Economic Promotion as a Foreign Policy Tool: Achievements and Challenges

Promoción económica como herramienta de la política exterior: alcances y límites

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Abstract:
Economic promotion has come to play an important role in the foreign policy of Mexico and other countries over the last 30 years, since it is believed to foster economic growth by boosting exports and attracting FDI. However, recent studies indicate there is no clear evidence specialized promotion agencies contribute to economic growth, and even less to suggest they have an impact on socioeconomic development. Given these findings, economic promotion efforts need to be reoriented toward strategies like the international transfer of technology that have a direct impact on economic development, as opposed to growth alone.

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Resumen:
La promoción económica ha adquirido un papel importante entre las acciones de política exterior de México y otros países durante los últimos 30 años, al considerarse que favorece el impacto de las exportaciones y la inversión extranjera directa (IED) en el crecimiento económico. No obstante, estudios recientes señalan que no existe evidencia clara de que las agencias especializadas en la promoción contribuyan a este crecimiento y menos aún que tengan impacto en el desarrollo socioeconómico de los países. Por ello, la promoción económica debe reorientarse a estrategias como la transferencia internacional de tecnología, que busquen un impacto directo en el desarrollo económico, antes que en el mero crecimiento.

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Key Words:
Foreign policy, economic promotion, development, exports, FDI, international technology transfer.

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Palabras clave:
Política exterior, promoción económica, desarrollo, exportaciones, IED, transferencia internacional de tecnología.

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Introduction

Over the last 30 years of globalization, the age-old debate as to whether or not a country's economic development can be induced externally by foreign trade and foreign direct investment (FDI) was revived by theoreticians, academics and policy implementers who believed these contributed substantially to development.

Due to the premises of the concept, typical of Neo-Classical economic thought, the debate became increasingly mired in the idea that economic development is synonymous with economic growth and that it comes about automatically to the extent that a country's share in trade and global investment increases. This is how foreign policy gradually came to be viewed as yet another means of driving growth, i.e. as a vehicle for economic promotion, a task that, in turn, has come to require specialized government agencies empowered with a series of faculties (financing, facilitation, consulting, marketing, among others) and preferably located abroad. These specialized agencies are intended to complement the more traditional, more politically oriented work of embassies and consulates with a more targeted approach.

However, in recent years, international opinion, both general and specialized, has become disillusioned with Neo-liberal arguments and policies, prompting us to reexamine how exactly a country's foreign policy should contribute to its economic and social development.

According to Alexandre Piffero Spohr and André Luiz Reis da Silva, foreign policy can foster certain aspects of an environment needed to help a country develop.[1] In this context, economic development cannot be reduced to growth, because it is not solely of a quantitative nature and affects not only economic concerns, but social ones and the wellbeing of society as a whole. Development implies the use of available resources to ensure more favorable, equitable interactions across and within the various sectors of a society, or across and within markets on an international scale. These interactions should, in turn, seek to improve living conditions for the population with better-paid jobs that help close social and economic inequality gaps. In other words, promoting growth and reducing inequalities are both essential goals of a development strategy and go hand-in-hand with sustainable international economic relations.

In this broader context, it is clear that foreign policy plays an important role in promoting development, both in the economic and political spheres. As a purely economic tool, foreign policy can be used to promote trade and investment, and negotiate regional, bilateral and multilateral trade, economic and financial agreements. Politically, or in terms of economic policy, foreign policy can serve as a framework for the granting and management of exploration and exploitation rights over a State's natural resources, for international cooperation purposes and to project a positive image of the country internationally.

From a development standpoint, the economic factor is more closely related to economic growth, while the political one is instrumental in fostering growth and closing the inequality gap. Over the last 30 years, economic thought and foreign policy design have focused predominantly on the promotion of trade, FDI and the negotiation of free trade agreements, while cooperation and the negotiation of exploration and exploitation rights over natural resources, albeit not completely abandoned, has been relegated to a back seat. As for promoting their image internationally, some countries see this merely as an offshoot of successful policies to promote trade and attract FDI.

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1 Alexandre Piffero Spohr and André Luiz Reis da Silva, "Foreign Policy's Role in Promoting Development: The Brazilian and Turkish Cases", in *Contexto Internacional*, vol. 39, no. 1, January-April, 2017, 158.

Subsequently, government agencies for the promotion of trade and FDI have been deemed to play an important role in the implementation of foreign policies focused on economic promotion. Given that the very purpose of these agencies is promotion, you might think their contribution to economic growth is self-evident, but there is no hard evidence to back this up and neither are there enough specialized studies to prove it.

Promotion agencies such as these come in a wide variety of shapes and forms, from specialized, centralized ones to conglomerates financed by public or private funds or a combination of both. In the case of developing countries, particularly the so-called emerging economies, the prevalent trend has been centralized agencies coordinated and financed by national or federal governments, whereas in developed nations, the pattern is more diverse. In Germany for example, international economic promotion is conducted by federal and local governments, private and public banks, chambers of commerce and private industry in a joint, coordinated effort in which the private sector plays a decisive role.[2]

Exports

Academic and specialized international institutions like the World Bank have studied the effectiveness of export promotion agencies (EPAs) and while the results of these studies have been enlightening,[3] they have not confirmed the value of EPAs. Unable to prove that EPAs have a positive impact, not just on a country's development, but on its economic growth, these studies have instead focused on the more modest objective of demonstrating how they contribute to export growth.

The purpose of EPAs is basically to help exporters locate markets for their products, promote the country's image (via publicity, promotional events),

2 See Federal Ministry of the Economy and Energy/Bundesministerium für Wirtschaft und Energie, "Außenwirtschaftsförderung", at *https://www.bmwi.de/Redaktion/DE/Dossier/aussenwirtschaftsfoerderung.html* (consulted on: September 30, 2019).

3 See Daniel Lederman, Marcelo Olarreaga and Lucy Payton, *Export Promotion Agencies Revisited*, Washington, D.C., World Bank (Policy Research Working Paper, 5125), 2009.

assist exporters (training, technical assistance, financing, logistics, information on customs procedures, tariffs and other such matters), and provide marketing services (trade shows, business missions, follow up on any contacts made), publications and market research. Justification for these services is based on the idea that companies, especially small and mid-size ones, do not have the capacity to obtain information on foreign markets on their own and need the government's assistance. In this instance, the use of public funds is explained away as investment, due to the benefits growth in exports implies for society at large.

Comparative statistical studies on the impact of EPAs on exports are sorely lacking and those available are based on statistical approximations, consisting of surveying EPA officials from different countries and comparing their responses with applicable general export indicators. For example, an attempt has been made to determine the institutional structure, responsibilities, objectives, resources, spending and activities of EPAs in 88 countries and establish correlations with growth in exports using this data. Initially, a positive correlation was made between EPA budgets allocated to the promotion of exports and growth in exports,[4] but the experts conducting these studies have warned of possible methodological distortions in these comparisons, such as reverse causalities and selectivity fallacies: allocating more resources to the promotion of exports can push exports up, but higher exports can also lead to more resources being allocated to their promotion. Similarly, countries that promote their exports could be more interested in making available information on their promotion strategies than ones that have no such strategies in place, even though they have high export levels.

These and other considerations make studies of this type demonstrative, but by no means conclusive. Another of their findings has been that EPAs do not need to promote exports abroad and that the presence of an embassy or consulate can be enough to achieve growth of between 6% and 10% in exports in the country in question, depending on the budget allocated them for this purpose.[5] That said, investing in the promotion of exports is a business that is showing a clear trend to-

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4 D. Lederman, M. Olarreaga and L. Payton, *op. cit.*, 7.

5 *Ibid.*, 12.

ward diminishing returns, meaning it would not be advisable to continue swelling EPA budgets.

It has also been found that rich nations with high per capita GDP and more solid institutions export more. However, this cannot be attributed exclusively to the existence and activities of their EPAs. There are many other factors to be taken into account, such as the quality and added-value of their exports, their production platforms and specific export routes, and their legal and financial frameworks, to name just a few. By the same token, it has been found that an increase in EPA budgets impacts exports of homogenous products from the same category less than heterogeneous ones, indicating that the benefits of such budget increases are isolated and marginal, as opposed to structural. It has also been demonstrated that trade restrictions imposed by importers have a greater negative impact than any potential benefit a country might gain from increasing its EPA budget.

Furthermore, these same studies have revealed that spending on promoting a country's image, post-exportation support services, market research and marketing has no statistically significant correlation to exports.[6] The same holds true for EPA promotional efforts that prioritize small and midsize enterprises over larger companies or unexperienced exporters over more established ones.

Still, there can be no denying the impact of activities to promote exports, whether conducted by EPAs or foreign representations like embassies and consulates. In fact, it is estimated that an increase of 10% in the budgets of such representations could lead to an average increase of between 0.6% and 1% in exports.[7] As regards the structure and functioning of EPAs, there is debate as to whether they should be financed exclusively by the public sector, the private sector or both. In the case of developing countries, there is the idea an EPA can be more effective if it is coordinated by a central government, even if it is financed by the private sector, usually its export branches.

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6 *Ibid.*, 17.

7 *Ibid.*, 18.

Direct Foreign Investment

Studies on the effectiveness of agencies for the promotion of foreign direct investment (IPAs) have also been conducted by specialized academic and international institutes, but, as is the case with exports, these are not as plentiful as you might think and their findings cannot be considered conclusive either.

While it is more complex to determine exactly to what extent FDI contributes to the economic development of a country using economic calculations and correlations, it is just as difficult to determine to what extent IPAs have an impact on FDI. The premise that IPAs promote FDI because this is their purpose may sound tautological, but there is no broad-based empirical evidence to support this claim.

In recent years, the World Bank has been drawing up parameters to determine the possible impact of investment promotion on FDI indexes on an international scale. For the last 13 years, the Global Investment Promotion Benchmarking (GIPB) exercise has been collecting information from 156 developing and developed countries.[8] This information is obtained by evaluating a set of variables established by the World Bank itself and that include the quality, usefulness and timeliness of the information IPAs make available to potential investors on their websites, how such agencies handle direct consultations and a global rating that takes into account variables like per capita GDP, GDP growth, inflation and political stability, as determined by World Bank studies.[9] The goal is to find a correlation between the quality of the IPA and FDI flows, these being the dependent variable.

World Bank studies[10] have identified over 189 national IPAs in the world and over 1,000 sub-national ones. The main functions of these agencies are to provide information for potential investors, launch marketing campaigns, participate in trade shows and international conferences, create and maintain

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[8] See Torfinn Harding and Beata S. Javorcik, "Investment Promotion and FDI Inflows: Quality Matters", June 5, 2012, at *http://users.ox.ac.uk/~econ0247/MIGA.pdf* (consulted on: October 1, 2019).

[9] For more information, see World Bank, "Governance", at *https://www.worldbank.org/en/topic/governance* (consulted on: October 14, 2019).

[10] T. Harding and B. S. Javorcik, *op. cit.* 2.

websites and actively search for investors using direct, personal contacts. Other activities include organizing visits by potential investors to investment sites, promoting familiarization with possible joint investment partners, clients and suppliers, and assisting committed investors with the registration of their companies, in obtaining licenses and with other formalities or bureaucratic procedures. It is believed that these promotional actions can sway the investor at any stage of the decision-making process, reason why a comprehensive approach is generally taken.

In looking for a correlation, it is presumed that FDI flows are proportional to the quality of the IPA and not the other way around. It is argued that this is achieved by excluding from the correlation other factors that determine the quality of the general environment favorable to investment in the country, like the number of days required to set up a company, obtain a construction license or register an association. Other, more deep-seated, qualitative factors like government efficiency, corruption control, the Rule of Law and accounts control are also taken into consideration.

Boiling down all these factors, there is clearly a causal connection between how well an IPA does its job and FDI flows. Yet the question remains: are countries effective at attracting FDI because they already have a history receiving these flows or is it because they have quality IPAs? In this case, it is not possible to determine which it is, even by resorting to *ad hoc* variables like how motivated IPA staff are or their salary levels. Also, the econometric approach of studies like these makes it impossible to include structural aspects like the historic situation of certain economies, their productive platforms and human capital, which are also essential to investment, both domestic and foreign.

Interestingly, these studies reveal that developing countries lend more importance to IPAs than developed ones. The fact that the latter have diversified business sectors and high-added-value productive plants illustrates that the same weight is given to domestic as it is to foreign investment. Furthermore, FDI indexes, which, in absolute terms, are higher on average in developed nations than they are in developing ones, show that attracting investment is an outcome of a country's own comparative advantages in terms of infrastructure, qualified labor, research and development, institutional solidity and other endogenous factors, meaning that IPAs perform a secondary role.

The Mexican Case

In the context of this essay on the role of international economic promotion in models to foster development and economic growth, Mexico shows an unequivocal inclination toward free trade and the promotion of exports and FDI. In this regard, it has not been an exception in the concert of developing countries, particularly among the so-called *emerging economies*. Indeed, many analysts view Mexico as one of the countries that marked out this course in the early Nineties, serving as a model for other regions, especially Latin America.

A member of NAFTA and with agreements with 46 countries under its belt, Mexico is a renowned champion of free trade, so it is hardly necessary to go into greater detail. "In the 1990s, Mexico became the number one exporter in Latin America, way ahead of Brazil. Its exports grew faster than its gross domestic product",[11] rising from 8.5% of GDP in 1993 to 40% in 2013.[12] Confirming this trend after two decades of NAFTA, "in 2014, trade between NAFTA countries had quadrupled and cross investments had increased fivefold since 1994".[13]

However, more than 25 years down the line, it is fitting to ask what the impact of NAFTA and these free trade partnerships has been, not just in terms of growth in exports and investments, but, more importantly, in terms of the country's general economic growth and development. This question has been addressed by several studies[14] conducted in Mexico and other countries, but there are not many of them and their findings

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11 Alain Rouquié, "México y el TLCAN, veinte años después", in *Foro Internacional*, no. 220, April-June, 2015, 435.

12 Jorge Eduardo Mendoza Cota, "Has Mexican Trade in Manufactured Goods Reached its Limits under NAFTA? Perspectives After 20 Years", in *Norteamérica*, Year 10, no. 2, July-December, 2015, 72.

13 A. Rouquié, *op. cit.*, 439.

14 See, for example, Robert A. Blecker, "The Mexican and U.S. Economies After Twenty Years of NAFTA", in *International Journal of Political Economy,* vol. 43, no. 2, 2014, 5-26; Rafael de Hoyos and Leonardo Iacovone, *Economic Performance Under NAFTA: A Firm-Level Analysis of the Trade-Productivity Linkages*, Washington, D.C., World Bank (Policy Research Working Paper, 5661), 2011.

are not conclusive either. On balance, views tend to be mixed as to whether these agreements have been beneficial or prejudicial to socioeconomic development, of which economic growth is just one facet—for purposes of this essay, socioeconomic development should be understood as encompassing an improvement in the wellbeing of the population, economically, politically, socially and environmentally.

Stock therefore needs to be taken of Mexico's deployment of economic promotion as a foreign policy tool in light of these mixed opinions on the impact of free trade and the effectiveness—or lack thereof—of strategies like the creation and operation of EPAs and IPAs. The reference to the notion of *development* is crucial here, since foreign policy, like domestic policy and the public administration in its respective spheres, seeks to broadly represent national interests.

If we consider economic growth alone, the impressive growth rates registered by exports and investment could well be an illusion. We've all heard about the indicators that reveal 50% of exports under NAFTA and other free trade agreements are made by multinationals or are intra-company transactions. Likewise, it is often said that a handful of companies accounts for the vast majority of exports and that the manufacturing sector has greatly overshadowed other sectors, with exports heavily concentrated in just a few manufactured goods.[15]

Another common argument is that GDP has stagnated over the last 25 years compared to population growth and unemployment rates in the same period,[16] even though these figures (in market prices for 2013) are notable—according to Inegi, Mexico's GDP increased from 10.4 trillion pesos in 1993 to 18.3 trillion in 2018.

NAFTA critics have also drawn attention to how the "maquilization" of Mexico's productive plant has turned its economy into a subcontracting one, while differentiated investment and the creation of innovation and competitiveness clusters in certain states in, for example, the automotive, aeronautical and IT industries, has accentuated regional imbalances and the country's north-south divide, preventing a readjustment

15 J. E. Mendoza Cota, *op. cit.*, 79.

16 See Inegi indicators in the Economic Information Bank at *https://www.inegi.org.mx/sistemas/bie/*.

of depressed zones.[17] Similarly, free trade is said to have created conditions of unfair competition between Mexican and foreign consortia and between Mexican companies, causing the number of people working in the informal economy to double between 1990 and 2008, from 18.9% to 43.7%. In other words, 44% of Mexican workers do not have legal jobs with contracts.[18]

On the flipside, NAFTA advocates underscore the modernization of Mexico's productive plant and its conversion into a manufacturing powerhouse with qualified workers in various industrial sectors whose income has increased in real terms. Under the auspices of free trade, Mexico has begotten global companies, evolved into an export power and attracted high FDI flows, even though these have declined in relative terms in recent years.

All in all, the Mexican case is an example other countries can look to as regards both the pros and cons of free trade and the promotion of exports and FDI.

Given these contrasting opinions, we might be wise to explore new perspectives and strategies that *directly* impact development, not just in Mexico, but in other nations. We already know this impact is not ascertainable using existing parameters, but public policies could incorporate more qualitative benchmarks, not so much as measures designed to achieve concrete goals, but as general criteria or guidelines.

Among the strategies worth considering are international cooperation, technology transfer and, as mentioned previously, the granting of exploration and exploitation rights over natural resources and the negotiation of trade and investment agreements under conditions that truly take into consideration the asymmetries of the relationship between the parties involved and their specific characteristics, with a view to achieving a greater impact on development, as we have seen with similar strategies in other regions, like the European Union's famous cohesion funds.

17 A. Rouquié, *op. cit.*, 442.

18 *Ibid.*, 443.

International Technology Transfer

Due to space constraints, I will be discussing only international technology transfer (ITTs), because I believe these to be especially illustrative and somewhat overlooked in recent structured, operating approaches to international economic promotion, which brings me back to debate on their general impact, mainly on developing countries and not exclusively Mexico.

Economic experts and international analysts both quite rightly agree that know-how and innovation are major drivers of development and not just economic growth, reason why they should be incorporated into economic policies. In this context, technology transfer shall be taken to mean "any process by means of which one party gains access to the information (ideas, know-how, technologies and technical skills) of another party, assimilating and absorbing it in their own productive processes".[19] This can take place by means of trade, investment or the movement of people, but is better fostered by cooperation mechanisms and legal frameworks designed specifically for this purpose. A great deal of today's technology is developed and owned by private actors, although public policies can influence their actions and shape the international distribution of their profits to ensure a positive socioeconomic impact on recipient countries.

International agreements and multilateral treaties aside, most countries, both developed and developing, have implemented internal measures to promote ITTs. These policies are specific to each country, but can be grouped as follows: the implementation of education and training policies at academic and scientific institutions to increase the country's *absorption capacity*; the protection of *intellectual property rights* so as not to check ITTs; measures to *promote FDI* that imply ITTs (for example, tax incentives) or the *setting of conditions* (for example, the requirement to enter into *joint-ventures* with local companies) by recipient country; and *implementation requirements*, which may include minimum local content requirements for inputs, research and development activities associated with FDI,

[19] Przemyslaw Kowalski, Daniel Rabaioli and Sebastian Vallejo, *International Technology Transfer Measures in an Interconnected World: Lessons and Policy Implications*, Paris, OECD (OECD Trade Policy Papers, 206), 2017, 11.

local employee quotas, local labor training requirements or the gradual substitution of foreign experts for local ones.

All these policies take on special relevance in the context of global production and value chains, which encompass everything from multinationals to small and mid-size local suppliers. Some policies have been more successful than others, depending on the country in question and its circumstances, although approaches that combine several of them have proven especially effective.

China is often cited as a successful, albeit controversial example of an ITT recipient that has used these technologies to further the country's economic development. Keith Maskus and Kamal Saggi[20] have identified the ITT requirements China places on FDI as a key contributing factor to the country's recent economic development and *focused* economic growth, although it has been pointed out that the size of its domestic market and vast natural and human resources have offset foreign investor reserves vis-à-vis compliance with said requirements, reason why some observers do not recommend that these policies be implemented indiscriminately by developing countries that do not have such compensatory advantages.

In any case, recent research has found that policies to foster ITT can have a much more direct impact on economic development than simple policies to promote exports or indiscriminate FDI. This can be attributed to two specific characteristics of ITTs: their qualitative and not merely quantitative approach, as is the case with exports and FDI; and their sustainability or capacity to promote independent, continuous development and synergies once the technology has been absorbed and adapted to the characteristics of the recipient economy, especially developing ones.

Conclusion

Throughout this essay, we have seen that international economic promotion policies focused on exports and FDI are only marginally effective

20 See Keith Maskus and Kamal Saggi, *International Technology Transfer: An Analysis from the Perspective of Developing Countries*, CDIP/14/INF/11, Geneva, World Intellectual Property Organization, September 2014, 25.

and that their automatic impact is limited in terms of economic growth and null in the case of development, unless they are tied in with strategies designed to promote socioeconomic development.

In today's international context, where structural imbalances and asymmetries prevail, flows of exports and FDI are determined by the structure of the global production and consumption system and therefore have their own intrinsic dynamic. Altering this dynamic is particularly difficult for peripheral and semi-peripheral countries like Mexico.

Nonetheless, there is a margin of maneuver States can take advantage of within these two categories, especially emerging economies. As a strategic matter, international economic promotion policies must necessarily be designed by governments, but can and preferably should be implemented with the decisive support of interested sectors of the business community that are capable of acting in an international context, as occurs in most developed countries. However, these policies do not necessarily have to be implemented by specialized agencies with bulging budgets; foreign representations like embassies and consulates can implement them, provided they have sufficient resources and, more importantly, effective coordination mechanisms and access to relevant, timely information.

Economic promotion efforts should therefore be directed toward areas where there is more evidence of their impact on development as a whole, not just economic growth. In the absence of such evidence, including lack of evidence as to the impact of economic promotion on growth—which is the stated purpose of the international policies designed and recommended over the last 30 years—should be reason enough to seek out alternative courses of action. In this regard, we have mentioned transfers of technology, which I feel have been relegated to a back seat in recent policymaking. As an essentially qualitative, sustainable policy, the impact of ITTs on economic and social development can be substantial within the framework of domestic development policies that foster the absorption and autochthonous evolution of these technologies in specific national contexts.