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## CRITERIA FOR SELECTION OF THE EXPORT TARGET COUNTRIES

Megija Krievina<sup>1,a</sup>, Velga Ozolina<sup>2,b,\*</sup>

<sup>1</sup>Riga Technical University, Faculty of Engineering Economics and Management, Kalnciema 6, Riga,  
Latvia

<sup>2</sup>Riga Technical University, Faculty of Engineering Economics and Management, Kalnciema 6, Riga,  
Latvia

<sup>a</sup>megija.krievina@gmail.com, <sup>b</sup>velga.ozolina@rtu.lv

\*Corresponding author

**Abstract.** In the era of increasing globalization, international cooperation and international trade, it is becoming more important to focus the attention to particular markets and countries to facilitate exports. It ensures more targeted approach and thus more efficient use of the scarce resources. The choice of the export target countries is done in several levels – government, associations and enterprises. If the same export target countries are chosen at different levels, it is possible to enhance the overall results. In Latvia the collaboration in the selection process of the export target countries is ensured by the memorandum of understanding. However, 3 criteria stated in the main export facilitation planning document are not enough to provide the best results. Therefore the research aims to identify more optimal choice of the factors. Based on the Latvian exporting companies', export related institutions' and other partnership's opinion, the results show that the main criterions, which have to be considered for the selection of the export target countries, are important export market for Latvia; economic indicators; quality of infrastructure; stable and secure banking and financial markets; national security; political stability; perception of corruption; geographical proximity; membership of international organizations; import volume. The analysis of these criterions provides export authorities comprehensive information on the potential export markets thus ensuring more qualitative outset of the export target country selection process.

**Keywords:** export target countries, target countries selection, selection criteria, trade policy

**JEL Classification:** F10, F13, F14, F60

### 1. Introduction

For a small country with open economy like Latvia, export is one of the most important pillars of the economic growth (Broocks & Van Biesebroeck, 2017). Export values in Latvia decreased sharply during the crisis (by 12.9% in 2009) and afterwards increased again. Since Latvia has recovered from the global economic crisis (Navické & Lazutka, 2017), global market share of its national goods has increased. In the first years of recovery, a significant increase in exports of goods and services was determined by both stable external demand and the improvement of the competitiveness of Latvian enterprises in connection with the reduction of labour costs during the rapid decline of the economy. International trade is also evidence to Latvia's resilience to large changes in the market. Due to the reduced demand

from Russia, its sanctions and the devaluation of the ruble, which affected several countries, competition between the Latvian neighbouring countries also increased, export had to be directed to other countries (Kraatz, 2014).

In the period of 2013-2015 export growth rates are low (1.1-3.9% annually), which indicates that there is a need for export facilitation. Some authors argue that at the national level exports not always facilitate GDP growth, the opposite causality is also possible (Kónya, 2006). However, in general the importance of exporting in global economy is widely acknowledged (Azar & Ciabuschi, 2017).

The choice of a new or existing export market for a company that wants to expand its business globally is a very significant step. Successful external economic relations and their efficiency are ensured by correctly selected international markets (Utama, Chan, Gao, & Zahoor, 2017). As the economy develops and competition between the markets grows, it has become increasingly important to organize identification of target countries and research for export markets in order to increase efficiency of international trade. Therefore there is a need to select the markets for which export activity will be most valuable (Dzemydaite, 2017). Determining the main criteria is important step towards the choice of the export market. Export target country can be determined only after the analysis of the relevant criteria. In the publication on the rationale for the choice of export market, authors Kazlauskaitė, Miečinskienė, Stasytė (Miečinskienė, Stasytė, & Kazlauskaitė, 2014) have indicated the criteria for choosing the target country of export. They emphasize that the most important criteria when evaluating the export market are economic, political, social and technological.

It is necessary to investigate the target market, as the institutional distance is affected by two types of costs - unfamiliarity hazards and relational hazards. The first arises from the lack of knowledge and information about the host country of exports, and the other – from the difficulties of managing and monitoring the partnerships (Hitt, Li, & Xu, 2016). Gaston-Breton and Martina (Gaston-Breton & Martín Martín, 2011) point out that the choice of the foreign market, which focuses on international marketing and business peculiarities, is the key of the successful export strategy. When evaluating the possibilities to enter a foreign market, enterprises evaluate the need to enter the international market by analysing the company's potential for a given region. They investigate the political and normative force - state policy, taxes, and legal restrictions for enterprises of other countries. In the field of economics and finance such indicators as inflation, interest rates, credit facilities, market demand are analysed, using indicators such as GDP, purchasing power, etc. Demography is also important - the age of potential clients, education, also evaluating the labour factor. Other factors include science development and technological innovation, social and cultural environment and visit to the selected country.

Less explored markets are analysed more precisely using the following criteria: economic factors (income level), political factors (unstable political situation), geographical factors (climate, geographic proximity, natural resources), cultural environment (language barrier, level of education, religion), technological factors (employee qualification, competence, production and technology level), foreign trade policy (tax barriers, free tariff barriers, trade policy). It is important to cover a variety of factors in order to more accurately and thoroughly explore the export target countries. All this is needed to reduce the risk by knowing the export partner country better.

In many cases enterprises need direct or indirect assistance from the public sector to fulfil their export strategies. The authorities responsible for export facilitation ensure the strengthening, improving and developing foreign trade relations. Effective information exchange and cooperation between public authorities, the private and public sectors regarding the ongoing and future export-facilitation activities are ensured by a targeted and effective set of necessary export support measures (Molander, Felleson, & Friman, 2017). Targeted approach also implies common choice of the export target countries and joint activities in these countries.

## 2. Export Strategy of the Latvian Export Authorities

In Latvia, Ministry of Economics, Ministry of Foreign Affairs, Investment and Development Agency of Latvia are the responsible authorities and export policy developers, Employers' Confederation of Latvia is the social partner of these institutions and the Latvian Chamber of Commerce and Industry is the partner. Enhanced cooperation between these five institutions in export matters could improve the results of foreign visits, export measures such as business forums, missions. The work of all five institutions in relation to exports is ensured by the Memorandum of Understanding on Co-operation in representing Latvia's economic interests abroad, which is based on the establishment of large-scale councils, and one of them is the Council for the Coordination of External Economic Policy. Within the framework of the Foreign Economic Policy Coordination Council, the target countries are evaluated and determined annually.

Ministry of Economics as the leading institution has developed export guidelines for 2013-2019, which were designed to achieve the breakthrough of the Latvian economy included in the National Development Plan 2014-2020 and to successfully implement the goals included therein, including facilitation of exports (Cabinet of Ministers, 2013). The guidelines define the criteria for Latvian export target countries, where the choice of countries is based on three main criteria: important export markets of Latvia; economically stable and developed countries, geographic proximity; the market demand corresponds to Latvia's offer opportunities. The guidelines do not define specific target countries for export, only the specified criteria for determining target countries that are not sufficient enough to choose export destination.

Similarly to the Ministry of Economics, Investment and Development Agency of Latvia has defined the criteria for the target countries of export. The criteria are divided into four groups: Important criteria for company; the selected export markets in-depth study; industry overview; market parameters. For each group there are more sub-criteria, in total 23.

The Ministry of Foreign Affairs has not created a single document, which would combine the purpose and tasks, nor defined the criteria of the export target countries. Also Employers' Confederation of Latvia and Latvian Chamber of Commerce and Industry do not have a single document that would regulate the employer's initiative and view on export growth; they choose the countries of interest of their members.

Analysis shows that there are no common criteria used by the parties involved in the export facilitation activities in Latvia. It seems that the criteria are only formally defined and should be updated and expanded and afterwards included in the new Export Guidelines of the Ministry of Economics in 2019.

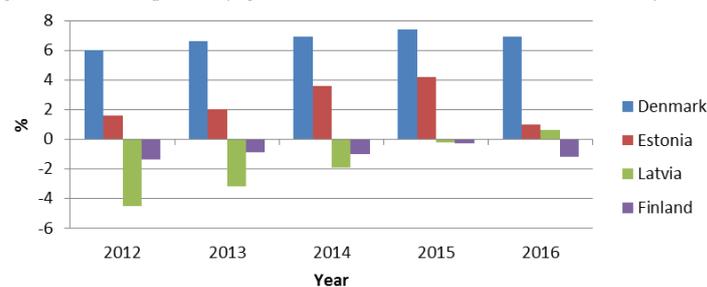
### 3. Methodology

In order to select the criteria, which are significant both for the policy makers and enterprises, several methods were used in this research.

In the first stage information on the export policies of several countries was analysed to identify export target countries selection strategies of similar economies and further clarify the possibilities to adopt and implement them in Latvia. Estonia, Denmark and Finland were selected for analysis as these countries are also the target export countries of Latvia. According to the data of the Central Statistical Bureau of the Republic of Latvia (CSB, 2015), Estonia is the 2<sup>nd</sup> largest export partner of Latvia (5<sup>th</sup> largest importer), Finland is ranked as the 12<sup>th</sup> exporter (6<sup>th</sup> importer), Denmark is ranked as the 8<sup>th</sup> exporter (13<sup>th</sup> importer). These three countries are OECD member states and are similar in size, demographics, culture and politics, as well as export documents are publicly available in English.

Net exports of the selected countries vary (see Figure 1). Denmark and Estonia have a positive trade balance with a tendency to increase every year, but it is negative for Finland and Latvia.

Figure 1: Net exports of goods and services in 2007-2015, % of GDP.



Source: (The World Bank, 2017)

For Denmark and Latvia export values as a share of the GDP are similar, about 55-59%, but Denmark imports less goods and services from other countries (47.8% of GDP) than Latvia (60.1% of GDP). Estonia has comparatively higher export values (% of GDP). This indicates that these countries may have stronger export strategies, which can be used as the benchmarks for policy changes also in Latvia.

In the second stage the authors conducted a survey to find out the views of Latvian exporters on the current and possible export partner countries, as well as to identify the main criteria to be included in the export guidelines. The questionnaire consisting of 6 questions was sent by e-mail to 198 companies selected from the exporters TOP100 of Latvia (Baltic Export, 2012) and The Red Jackets (The Red Jackets, 2015) Export Excellence Awards. The companies were selected to represent all the statuses - micro, small, medium and large enterprises - as well as various sectors - food, clothing, woodworking, ICT, etc. in order to get more comprehensive results. The survey was conducted from November 14, 2016 until January 6, 2017. The authors received 54 responses to emails. In addition, the authors contacted the head of the Latvian Chamber of Commerce and Industry member's team, who also posted the poll in the monthly magazine of the Latvian Chamber of Commerce and Industry in December, 2016. It was available to members from December 5, 2016 until January 6, 2017, but they were not willing to participate in the survey. Latvian Chamber of Commerce and Industry is the largest non-governmental organization of business, which

brings together more than 1,800 members, including industry associations, companies, city business clubs and other associations (LCCI, 2016).

One of the main questions in this survey was the company's opinion about the selection criteria for the export target countries. In addition to the three criteria mentioned in the EM Export Guidelines, the authors added 22 new criteria to determine whether it is important for enterprises to change something in existing system of determining key export target countries. The new criteria were chosen to cover several groups of factors that were identified previously. The criteria given in Table 1 were rated individually by enterprises on a scale from 1 (less important) to 5 (very important).

Table 1: Authors defined selection criteria of export target countries

Social	Economic	Political	Other
Rapidly growing number of cities; Access to educated workforce; The largest country in terms of population; Average age of the population; Confidence in business partners; Security.	A fast growing economy; Significant export markets (the company already operates in this market) Stable and secure banking and financial markets; Developed research and innovation; Investment potential; Foreign direct investment; Low level of corruption; "Lowest Price" Market and "Quality Market"; Place in the Doing Business 2016 assessment.	Political stability; Government priorities; Small trade barriers; Existing Double Taxation and Anti-Fraud Agreement; Participation in international organizations; Secure legal system; An Existing Investment Protection Agreement.	Geographic proximity; Infrastructure availability

Source: authors

In addition to the 25 criteria cited by the authors, the last question also allows companies to name other important criteria: climate, market potential, and the criteria also give the opportunity to choose a sector, as it changes priorities.

In order to ensure the selection of the most appropriate criteria, it is necessary to know also the opinion of the Latvian export policy planners, their cooperation partner and the social partner. Therefore the authors conducted individual interviews during the period from March 2 to March 10 2017, with the export Policy planners from five institutions. The authors asked six questions in relation to the existing criteria for export target countries, cooperation between the institutions, and the opportunity to supplement the existing criteria, as well as their views on the introduction of a new selection instrument of the export target countries. The interviewees were selected on the basis of their connection to the export policy development, work with the target countries of export, participation in the councils, and other current export facilitation activities.

#### 4. Results and Discussion

Export policy planners in Latvia indicate that it is necessary to change the list of criteria for the selection of export target countries and to supplement it with new ones, because currently each institution is working with their personalized criteria and are not referring to ones mentioned in export guidelines for 2013-2019. Latvia's export policy is not very different from the policies of Estonia, Denmark and Finland, as their main goal is to successfully export to the selected countries and increase export volumes. Analysis of the planning documents shows that the good practice in Estonia is the definition of precise, numerical

goals (*Estonian Entrepreneurship Growth Strategy 2014–2020*, 2013), in Finland - the determination of export countries (*Team Finland: Strategy Update 2015*, 2014), but in Denmark – aim to reach a positive net exports (Statista, 2015).

The results of the survey show that when choosing export target countries, 55% of export companies make a market survey on their own and 44% of respondents are looking at the rivals' experience. Only 3 Latvian export companies responded that the decision is based on the information of the Ministry of Economics, Investment and Development Agency of Latvia or Employers' Confederation of Latvia. 66% of the respondents also point out that the government plans do not influence their decisions. Thus it can be concluded that the current plans established by the state institutions are not topical or binding for Latvian companies. In many cases enterprises are not aware of the existence of these plans or the plans are too extensive to understand. The enterprises also do not show the willingness to participate in the development of these plans.

The authors summarized the enterprise opinions about the importance of the proposed and additional criteria for the selection of export target countries. Ten most important ones are presented in Table 2. Remaining criteria are not shown in the table because they received fewer score than 170, which is mainly small or average importance. Two criteria from the export guidelines - significant export market and geographic proximity, are found to be important also by enterprises. However, also the majority of respondents think that 3 criteria are not enough for the selection of export target countries.

Table 2: Ten Most Important Criteria for the Selection of the Export Target Countries for Latvian Enterprises

Criterion	Score
Significant export markets (the company already operates in this market)	223
A fast growing economy	216
Infrastructure availability (logistics, energy, communications)	213
A stable and secure banking and financial market	207
Political stability	198
"Lowest Price" Market and "Quality Market"	195
Security	192
Concluding international agreements (Double Taxation and Anti-Taxation Agreement, Investment Protection Agreement, WTO, EU, OECD)	189
The rule of law (corruption)	183
Geographic proximity	177

Source: authors

The next step of the research would be to choose indicators, which characterise selected criteria and to develop a methodology for the analysis in order to make the selection process of export target countries more understandable to all the involved parties. The authors stress that it is imperative to update the export guidelines after expiry in 2019, and to ensure that the export target countries are selected in such a way that the export policy planning authorities are able to set long-term goals and appropriate tasks. The results of surveys and interviews conducted by the authors can be used to improve the guidelines. The selection process of country-specific criteria must involve not only export-responsible institutions and their social / cooperative partners, but also enterprises. Existing cooperation practice between 5 institutions can be considered as positive, but the work of the Foreign Economic Policy

Coordination Council needs to be improved to facilitate information exchange and to set more precise tasks for the promotion of export activities.

## 5. Conclusions

Both export planning institutions and enterprises are sure that the three export target countries defined in the Export Guidelines - important export markets in Latvia, economically stable and developed countries and geographic proximity, as well as the market demand that corresponds to Latvia's supply potential - are not enough to analyse the market of the foreign trade partner. Therefore, it is necessary to increase the number of criteria. The results show that the main criterions, which have to be considered for the selection of the export target countries, are important export market for Latvia, economic indicators, quality of infrastructure, stable and secure banking and financial markets, national security, political stability, perception of corruption, geographical proximity, membership of international organizations and import volume. The analysis of these criterions provides export authorities comprehensive information on the potential export markets at the very beginning of the process of determining the countries of destination of the exports thus ensuring more qualitative outset of the export target country selection process. It is advisable for state institutions to make a similar survey with updated choice of possible criteria before new export planning documents are developed.

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