (US\$ 140 billion, 4 per cent of world).

The United States was also the leading importer, with purchases of US\$ 358 billion from foreign providers, equal to 10 per cent of world imports. It was followed by Germany (US\$ 256 billion, 7 per cent of world), China (US\$ 192, 5.5 per cent of world), the United Kingdom (US\$ 156 billion, 4.5 per cent of world) and Japan (US\$ 155 billion, 4.5 per cent of world). China replaced France as the fourth-largest exporter of commercial services, while Germany overtook the United Kingdom in second place. China also moved up the rankings on the import side, taking over the third position from the United Kingdom.

When trade within the EU is excluded, the European Union becomes the leading global exporter, with services exports to the rest of the world totaling US\$ 684 billion in 2010, or 25 per cent of global trade. It is followed by the United States (with 18 per cent of the reduced world total), China (with 6 per cent), Japan (with 5 per cent) and Singapore (with 4 per cent).

The European Union is also the top importer when trade within the EU is left out. Its imports from non-EU countries in 2010 came to US\$ 598 billion, or 22 per cent of world trade. The remaining countries in the top five were the United States (13 per cent of world), China (7 per cent), Japan (6 per cent) and India (4 per cent).

Starting with 2010, the EU-27 economy returned to its previous trend of progressively more integration with the international economy in terms of its level of credits and debits relative to gross domestic product (GDP), having experienced a reversal in 2009. The average value of EU-27 trade flows of goods corresponded to 11.6 % of GDP in 2010, up from 9.8 % the previous year. The level of trade integration of services rose to 4.0 % of GDP in 2010, up from 3.9 % in 2008 and 3.8 % in 2009.

a medium term strategy for fiscal consolidation.

**Table 1 International Trade in Commercial Services of some EU Countries, in 2010**

EXPORTS				IMPORTS			
Exporters	Value (Billion dollars)	Share	Annual percentage change	Importers	Value (Billion dollars)	Share	Annual percentage change
<b>World, of which:</b>	<b>3665</b>	<b>100,0</b>	<b>8</b>	<b>World, of which:</b>	<b>3505</b>	<b>100.0</b>	<b>9</b>
-Germany	230	6.3	2	-Germany	256	7.3	1
-United Kingdom	227	6.2	0	-United Kingdom	156	4.5	-1
-France	140	3.8	-1	-France	126	3.6	0
-Spain	121	3.3	-1	-Netherlands	109	3.1	1
-Netherlands	111	3.0	0	-Italy	108	3.1	1
-Italy	97	2.6	3	-Ireland	106	3.0	2
-Ireland	95	2.6	3	-Spain	86	2.4	-1
-Belgium	81	2.2	2	-Belgium	76	2.2	4
-Luxembourg	68	1.9	13	-Denmark	49	1.4	-1
-Sweden	64	1.7	9	-Sweden	48	1.4	6
-Denmark	58	1.6	7	-Luxembourg	38	1.1	8
-Austria	53	1.5	-1	-Austria	36	1.0	-2
-Greece	37	1.0	-1	-Poland	27	0.8	16
-Poland	32	0.9	11	-Czech Rep.	24	0.7	28
-Finland	25	0.7	-10	-Finland	23	0.7	-11
-Czech Rep.	22	0.6	10	-Greece	20	0.6	2

Source: WTO Data

### 3. Main Approaches in EU Trade Promotion of Services Exports

At micro - economic level, the main approach for a services exporter is represented by his ability in promoting his new product on the international market. In this respect, the basic challenge in exporting a service is to convince a foreigner to try a service that does not exist yet. The foreigner has to believe that the service will be of good quality and will meet their needs. Usually the foreigner forms that belief based on recommendations, referrals, or somehow seeing the service provider in action. There are also several roles that trade promotion activities can play in building that belief or credibility.

At macro – economic level, the main task in promoting the national business opportunities in the field of services on the international market is in charge of the national TPO, which, in cooperation with the non – governmental organizations and the economic operators has to create a general favorable image of a certain branch on a well defined segment of the world market. In this respect, the national TPO needs to find or reinforce some special quality that the national providers of a specific service have, so that when potential customers hear about a service supplier from this country, their first response is, “Oh yes, I’ve heard good things about services from your country”. An example in this respect is the following: when people think of computer software and IT services, they think of India which now has 12% of the global market. Any Indian IT firm benefits from that reputation, which was built up over a period of ten years.

Here are some questions to ask yourself to help a national TPO to identify the competitive advantage of the national providers of service:

- *Does the country have a geographic advantage?* For example, Panama is already known for being a transportation and distribution hub due to the Panama Canal and its strategic position between Central and South America. Based on its infrastructure and links to four submarine fibre optic cable systems, Panama can now market itself as the regional hub for e-services.
- *Does the country have a language or cultural advantage?* For example, Peru has large Japanese and Chinese immigrant communities.
- *Does the country have a human resources advantage?* For example, Jordan has a number of well- trained professionals who were trained in the U.K., U.S., or France and have extensive work experience in the Arab Gulf countries.
- *Does the country have a reputation for being particularly business friendly or familiar with other ways of doing business?* For example, Barbados has a reputation as a politically stable, open economy with over 8,000 offshore businesses.
- *Does the country have a reputation in a particular sector that can be leveraged as a country image?* For example, Jamaica has a global reputation of reggae music, which is being leveraged as a lead sector.
- *Can the country provide the foreign customer access to a range of other markets?* For example, a CARICOM country like Trinidad & Tobago can position itself as the gateway to the Caribbean (and South America through links with Venezuela) for services like market research.

#### **4. Selecting Priority Sectors and Target Export Markets**

Usually, a country is offering over 60 categories of services being exported. For successful trade promotion, the national TPO will need to pick priority sectors for the focus of its promoting resources – i.e., sectors where the local companies have:

- Some competitive edge to exploit.
- Sufficient domestic capacity to support rapid export growth.
- Some potential for synergies among services.
- A service industry association to work with government on trade promotion strategies.

In general, services are exported to a wider range of markets, at least 30 different export markets, than are goods. For effective use of resources, the national TPO will need to select geographic markets that hold the greatest growth potential. For this reason, the national TPO has to take into account the following:

- The number of firms already exporting to, or interested in, that market.
- Economic growth patterns in that market.
- Attitudes in that market towards importing services.
- Historical links with that market, including investment and tourism.
- Ease of access for exporters (direct flights, visa requirements).
- Ability to pay, including exchange restrictions, inflation rate, currency stability.

## 5. Planned Trade Promotion Activities

While goods promotion typically focuses on the tangible product (making use of virtual trade shows and online catalogues), services promotion needs to focus on the solutions that can be provided by the service companies. Customers are particularly interested in onestop solutions. For example, a consortium that includes architecture and design, engineering, construction, and project financing is more competitive than any of those services on their own.

While there is a wide range of services being exported, from a trade promotion perspective there are five general categories of services that benefit from slightly different promotional approaches:

- *Infrastructure services.* These include architecture, engineering, construction, transportation, distribution, and financial services.
- *IT-related services.* These include computer consultancy, software development, data processing, database management, and call centres.
- *Business services (non-IT-specific).* These include a wide range of business support activities such as research & development, equipment leasing or maintenance, market research, management consulting, translation, investigation & security, etc.
- *Professional services.* These include the licensed professions (other than architecture and engineering) like accounting, legal services, medical & dental services, nurses and veterinarians.
- *Quality of life services.* These include education & training, health-related services, entertainment services, cultural services, recreational services, and sporting services.

There are eight general types of activities that have proven useful in promoting the above mentioned five categories of services.

- *Participation in global or regional trade events.* For some services, there are annual or biannual trade events that provide excellent profile building and networking opportunities. Examples include CeBIT, Medtrade, and WTA. In some instances, it is possible to find that a regional trade event that is held in an export market of priority is even more useful. To maximise effectiveness, it is useful to have some kind of export country presence – a booth with information about service capabilities, a sponsored reception for participants from targeted export markets, speakers on the program, etc.
- *Sector-specific trade missions.* These trade missions would be comprised of service firms that are already exporting or wishing to export. To maximise effectiveness, the TPO which is in charge with the mission has to think to have some kind of theme to the mission and organise opportunities for mission participants to meet not only with potential customers but also with potential partners. A component of the mission would be educational presentations by mission participants. An example of this type of mission is the health services missions Malaysia has led to Cambodia and Brunei in order to convince local health practitioners to refer patients to Malaysian hospitals for specialised care.
- *Cross-sector trade missions.* These trade missions would be comprised of service firms from several industries willing to work together to provide “bundled” services.
- *Partnering events.* The purpose of such an event is to encourage collaboration between organisations, either across national boundaries or across sectoral boundaries. Such events can be held for service firms and/or for service industry associations.
- *Media tours.* The purpose of this type of event is to promote the profile of service firms’ capabilities in the media of developed markets where media coverage confers credibility. The structure would be to identify a small group of service firms with unusual capabilities and

successes, and then to hire a public relations firm in the target market to arrange a series of media interviews with those firms.

- *Incoming missions.* Incoming missions from target export markets provide a low-cost opportunity to acquaint potential foreign customers with the capabilities of service suppliers. The structure would be to have an business event at which service suppliers could provide useful information, followed by a networking reception.
- *Networking with investors.* Sometimes foreign investors import services (especially professional and business support services) because they are unaware of local capabilities. Providing a structured opportunity to highlight national expertise gives the local firms the chance to engage in exporting.
- *Missions to international finance institutions.* These missions would be comprised of service firms that provide the types of services currently being funded by international financial institutions such as the World Bank, the regional development banks, or bilateral aid agencies. The purpose would be to apprise the officers of the capabilities of country's service firms both to deliver IFI-funded projects in their country and also to deliver quality services in other donor-funded markets.

## 6. Innovation and Services Export Readiness in EU Countries

Export readiness is the capability to succeed in export markets. Innovation links to export readiness in several ways. First, in order to resource a company export initiative effectively, it may need to introduce internal organizational innovations to handle different customer demands. Second, the manager will find that his company will profit the most in an export market if it is offering a service or service delivery process that is new to that target market. Third, in order to adapt to the cultural norms of the target market, it is very likely that the company will need to change features of its service or the manner in which its service is delivered (again an innovative activity).

Exporting can strengthen overall competitiveness if the company is able to select target markets where the services it can offer are a good match with local needs and cultural values. Foreign customers can offset low demand in a home market and may provide hard currency earnings. However, because of cultural variables, it is all too easy to misread customer needs, motivations and priorities. The same is true with local partners and staff.

To improve a service company's chances of export success through innovation, there are several strategies to put into practice:

- It has to target ethnic subgroups with cultures similar to the services provider.
- It has to target expatriates from the services provider's home country who are living in the target market.
- It's very useful to find a local partner and let them lead on issues of services design and delivery that are culturally specific.
- It's considered to be efficient to hire local staff for the lead front-office, high-contact positions.

Entry into new export markets can be speeded up through strategic alliances with local service providers. A local partner can vouch for the service exporter capabilities and can provide it with ready-made networks. Strategic allies can also help exporter to succeed in third markets due to their reputation and profile.

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