The relationship between exports, innovation, & productivity in small advanced economies: Implications for Northern Ireland

Dr David Skilling

Report prepared for the Department for the Economy

LANDFALL
STRATEGY GROUP

EXECUTIVE SUMMARY

This analysis explores the relationship between exports, innovation, and productivity in a small economy context to provide insight into a strategic approach to export promotion in Northern Ireland aligned with the 10X Economy.

There is a strong, positive relationship between exporting, innovation, & productivity

Firms that export (or that are otherwise internationally-engaged) are more productive and innovative than other firms. Firms then become even more productive and innovative after they commence exporting, as international expansion allows for greater scale and specialisation, as well as greater exposure to intense competition and new ideas. And it is big firms that tend to make the strongest economic contributions: higher wages, investment, innovation, and productivity.

At an economy-wide level, countries that have higher export shares of GDP tend to have superior productivity and innovation outcomes. Indeed, periods of sustained above-trend growth in small advanced economies are always associated with growth in externally-oriented sectors. International expansion allows for growth of high productivity sectors, which raises overall productivity growth. In small economies, there is a large productivity gap between domestic and externally-facing sectors.

Innovation is central to achieving the competitive edge that allows for small advanced economies to compete in international markets. Small economies with stronger innovation capabilities generate stronger exporting performance, and in turn deliver stronger productivity outcomes. For Northern Ireland to achieve the innovation-driven economic transformation that is envisaged in the 10X Economy, a strengthened contribution from exporting is required.

Export promotion is a policy priority in small advanced economies

However, there are particular challenges for firms growing into international markets from a small economy base. Small economy firms will tend to be quite small when they have to move into international markets, and the cost and risk profile of international expansion – as well as the capabilities required – can make this transition very challenging.

The combination of the economic importance and the difficulty in internationalising makes export promotion and support a priority in small advanced economies. Growing firms into international markets is a key element of economic strategy; and export promotion is a key function of enterprise agencies.

The importance of high-quality export promotion policy is increasing, given the emerging challenges in the global economic and political system. The fragmentation of the global economy, disruptions to global supply chains, and aggressive industrial policy in several large economies, makes international expansion from small economies more challenging – and effective export promotion more important.

Insights from export promotion agencies in small advanced economies

Export promotion activities and agencies in small advanced economies provide useful insights for these functions in Northern Ireland. The overall insight is the centrality of policy that supports internationalisation in the economic strategy of small economies. This includes a prominent place for export promotion, but also for other relevant economic policy instruments.

One of the characteristics of high-performing small advanced economies is a high level of strategic integration or coherence between the various economic policy instruments that support internationalisation. The small economy experience shows that innovation policy is particularly important in this regard; without strong innovation capabilities, export strength will be constrained.

There are several characteristics of high-performing export promotion agencies in small advanced economies, implemented as governments seek to further strengthen their economic performance. In particular, there are a few elements of good practice across small economies.

Who: focus on achieving material impact by more tightly targeting support to high growth potential firms, and offering lighter-touch, generic assistance to other exporting firms.

What: emphasise providing advisory and other practical support in addition to financial support. The binding constraint on sustained internationalisation by firms is often not capital, but capabilities, market insights, in-market assistance, and so on.

How: delivering these services requires different capabilities and engagement models. Clear performance targets are needed, with sharp accountability from the client firms. And there is a need for clear division of labour across various enterprise policy agencies that provide support.

Beyond this, small economy governments are investing more aggressively in providing export-oriented firms with a competitive edge in response to a changing global context – through innovation policy, skills and labour market policy, foreign and trade policy, as well as export promotion.

Implications for Northern Ireland

There are multiple insights for Northern Ireland's export promotion policies from this international small advanced economy experience. The first is that there should be ambition and intensity around markedly increasing Northern Ireland's export share, with this being a key aim of designing economic policy. Specifically, I identify three classes of priority action:

The centrality of export promotion should be reflected in institutional design, resourcing, targets, and strategy. Invest NI should emphasise export promotion in its portfolio of activities to align with the strategic importance of exporting. Metrics need to be specified to give effect to the exporting ambition, likely framed around growing innovation-driven firms into international markets. This should be framed by a sharp export strategy, that outlines key target markets, key sectors, and so on.

Export promotion should be integrated into enterprise policy activities, notably around innovation policy. There is a high bar (innovation, productivity) to exporting, and export promotion will be constrained if innovation capability in Northern Ireland is not supported. Similarly, innovation policy won't have transformational impact without the transmission mechanism of internationalisation. Clear leadership from policy agency matters in delivering this alignment.

The delivery of export promotion support should be reviewed, with several areas for consideration: a sharp focus on high growth potential firms; build organisational capabilities and structures to provide non-financial support to these firms; implement key account management and rigorous performance accountability; provide support to firms that are internationalising in ways beyond exporting; and align resourcing and focus behind priority external markets.

INTRODUCTION

The analysis in this paper explores the relationship between exports, innovation, and productivity in a small advanced economy context to provide insight into a strategic approach to export promotion in Northern Ireland that is aligned with the 10X Economy.

There is a strong relationship – at both a firm level, and in aggregate terms – between exporting activity, innovation intensity, and productivity outcomes. This relationship is particularly strong in small advanced economies: externally-oriented activities are the productivity growth engines of small advanced economies. Indeed, sustained, above-trend GDP growth rates in small advanced economies – of the type that the 10X Economy aspires to – necessarily requires increased levels of international engagement by Northern Ireland firms.

Causality flows in both directions: to compete in global markets, firms need to be productive – which is generally based on strong innovation capabilities. And for small economies, the international evidence shows clearly that international activity contributes meaningfully to stronger firm productivity, allowing firms to scale up and to acquire new knowledge and innovation capabilities.

The challenge for firms from small advanced economies is that exporting successfully and at scale is demanding. Firms will often have to expand at a relatively early stage in their life, and with more limited financial resources, relative to firms from larger economies. And the global economic environment is becoming increasingly challenging for exporting firms from small economies, with a fragmenting, politicised global economy.

The importance of exporting for productivity performance, as well as the challenges in doing so, mean that small advanced economy governments frequently adopt deliberate approaches to export promotion. This paper considers several high-performing export promotion agencies in small advanced economies in order to identify insights for export promotion policy in Northern Ireland.

The analysis in this paper is structured in four Parts.

Part I provides a discussion of the relationship between exporting, innovation, and productivity – and its specific application in a small advanced economy context – at both firm level and in aggregate terms across the economy.

Part II discusses the case for export promotion in a small advanced economy context to better capture economic value.

Part III identifies the key organisational and policy characteristics of high-performing export promotion agencies in other small advanced economies.

This analysis provides the basis for Part IV, which suggests several areas in which Northern Ireland can strengthen its export promotion efforts in order to generate strengthened exporting, innovation, and productivity outcomes.

I. THE RELATIONSHIP BETWEEN EXPORTING, INNOVATION, & PRODUCTIVITY

This section discusses the relationship between exporting, innovation, and productivity – and its specific application in a small advanced economy context – at both firm level and in aggregate terms across the economy.

This discussion summarises key data and insights from the international small advanced economy experience on this relationship. For the purposes of this analysis, I focus primarily on a core group of 12 small advanced economies (Austria, Belgium, Denmark, Finland, Ireland, Israel, Netherlands, New Zealand, Norway, Singapore, Switzerland, Sweden), as well as the Baltics (Estonia, Latvia, Lithuania) and Scotland. Broadly speaking, these small economies have a range of similarities with Northern Ireland – and can generate policy insights for Northern Ireland.

Firm-level relationships

This discussion describes key insights from the firm-level evidence on exporting, productivity and innovation, and stylised facts from the firm growth research that are shaping the design of enterprise policy.

Internationally active firms are more productive and innovative, and grow more rapidly, than domestically oriented firms.[1] The causality flows in both directions. There is a self-selection dynamic, in which firms need to be more productive and innovative than average to absorb the costs of international expansion, and to compete successfully in international markets.

Only a small proportion of firms perform above this productivity threshold in order to be able to successfully export on a sustained basis. There are 'opportunistic exporters', who export when they have occasional excess capacity or when they receive an ad hoc order. But to persist in exporting over a sustained period of time requires a productivity edge and supporting capabilities.

In addition, internationalisation makes these 'good' firms even more productive and innovative over time. Firms that are internationally engaged will become more innovative and productive from learning by doing as they are exposed to new ideas and business models, as well as from being forced to respond to competitive pressure in international markets. They will also benefit from the productivity benefits of increased scale and specialisation, which are much less available in small domestic markets. These dynamic benefits from internationalisation on innovation and productivity are powerful.

International expansion is vital for ongoing productivity growth in firms; otherwise the productivity performance of firms will stall as it will be tightly constrained by the small size of the domestic market.

---

[1] *For some selected references on this relationship, refer: Carlo Altomonte & Gabor Bekes (eds), Measuring competitiveness in Europe: resource allocation, granularity and trade, Bruegel Blueprint 24, 2016; Andrew B. Bernard, J. Bradford Jensen, and Peter K. Schott, 'Importers, Exporters, and Multinationals: A Portrait of Firms in the U.S. that Trade Goods', NBER working paper 11404, June 2005; Carol Corrado, Paul Lengermann, and Larry Slifman, 'The Contribution of Multinational Corporations to U.S. Productivity Growth, 1977-2000', Federal Reserve Board, July 2005; Mark E. Doms and J. Bradford Jensen, 'Comparing Wages, Skills, and Productivity between Domestically and Foreign- Owned Manufacturing Establishments in the United States', NBER working paper, January 1998; Chiara Criscuolo, Jonathan E. Haskel, Matthew J. Slaughter, 'Global Engagement and the Innovation Activities of Firms', National Bureau Of Economic Research working paper 11479, June 2005; Bernard, Andrew B., and J. Bradford Jensen, 'Exporting and Productivity in the USA', Oxford Review of Economic Policy, 2004, pp. 343-357.*

Relatedly, there is a substantial body of firm-level evidence that identifies a causal relationship between firm size and several key economic measures. This international evidence shows that larger firms invest more in capital, spend more on R&D, pay high wages, are more likely to innovate and so on. As a result, large firms tend to be more productive – and the growth in these firms makes a substantial contribution to aggregate productivity growth.[2]

In small advanced economies, large firms will generally be internationally engaged: internationalisation is the primary way in which small economy firms can acquire scale. Note that large firms in domestic sectors in small economies are unlikely to be as dynamic, because they are not subject to competitive pressure and do not need to be as innovative to capture market share and generate strong returns as their internationally-engaged counterparts.

Large firms in small economies are a key contributor of productivity, innovation, and exporting in small advanced economies. One of the striking characteristics of successful small advanced economies is their reliance on large firms, with a disproportionate representation of small economy multinational companies (MNCs). Small advanced economies have a high number of large, internationally engaged firms that have played a significant role in driving global engagement and productivity growth. And small economies with a larger presence of these large firms seem to perform particularly well on productivity, innovation, and exporting.

For example, Switzerland's innovative, internationally oriented activities often happen in large corporations (Nestle, Novartis, ABB, Swatch, Swiss Re, and many others). The basis for Denmark's economic dynamism and resilience is the many well-established firms in shipping (Maersk), pharma (Novo-Nordisk), renewable energy (Vestas), brewing (Carlsberg), as well as Lego, Grundfos, and others. The same is true in Finland, Sweden, the Netherlands, and elsewhere. Of course, these large firms are surrounded by small and medium-sized firms also, many of which are also successful in international markets, but these large firms make a disproportionate contribution to economic outcomes.

In contrast, a small economy economic strategy that relies too heavily on SMEs will likely be under-powered. A healthy ecosystem of firms is required, from large MNCs to high growth smaller firms, as well as a mix of small and medium-sized firms. But without large firms, aggregate productivity performance will likely be constrained in a small advanced economy context.

Another firm-level perspective that yields insight on this question is research on frontier firms that has been pioneered at the OECD.[3] This literature is usefully summarised in a small economy context in papers around a recent New Zealand Productivity Commission Inquiry.[4] There is frequently a big productivity gap between 'frontier firms', which operate at or close to the productivity frontier, and 'non frontier firms', which are commonly some distance away. And the OECD note that productivity

---

[2] *For a discussion of the relationship between firm size and performance, refer: https://voxeu.org/article/macro-view-size-productivity-challenge-europe; McKinsey Global Institute, 'Outperformers: High growth emerging economies and the companies that propel them', September 2018; McKinsey Global Institute, 'The role of US-based multinational companies in US growth and renewal', June 2010; Chiara Criscuolo, Jonathan E. Haskel, Matthew J. Slaughter, 'Global Engagement and the Innovation Activities of Firms', NBER working paper 11479, June 2005.*

[3] *Andrews, D., Criscuolo, C., & Gal, P. N. (2015). Frontier firms, technology diffusion and public policy: Micro evidence from OECD countries, OECD Productivity Background Paper; Andrews, D., Criscuolo, C., & Gal, P. N. (2016a). The best versus the rest: The global productivity slowdown, divergence across firms and the role of public policy, OECD Productivity Working Paper No. 05.*

[4] *https://www.productivity.govt.nz/inquiries/frontier-firms/*

growth rates at the frontier are growing more rapidly than for non-frontier firms, leading to a widening gap in productivity levels. Firms at the productivity frontier are disproportionately likely to be internationally engaged and innovation intensive.

This pattern is broadly consistent across economies, although there is national variation. For example, New Zealand has very few firms at the productivity frontier, in large measure because a small share of New Zealand firms export at-scale (because of New Zealand's economic geography as well as the absence of supportive policy measures).

Although much of the widely-cited evidence is not small economy specific, it is likely that these regularities will be even more pronounced in small advanced economies. New Zealand has a good body of firm-level longitudinal research that tracks firms through time. They find that internationally active firms have much stronger levels of productivity/innovation; and that their growth rates on a range of dimensions are significantly higher than domestically-oriented firms.[5]

Overall, there is a tight empirical relationship between exporting and productivity outcomes at firm level across small advanced economies – and this is frequently based on strong innovation investment and capabilities. This is a broadly true regularity across countries, but it seems particularly true for firms in small advanced economies – allowing firms to overcome the productivity constraint of a small domestic market.

National level

This positive relationship between exporting, innovation, and productivity can also be seen clearly in the aggregate data at national level, both in the cross section across small economies and in the time series within small economies.

There is a general cross-country empirical finding of a positive relationship between openness and growth, although the finding is less robust between exports/GDP and economic outcomes. But this is because different types of exports create different types of added value.

The relationship becomes clearer when the analysis is focused on small advanced economies. Small advanced economies need to develop a large and well-performing external sector in order to generate strong economic outcomes – the domestic market is too small to get the required scale and specialisation. In contrast, large countries like the US or Japan can generate high productivity within their domestic economies.

Across small economies, those that have above average levels of export intensity (exports/GDP) and particularly outward direct investment/GDP (which is a more demanding form of international expansion) tend to perform well. And those small advanced economies that lag in terms of exports tend to under-perform in economic outcomes, such as New Zealand as well as Israel. There are some obvious geographic reasons as to why the export share is low in economies like New Zealand, but the economic impact is the same. Weak export intensity is associated with low rates of productivity growth, as well as weak business investment and innovation (because the incentives to invest are constrained in a small market with limited competitive intensity).

[5] *Paul Conway, 'Achieving New Zealand productivity potential', NZ Productivity Commission Research Paper No. 2016/01, 2016.*

In Landfall Strategy Group's Economic Strength Index, a composite measure that aims to explain variation in per capita income across small advanced economies, measures of internationalisation and innovation have high levels of explanatory power across advanced economies – and particularly across small advanced economies. In short, small economies that have high levels of exporting, outward direct investment, and large MNCs per capita, supported by strong innovation performance, have markedly higher levels of per capita income than those small economies that do not have high scores on these dimensions. This finding holds both for the core group of 12 small advanced economies, as well as an expanded group of 30 small economies.

One reason for this is the productivity benefit associated with internationalisation activity. There are substantial differences in productivity levels between domestic and externally oriented sectors; this is true across advanced economies, but is particularly true for small advanced economies with a limited domestic market. Small economies have a particularly large productivity gap between externally and domestically-focused sectors: productivity in domestic sectors (retail, construction) is particularly low, offset by a larger share of the economy in highly productive externally-oriented sectors (such as manufacturing).

Small economies offset the productivity disadvantage due to small domestic markets by strong performance in internationally oriented sectors. Export shares in small advanced economies are 2x those in large economies on average (59% of GDP v 30% of GDP), with a larger difference in the outward direct investment/GDP ratio. The implication is that a large export share of GDP is important for the overall performance of small advanced economies.

In small advanced economies, it is internationally facing sectors (activities with high shares of exports and outward direct investment) that are the engines of productivity growth. The domestically facing sectors are too small to allow for firms to grow to the productivity frontier. And there is significantly less incentive to invest in capital or innovation in these domestic sectors because of the small scale of the domestic market, the absence of external scale economies, and the relative lack of competitive intensity.

The performance of internationally oriented sectors is central to the performance of small advanced economies. Productivity performance in the domestic economy is constrained in small advanced economies, because the small size of the market limits competitive intensity as well as opportunities for scale and specialisation. The growth of productive firms as they scale into international markets will draw resources (labour, capital) into these firms and away from less productive firms in domestic sectors; this creative destruction process is an important driver of aggregate productivity outcomes.

The time series data also provides strongly suggestive evidence across small advanced economies in terms of the relationship between exporting and productivity. 'Export transformations', periods in which exports/GDP grow very strongly, are central to periods of strong GDP growth in small economies. Indeed, it is difficult to find episodes of sustained, above-trend GDP growth that do not involve periods of strong increases in internationalisation: even periods of sustained economic reform generally do not generate material improvements in productivity and GDP growth unless they directly contribute to stronger export performance.

Small economies do not have the market size to generate convergence-style growth from domestic sources. All of the cases of strong national convergence of small economies towards the global per capita income frontier over the past several decades have been due to strong increases in global activity (exports, outward direct investment). Small economies like Singapore and Ireland are good examples of this, as are the Baltics and other central and eastern European economies who grew rapidly as they integrated into the EU market.

Innovation

There is also a strong relationship between these economic aggregates (exports, productivity) and innovation performance.

In general, building positions of competitive advantage in global markets requires an innovation-based edge – and this is increasingly true as the intensity of global competition increases. The small advanced economy record shows the centrality of innovation to exporting and productivity outcomes. In the other direction, exporting activity exposes small advanced economies to greater competitive pressure – as well as new ideas and business models – which also accelerates their innovation performance.

Indeed, Landfall's Economic Strength Index shows a tight relationship between performance on the innovation and internationalisation performance. These factors are mutually reinforcing, and can explain substantial amounts of variation in overall economic performance. Strong innovators are strong exporters, and vice versa; and this maps well against productivity, with only a handful of exceptions, such as Norway (oil) and Ireland (FDI) that have strong international performance without leading on innovation.

It is notable that the top-performing small advanced economies all place a strong emphasis on skills and innovation in the design of their economic strategy. For example, economies like Switzerland, Denmark, and Finland have R&D spending around or above 3% of GDP, including high shares of business R&D spending. And broader composite indexes of innovation performance, such as the annual Global Innovation Index, also show strong small economy performance.

The time series of R&D spending suggests an increased investment in R&D from the mid-late 1990s enabled several small advanced economies to transform their export structure (moving into higher value, higher growth categories). Small economies in the Nordics, as well as Switzerland and Singapore, provide illustrations of this.

Small economies have grown their export shares of GDP significantly over the past decades, responding to stronger global competition and technological change, and moving into higher growth categories in the global economy. Often these internationally facing sectors are knowledge intensive in nature, and strong performance by small economies has rested on sustained investment in skills and innovation. This has been supported by an increasing track in R&D/GDP spending by the small advanced economy group.

Achieving high levels of international engagement is not simply the result of a passive process, due to intense globalisation and global growth, but requires deliberate policy support as well as firm-level capability and investment. High-performing small advanced economies have set policy to develop and support competitive advantage in internationally oriented sectors.

Implications for Northern Ireland

The small scale of the Northern Ireland economy means that international economic activity is vital for generating and sustaining stronger economic outcomes. The experience of the Baltic economies – of approximately the same population size as Northern Ireland – is instructive. Rapid growth in per capita income was enabled by rapid and deep integration into the EU economy: exports/GDP increased from ~40% in 2000 to ~70% in 2022 in Latvia; from 60% to ~85% in Estonia; and from ~40% to ~85% in Lithuania. Similar export growth was observed in other central and eastern European economies.

Northern Ireland's exports/GDP ratio (including external sales to GB) is ~55%, and this ratio has been relatively stable over the past several years. This is just above the median export share of small advanced economies (and just above Scotland's export share), but below the export shares of small economies of similar size (such as the Baltics, Slovenia, Malta, and so on). To achieve the type of economic transformation envisaged in 10X, an improved export performance is required.

Northern Ireland has some advantages relative to standard small advanced economies. It is part of the larger UK economy, which enables Northern Ireland firms to grow within the same set of laws, business conditions, and currency. But Northern Ireland's physical separation from GB adds a measure of cost and challenge. In standard gravity models, being an island – rather than adjacent – is a source of additional frictions. Of course, Northern Ireland shares a border with the Republic of Ireland and has market access as a consequence of the post-Brexit arrangements.

It is instructive that Northern Ireland's exports to the rest of the UK are less than they are for Scotland: about 60% of Scotland's total exports are sent to the rest of the UK, whereas it is slightly under 50% for Northern Ireland. This difference in Northern Ireland's export structure is likely due to its geography (neighbouring Ireland, and physically removed from the rest of the UK).

Low cost structures and natural resource endowments can help support exports, but ultimately export growth requires positions of competitive advantage to be built on an edge in innovation. Strengthening innovation capabilities, in the way that other small advanced economies have done, is vital to securing increased exports from Northern Ireland in a very competitive global economy. This will require deep investments in skills and innovation; Northern Ireland's R&D spending as a share of GDP is below the small advanced economy average.

II. THE CASE FOR EXPORT SUPPORT IN SMALL ADVANCED ECONOMIES

The discussion in Part II considers the case for export promotion in a small advanced economy context to better capture these potential benefits from increased internationalisation. How can export promotion activity support firms to overcome the specific challenges that potential exporters from small economies face? The discussion then considers the way in which the current dynamics in the global economic and political system will impact on the case for export promotion support in small advanced economies.

International expansion from small economies

There are particular challenges for firms growing into international markets on a sustained basis from a small economy base. Small economy firms will tend to be quite small when they have to move into international markets, as they have a smaller domestic market base to grow from. And there are significant fixed costs and risks associated with establishing a presence in international markets: transport costs, a physical presence (offices, warehouses, local staff), building local networks and a brand, adapting goods and services for local preferences, and so on.

The smaller amount of financial resources that many small economy firms have, along with often less developed management capabilities (because international expansion comes early in life of the firm), makes the cost and risk profile of international expansion very challenging. Meaningful internationalisation can be a 'bet the company' type decision, even for relatively productive firms. These challenges are a key reason as to why only a relatively small proportion of small economy firms export at scale.

In addition, the relatively weak competitive intensity in small advanced economies means that margins will often be higher in the domestic market than in offshore markets – which may skew the incentives against growth through international expansion. It may be that firm shareholders have a preference for remaining small, but with high returns (particularly on a risk-adjusted basis).

The combination of economic importance of internationalisation, as described in Part I, as well as the costs and risks associated with international expansion, makes export promotion a priority in small advanced economies. Insights from the international experience of export promotion will be discussed in Part III below in terms of the specific initiatives to provide support to internationalising firms.

In large economies, these challenges are lessened because of the domestic market opportunities available to local firms – and the weaker importance of exports for large economies. Although large economies will commonly have export promotion agencies at different levels of government, they tend not to be as central to the overall economic policy agenda: export promotion is a 'nice to have' rather than an essential part of economic policy.

Broader support policies

Beyond export promotion activities narrowly defined, a broader range of activities to support internationalisation also matters. At the core of success in strengthening exports is generating positions of competitive advantage, as discussed in Part I. This requires investing in innovation and skills, a high quality business environment, international infrastructure, as well as an ability to access markets outside Northern Ireland (free trade agreements, and similar arrangements).

There are some specific challenges facing small economies in developing these positions of advantage. As noted above, the scale of domestic markets in small advanced economies makes the economics of investing in research and innovation more challenging: these investments are often risky and have a significant fixed cost component. Government support for business R&D is particularly important in small advanced economies to compensate for this: strong levels of government-funded or provided research and innovation is strongly related with higher levels of internationalisation.

Another way in which advanced economies can build innovation capabilities that provide competitive strength is through operating in clusters of related firms.

It is notable that small economy firms at the productivity frontier tend to operate in deep clusters, in which they can benefit from external scale economies: flows of knowledge, access to highly-skilled labour, dense backward and forward linkages, specialist advisory services, and so on. This context makes it more likely that firms will be able to develop positions of sustainable competitive advantage based on knowledge and innovation. In small advanced economies, there will only be a handful of internationally oriented clusters with the necessary critical mass for success.

There is a well-developed literature around clusters, which often emphasises their geographic nature.[6] The term is used in a more informal sense in this paper to capture activities that are broader than a sector vertical, and which includes a set of related, supporting, and adjacent activities that together are material as a share of GDP, and from which frontier firms are likely to exist and to be developed. In this context, clusters are not a small, localised set of related activities, but something more like agriculture in the Netherlands, life sciences in Switzerland, or shipping in Denmark. This framing captures a coherent set of related activities, in which external scale economies exist, and which can make a material contribution to national productivity performance. The 10X selection of priority areas in the economy provides a useful frame to thinking about clusters in a Northern Ireland context.

At the frontier, national innovation happens primarily within and adjacent to existing areas of strength, from pharmaceuticals in Switzerland to renewable energy in Denmark. In small economies where these clusters are less dense or sophisticated, or where they are limited as a share of the economy (New Zealand, Israel), economic dynamism and resilience is constrained or seen in only particular parts of the economy (e.g. among foreign multinational companies). Clusters of related and supporting firms are an important engine for innovation and productivity growth, as well as international engagement.

In short, international engagement is the productivity growth engine of firms (and the overall economy) in small advanced economies, and this commonly rests on high-performing clusters of internationally oriented firms.

In large economies, these clusters are more likely to develop organically because critical mass can be reached in multiple areas. However, this is much less likely in small advanced economies. Choices will frequently need to be made in terms of which clusters to support: small economies cannot be good at anything and are often 'doomed to choose'. The small advanced economy perspective on the need for deliberate choices to be made was described in papers that I prepared as contributions to the 10X Economy process.[7] These choices on priority clusters should inform the strategic design of export promotion and support, and vice versa.

---

[6] *Refer for example Christian Ketels & Sergiy Protsiv: "A cluster is a regional concentration of economic activities in related industries, connected through multiple types of linkages. It includes companies of different types, including suppliers, service providers, and producers of final products and services, as well as other innovation actors, such as research and educational institutions, specialised government agencies, financial actors and many other organisations that provide relevant services or in different ways connect the different elements of the clusters"; 'Methodology and Findings Report for a Cluster Mapping of Related Sectors', European Cluster Observatory, October 2014.*

[7] *David Skilling, 'Initial feedback on the draft Economic Vision document', paper prepared for DfE, March 2021; David Skilling, 'Economic Vision: supporting analysis & assessment', paper prepared for DfE, March 2021.*

In small advanced economies, there is a need for strategic policy coherence, in which direct export promotion activities are integrated/aligned with innovation policy. Indeed, across small advanced economies, export promotion activities commonly sit in broader enterprise policy agencies – a decision that recognises the importance of integrating export promotion into economic policy more broadly. Enterprise policy should be integrated into the overall economic strategy, supporting areas of competitive strength in the economy.

The assistance should be joined up across agencies. Even in small economies, there are frequently multiple agencies that engage with firms. For example, the domestic and internationally-oriented enterprise agencies, knowledge and innovation support agencies, private sector organisations such as business groups, as well as local/regional and central government agencies. There have been attempts in many countries to achieve a greater coordination of activity (a whole of government approach with clearly stated goals and objectives). For example, the whole of government approaches seen in the 'NZ Inc' and 'Team Finland' approaches. In some cases this means formal organisational integration, but not always.

In some systems, such as Ireland or Denmark, there is also an important regional dimension to the activities of enterprise agencies. In such a system, it is important that there is a clear division of labour between the regional and central enterprise agencies in order to avoid overlaps as well as gaps. In general, the firms that are serviced from the regional offices will receive lighter-touch assistance, while the high growth firms will receive the more intensive support from the national agencies. Different capabilities will be required in the different agencies according to this division of labour.

Global economic and political developments

The emerging dynamics in the global economic and political system place additional challenges on exporting from small advanced economies. The fragmentation of the global economy, disruptions to global supply chains, and aggressive industrial policy in several large economies, makes international expansion even more demanding. The liberal, rules-based international trading system is weakening, and small advanced economies need to navigate a more complex world.

There are several vectors of global change that are relevant to small advanced economies, many of which have been accelerated by Covid.

After a few decades of intense globalisation, there has been a flattening profile of world trade and FDI to GDP over the past decade. This should not be over-interpreted as deglobalisation, but there are structural changes underway. International commerce is becoming more regional and political. After several decades of extension, global supply chains are being physically compressed. This is partly for economic reasons (firms are building supply chain resilience, reduced labour cost arbitrage opportunities) as well as for political reasons (a drive for strategic autonomy; geopolitical pressures for decoupling from China; and reduced domestic political support for globalisation). There will be much increased reshoring, nearshoring, and friendshoring activity across the global economy.

My assessment is that we are moving towards a more fragmented, regional, and political model of globalisation. These dynamics have been underway for some time, but have been further accelerated by the Western response to the Russian invasion of Ukraine. For small economies (particularly those outside a large economic bloc, such as the EU), this will be a more challenging world to navigate.

Large economies (the US, China, and the EU) are also implementing much more aggressive industrial policy initiatives – with a strong bias towards local production (such as the Inflation Reduction Act in the US). This may reduce opportunities for exporting firms from small advanced economies. And there may also be political risks around economies that have attracted substantial FDI flows from the US, as US policy looks to retain more of this economic activity onshore. These developments create the potential for national economic scale to matter more in shaping positions of competitive advantage.

And lastly, technology development & new business models are changing the global competitive landscape. Covid rapidly accelerated business investment in technology and innovation, and the adoption of new business models (e.g. digital), across many advanced economies. The competitive pressures on firms to upgrade, combined with rapid technological progress, likely means that we are entering a period of disruptive change. There is the potential for a productivity renaissance across advanced economies in response to new technologies and accompanying investments.

Although many small advanced economies operate close to the innovation frontier and have a demonstrated ability to deploy new technologies and business models effectively, these external dynamics will create added competitive pressure in key sectors for small economies. An effective policy response will be required from small advanced economies in order to sustain positions of competitive advantage.

Globalisation is not ending. Indeed, world trade growth was resilient through the pandemic. And history shows that small economies have been resilient to previous global regime changes. But small advanced economies will need to adapt their global engagement models, building distinctive capabilities rather than simply being leveraged to global flows.

The direct implication is that the importance of a high-performing export promotion agency is increasing, together with an economic strategy that is focused on building competitive strength into the economy. The continuation of existing approaches to internationalisation is unlikely to be sufficient to generate good outcomes in terms of exporting, innovation, and productivity.

Initial implications for Northern Ireland

Northern Ireland shares much in common with other small advanced economies on these dimensions, and the international small economy experience – on both the connection between exporting, innovation, and productivity; as well as the implications for export promotion agencies – is directly relevant to Northern Ireland.

Northern Ireland has a small local market, with firms needing to sell into GB or to export beyond the UK in order to scale up. Although Northern Ireland is part of the UK, its island status adds cost and complexity, which generate additional friction into trading with the GB (further complicated by aspects of the post-Brexit arrangements). This will be a particular issue for small firms, which are less able to absorb these shocks.

Northern Ireland also has many small firms, which are likely to require particular assistance in overcoming these challenges. To improve productivity and innovation performance, Northern Ireland needs strong scale up growth from these firms. The direct contribution of export promotion activity needs to be supported by other economic policy instruments, notably innovation policy.

The structural changes in the global economic and political environment also create new challenges for Northern Ireland's international economic activity, as they do for other small advanced economies. These developments lend additional urgency to the case for aggressive, sustained policy support for Northern Ireland firms that are seeking to grow at scale into international markets.

For example, there are risks to Northern Ireland's ability to continue to attract FDI from the US (Including in the tech sector). There will be growing pressures for this activity to stay in the US; note some of the pressures already observed in Ireland. Northern Ireland is not as exposed to these pressures as Ireland, but it will be important to build additional growth engines (such as local firms that are growing into international markets) and to strengthen Northern Ireland's value proposition for attracting inward FDI.

III. INSIGHTS FROM EXPORT PROMOTION AGENCIES IN SMALL ADVANCED ECONOMIES

This discussion draws on an assessment of high-performing export promotion agencies in other small advanced economies. This analysis will consider specific insights from agencies in New Zealand, Singapore, Denmark, and Ireland, among others.

Although there is no 'best practice' in export promotion policy (because local context matters significantly), there are some broad characteristics of high-performing export promotion agencies in small economies. Small advanced economies are the most appropriate place for Northern Ireland to look for insight, because export promotion agencies in small economies face many similar challenges and opportunities (as well as a similarity of scale).

This section describes the key features of high performing systems. I distinguish between the 'who' (which firms/sectors do enterprise agencies work with, and how are these prioritised), the 'what' (the policies and programmes that are used), and the 'how' (the way in which enterprise agencies work with firms, and with other stakeholders, to deliver support).

The discussion then considers the way in which the current dynamics in the global economic and political system will impact on the nature of export promotion activity in small advanced economies, and describes the way in which some small advanced economies are responding.

Who: the degree of focus

Many export promotion agencies traditionally had a fairly egalitarian, non-discretionary approach to the portfolio of clients that were supported. As long as some basic threshold criteria were satisfied, firms could access some basic support and financial assistance programmes. In practice, this often meant fairly non-tailored, commodity-style programmes designed to fit a representative firm, and where the financial support was also fairly generic. There was often little relationship with the firm, and little attempt to evaluate the outcomes ex post.

Over the past decade or so, this has begun to change on the basis of national experience of effectiveness as well as the growing international empirical evidence on the drivers of firm growth. In particular, the evidence shows that rapid firm growth is disproportionately accounted for by a small number of firms: many firms, even those that have some international exposure, do not grow substantially beyond their starting point. This suggests that broadly-based assistance may not be as effective as supporting high growth potential firms.

Increasingly, export promotion agencies are 'segmenting the market' and shaping their efforts and resource allocation in a differentiated way. One method of doing so is to identify high growth potential firms, where there is assessed firm-level potential (on the basis of firm capabilities and aspiration as well as the firm's existing record of performance) to expand into international markets in an accelerated way. These firms will generally be young and relatively small. These high growth potential firms will receive intensive, tailored, well-resourced government support, whereas other client firms will receive more generic, 'light touch' support. And the full firm population is supported by more general business promotion services.

Initiatives like the 'Focus 700' in New Zealand and 'High Potential Start-Ups' in Ireland are good examples of this approach.[8] The early evidence from the initial participants in these programmes has been encouraging – to the extent that several agencies are investing further in this targeted approach.

The reason for this focus on high growth firms is to strengthen the materiality of impact of the actions taken by export promotion agencies. High growth potential firms are more likely to generate substantial incremental impact relative to a general SME portfolio. Unless there are firms that can grow aggressively into international markets, economic outcomes will likely not improve. And only a small proportion of firms are able and willing to expand at scale into international markets, and make a material contribution to national economic performance.

What: the nature of the assistance

The second development observed across high performing systems is the increased focus on non-financial assistance in addition to providing support through direct financial assistance (loans, grants, tax credits, and so on to ease the financing burden of international expansion). Increasingly the view is that non-financial assistance is more valuable to firms as they seek to become more productive and successfully grow into international markets.

In many cases it turns out that the binding constraints on firm growth into international markets are non-financial. For example, these constraints frequently relate to management capability, market intelligence, access to in-market facilities, advisory services, and so on. Additional funding can be helpful of course, particularly where venture capital or bank lending facilities are not well developed, but the experience suggests that non-financial support can be highly valuable.

The types of non-financial support provided that can be provided by enterprise agencies include: mentoring, management capability programmes (such as bespoke executive education programmes), advice on scaling up a business, specific in-market advice and support, and so on. Enterprise Singapore and New Zealand Trade & Enterprise provide good examples of this. They offer programmes to upgrade management capabilities, provide expert advice on business plans, and specific support in destination markets.

[8] https://www.nzte.govt.nz/page/how-nzte-works-with-customers

Where direct financial assistance is made available to firms, it is often more discretionary and directed to a smaller number of firms. There is also frequently tighter conditionality around the funding: for example, certain targets are expected to be hit (such as employment, investment, or exports) with clawback provisions. Small country enterprise agencies have also become more thoughtful about managing the risks of firm relocation after they have received financial support. New Zealand, for example, has retrieved funds from supported firms that subsequently relocated to the US.

How: the way in which assistance is delivered

This more targeted, tailored assistance, which increasingly takes the form of non-financial assistance, places new demands on delivery models and capability in export promotion agencies. Delivering light-touch, generic assistance or non-discretionary financial assistance in a uniform way to a relatively large number of firms is a very different model than the provision of discretionary, high value-add services in a more intensive way to a smaller number of high growth potential firms.

Export promotion agencies need to build new specific capabilities to deliver this support in addition to the general programmes. Agency staff need to know the client well, and to be able to add value to enterprise decision-making. This will often require staff with business experience. Depending on the context, agencies will often invest in geographic market or sector expertise. For example, agencies in Switzerland, Singapore, and New Zealand employ people who know the key export markets well and can provide market insight to firms.

There is also increased focus on accountability around outcomes, both at the enterprise agency level (for example, to policy agencies) as well as at the firm level to enterprise agencies. Firms that are receiving tailored, intensive assistance will frequently be required to meet specific financial and operational targets. And enterprise agencies are also under an increasing expectation to report on outcomes achieved. There are more examples of agencies investing in measuring the impact of their programmes (Denmark, Ireland, New Zealand).

Accountability is also imposed on firms, with obligations for receiving financial and other support – in some cases, there are clawback provisions, but more commonly firms need to commit and deliver in order to remain in the programme. Firms cannot remain passive recipients of support from export promotion (and other) agencies but need to be actively engaged.

Small economy responses to global change

Beyond these changes to export promotion agencies, small advanced economies have also been responding to changes in the global economic and political system that were described in Part II. In particular, small advanced economies are responding to a changing globalisation by strengthening competitive advantage (through investment in innovation, industrial policy, infrastructure and the business environment), by strengthening domestic capabilities (enterprise policy, migration policy), and by working to rebalance the portfolio of external markets. Enterprise policy has become more important, including export promotion activities. There is a sense that will need to become much more deliberate in providing export-oriented firms with a competitive edge.

Beyond this, small advanced economies are also looking to develop positions in emerging growth sectors, and supporting the reallocation of labour across the economy (skills and training, labour market policy).

Overall, small advanced economies are doubling down on externally-oriented growth models – working harder to establish sustainable and distinctive competitive advantage. Part of this includes strengthening enterprise policy and the activities of export promotion activities, so that their strategic direction reflects emerging global economic and political realities.

In New Zealand, the government launched a 'Trade Recovery Strategy' in 2021 as a central part of its post-Covid economic strategy. Additional resourcing was given to New Zealand Trade & Enterprise to deliver additional support to more firms over the subsequent four years.[9] Among other things, the Focus 700 was doubled in size to the Focus 1400 to expand its reach (although this has led to criticism that the programme is no longer focused).

The Singapore Government established a Ministerial-led 'Emerging Stronger Taskforce' in May 2020 (combining public and private sector leaders) to focus on responding to post-Covid structural dynamics. The motivation for this Taskforce was to 'look beyond the immediate challenges and plan for the longer term, so that the Singapore economy can emerge stronger from this crisis', considering new growth sectors and the ways in which Singapore's growth model should be adapted for a post-Covid world.[10]

In the drive to create more Singapore champions, the recommendation is to 'make a concerted push to support the growth of a pool of innovative and international Large Local Enterprises (LLEs) through innovation, internationalisation, mergers and acquisitions, and talent development. We must also enable a broad base of companies to succeed, especially our small and medium-sized enterprises (SMEs) and microenterprises'. Some of the measures identified related to capability building in firms, skills and training, integration of SMEs into the value chains of larger firms, and access to financing.

Building on the strategic direction and initiatives from the Emerging Stronger Taskforce, the Singapore Government released an Economy 2030 strategy in March 2022.[11] It includes five key themes, including an Enterprise 2030 strategy. *Enterprise 2030* will 'build and sustain a vibrant ecosystem of Singapore enterprises that are future-ready and possess deep capabilities to compete globally' by 'Supporting the growth of high potential companies to become global champions' and 'Strengthening the core capabilities of local enterprises in industry transformation'.[12] Further initiatives to strengthen Singapore global enterprises were announced by the government in February.[13]

Ireland has updated its overall enterprise policy, releasing a new white paper in December, in response to Ireland's exposure to emerging global economic and political dynamics.[14] One of the themes was for an increased contribution by local growth firms in addition to multinational companies, which have powered Ireland's economic transformation over the past few decades.

---

[9] https://www.nzte.govt.nz/blog/nzte-on-track-to-deliver-expanded-support-for-new-zealands-exporters
[10] https://www.mti.gov.sg/Newsroom/Press-Releases/2020/05/Emerging-Stronger-Taskforce-to-Provide-Recommendations-to-the-FEC-on-Post-Covid-19-Economy
[11] https://www.mti.gov.sg/COS-2022/Singapore-Economy-2030---Seizing-Opportunities-Energising-Enterprises
[12] https://www.mti.gov.sg/Newsroom/Speeches/2022/03/Speech-by-Second-Minister-for-Trade-and-Industry-Tan-See-Leng-at-the-MTI-COS-2022
[13] https://www.mti.gov.sg/cos2023
[14] https://enterprise.gov.ie/en/publications/white-paper-on-enterprise-2022-2030.html

Initial implications for Northern Ireland

The centrality of supporting export activity in national economic strategy offers insight for Northern Ireland, which will be discussed in detail in Part IV below. To achieve stronger economic outcomes on a sustained basis, strengthened export performance is needed. Even with some of the advantages of the new Brexit arrangements, exporting successfully from Northern Ireland will be challenging. This means that export promotion activities need to provide additional support to exporting firms.

As with other small advanced economies, Northern Ireland needs to consider its exposure to a changing global economic and political environment as it assesses change to export promotion policy. The importance of export promotion policy will increase as the challenges to internationalisation from small advanced economics also increase: as costs and risks of exporting increase, the productivity bar to successful, sustained exporting also increases.

IV. IMPLICATIONS FOR NORTHERN IRELAND

This analysis of the international experience provides the basis for identifying policy options in a Northern Ireland context as it seeks to deliver against the goals in the 10X Economic Vision. What are the key areas in which Northern Ireland can strengthen its export promotion efforts in order to generate better markedly improved outcomes with respect to exporting, innovation, and productivity?

The discussion starts by considering Northern Ireland's current exporting performance, as well as the current arrangements in Northern Ireland to support export promotion.

Current state

NISRA has produced estimates of Northern Ireland's exports of goods and services for 2021.[15] They estimate total external sales of £24.9b, which is roughly evenly split between Great Britain and the rest of the world. Of this, about £17b are sales of goods, and £8b are sales of services (including tourism). This generates an overall external share of ~55% of Northern Ireland's GVA, which is around the middle of the small advanced economy group. To calibrate, this is slightly higher than Scotland's export share (~51% in 2021).[16]

This is a record number, driven by higher exports to Great Britain, Ireland, and the rest of the world. This reflects both the resilience of global external demand through the pandemic, as well as Northern Ireland's relatively advantaged current position in terms of access to both the UK and the EU market. Indeed, Northern Ireland's trade with Ireland has more than doubled since Brexit.

This is a solid performance, but the international small advanced economy experience shows that strengthened internationalisation is necessary to generate a step change in Northern Ireland's economic performance. It will not be possible to deliver a 10X Economy without strengthened export

[15] *https://datavis.nisra.gov.uk/economy-and-labour-market/northern-ireland-economic-trade-statistics-2021.html; https://www.economy-ni.gov.uk/news/northern-ireland-economic-trade-statistics-2021*
[16] *Fiona Bell, 'Northern Ireland's International Competitiveness – Succeeding Globally', Research Bulletin 20/3, December 2020.*

performance on the back of many more innovation-driven enterprises: this is the productivity growth engine of small advanced economies.

This will require sustained policy support (export promotion, innovation policy, and beyond) to overcome the challenges of internationalising from a small economy as well as the increasingly complex global economy (disruptions to global supply chains, the pursuit of strategic autonomy by big economies). Policy also needs to position Northern Ireland to further capture the opportunities and manage the risks associated with exporting under the Brexit arrangements.

In response to these challenges, Northern Ireland firms will need to compensate by strengthening their productivity and competitiveness to offset the increased costs of accessing existing markets and find a broader set of markets to offset some of the market losses (although moving into distant markets also comes at higher cost and risk; exports from most small advanced economies are concentrated in proximate countries). Northern Ireland firms will need support in navigating this more complex environment.

Export promotion activity is part of Invest NI, which operates a broad range of enterprise policy programmes (SMEs, regional policy, skills, as well as inward FDI promotion), including direct advisory support to internationalising firms.

Areas for export promotion focus

There is a foundation to build on, in terms of both export outcomes as well as institutions. And there are multiple insights for Northern Ireland's export promotion policies from the international small advanced economy experience.

The first insight is that there should be ambition and intensity around markedly increasing Northern Ireland's export share: this is key to achieving the economic transformation that is envisaged in 10X. The economic strategies of small economies like Ireland and Singapore (and others) have a very clear focus on internationalisation. This informs the way in which export promotion is regarded in these small economies.

Northern Ireland policy agencies should be clear on the place of exporting/internationalisation in contributing to the development of a 10x economy. This should inform policy design, and the specification of targets/metrics.

In particular, it would be useful to have a clear policy statement that describes the role of exporting/internationalisation in contributing to economic performance in Northern Ireland – as well as the links between internationalisation and the three pillars of 10X (innovation, inclusive growth, sustainability). And it would also be useful for the 10X metrics to track export and outward direct investment performance, as a key measure as to whether the performance of externally-oriented activity is strengthening. In a small economy context, export growth, international market share, the number of internationally-engaged firms, and so on, provide good measures of national competitiveness.

However, these should not be seen as 'active' performance targets as there are many factors that are outside the government's control (exchange rates, global growth, and so on). Only a few governments have specified aggregate export targets. For example, a decade or so ago, New Zealand set an aspirational export target of 40%/GDP by 2025 (from ~30%); it was relatively soon abandoned as it became apparent that it would not be achieved, and the government had limited short-term policy levers to deliver against the target.

Rather, the metrics around internationalisation should be seen as 'passive' performance measures, to provide insights into whether Northern Ireland is tracking in the right direction. In addition to high level measures, there should be monitoring of firm level performance; for example, the number of internationalising firms.

Beyond the specification of high-level export targets, export promotion efforts need to be organised around a clear sense of strategic positioning: how can Northern Ireland firms be distinctive, what are the priority markets, and so on? Policy agencies need to lead and have oversight of this process; it should not be simply delegated to the export promotion agency.

Beyond this general observation, I identify three classes of specific priority action for export promotion policy:

i. Institutional design & resourcing

The centrality of export promotion should be reflected in institutional design, resourcing, targets, and strategy. Invest NI should give greater profile to export promotion in its activities and resourcing, to align with the strategic importance of exporting.

In some FDI-intensive economies (Singapore, Ireland), the investment promotion agencies (EDB, IDA) have more resourcing and status than their export promotion counterparts (Enterprise Singapore, Enterprise Ireland): inward FDI makes a bigger direct contribution to economic outcomes than does export activity, and is more central to their respective national economic strategies. The EDB and IDA are the dominant economic development agencies in Singapore and Ireland.

There has been some rebalancing over the past several years: in Singapore, a new agency called Enterprise Singapore has been established, to lead on export promotion and scaling up firm growth; and is a higher profile part of the economic policy landscape. And EDB has also increased its activity in the firm internationalisation space.

In Ireland, the recent Enterprise Policy white paper noted some of the issues associated with an FDI-intensive growth model (particularly given recent global economic and political developments, from worldwide corporate taxation to US reshoring policy). Again, there is an expected rebalancing towards export promotion functions that seek to strengthen the ability of local firms to develop competitive advantage so that they can grow successfully into international markets.

The implication is that the Invest NI should allocate significant focus and resourcing to export promotion functions. And metrics should be specified to give effect to the exporting ambition, likely framed around growing innovation-driven firms into international markets. This should be framed by a sharp export strategy, that outlines key target markets, key sectors, and so on.

ii. Integration of export promotion into broader economic strategy

Export promotion should be integrated into enterprise policy activities, notably around innovation policy. There is a high performance bar (innovation, productivity) to exporting, and export promotion will be constrained if innovation capability in Northern Ireland is not supported. Similarly, innovation policy won't have transformational impact without the transmission mechanism of stronger internationalisation. Policy agencies as well as Invest NI should ensure that there is consistency and alignment between the strategic direction and aims of innovation policy and that of efforts to strengthen internationalisation.

This should extend to the thematic/sectoral focus that is discussed in the 10X Economy Vision; those clusters that are prioritised for policy support should be the focus of both innovation policy and export promotion activity. Without support around internationalisation, the contribution of innovation policy will be limited. To create many more innovation driven enterprises, will require aggressive export promotion efforts. Export promotion policy is downstream of other enterprise policy initiatives: it is important that function is an accelerant as opposed to a bottleneck in the process.

Clear leadership from policy agency matters in delivering this alignment. A clear hierarchy of accountability and decision-making is needed. The policy agency needs to provide clear strategic guidance to the delivery (export promotion agency), specify appropriate organisational metrics, and appropriately hold the agency accountability for the activities and outcomes generated.

As discussed in Parts I and II above, internationalisation is central to generating stronger productivity and innovation outcomes. As in other high-performing small advanced economies, this means a high quality export promotion function at the centre of economic strategy.

iii. Restructure the delivery of export promotion support

There are several practical areas in which change to Northern Ireland's export promotion functions can be considered, drawing from the international small advanced economy experience.[17] In particular, I identify the following areas: a focus on high growth potential firms; the strengthening of key account management (and accountability); building organisational capabilities to provide non-financial support to these firms; introducing rigorous performance accountability; developing support for internationalisation that extends beyond exporting; and developing a strategic view on priority markets.

- Focus on high growth potential firms

One of the common developments across export promotion agencies in small advanced economies is the sharper focus on working with high growth potential firms; firms with the capability and aspiration to grow at scale into international markets. The motivation is to deliver a more material impact from the various export promotion activities; the evidence is clear that not all firms have the same ability to grow. As noted above, the majority of firm growth comes from a small proportion of firms.

The same logic is likely to Northern Ireland. Invest NI should consider a model in which it works more intensively with firms that are assessed to have strong growth potential and capability and that are

---

[17] Northern Ireland firms will also be able to access services provided by UK Trade & Investment, and it may be that Invest NI does not need to provide all of the services provided by export promotion agencies in other small advanced economies. However, this discussion considers the full set of potential implications for Invest NI.

likely to be able to grow at scale into international markets. In this model, there will be light touch support for small domestically-oriented firms at local/regional level, with more aggressive, high touch support for higher growth firms.

Such an approach is likely to generate more material improvements in Northern Ireland's export performance – and by extension to productivity and innovation outcomes.

Guidance can be taken from other small economies in how to design the process around selection, the extent of focus/concentration of the portfolio, how to balance resourcing between the focus high growth firms, and so on. For example, New Zealand provides a useful example of this approach: New Zealand initially focused on 500 firms, then moved to 700 firms (about 20% of its portfolio), and was then expanded to 1400 firms as part of the Covid recovery strategy. Enterprise Ireland also has various targeted programmes focused on high growth potential firms; and Enterprise Singapore works with high potential firms.

In terms of organisational implications, the enterprise agencies should have a clear mandate to work with high growth potential firms. There should be a transparent process of identifying these firms, a clear view on the way in which resources are allocated, and also a clear sense as to the nature of the support that is required. Enterprise Ireland and NZ Trade & Enterprise provide good models.

This will involve tough decisions to be made about resource allocation and organisational focus, requiring support from political leadership and policy agencies. It is necessary to be clear on the objectives and the target outcomes, and to focus on the outcomes that are to be generated. However, the experience in jurisdictions like New Zealand was that it can be done, as long as the process is transparent, independent, fact-based, evidence-driven, and the funding is not too concentrated on an overly small number of firms – and also that some accountability is imposed on the firms involved.

- Introduce key account management (and accountability)

In a higher touch environment, it is important to have clear systems to manage 'client firms' – particularly those that are part of any high growth firm programmes. To deliver value to these firms, high-touch tailored assistance will be provided. But this should be calibrated: support should not be duplicated by different agencies. There should be a way of tracking these firms across all enterprise support agencies.

There should also be clear accountability from firms that are receiving support: this should not be a one way street, where all firms can come for unconditional support. Rigorous performance accountability should be introduced with respect to the high growth potential firms in its portfolio. Agencies can specify the outcomes that need to be generated in order to continue to access support and funding. This can include expectations around active participation, provision of regular performance data, achieving specified KPIs (e.g. incremental international sales), and so on.

- Build organisational capabilities to deliver value to clients

A key focus of export promotion agencies is to provide advice, capabilities, and networks to high growth potential firms to support their growth, not simply to administer generic programmes. To be able to provide advice to Northern Ireland firms in a bespoke manner, helping them to strengthen their capabilities to succeed in international markets, requires distinctive organisational capabilities.

The higher the average quality of firms with which the agency is working, the higher the organisational capabilities need to be in order to add meaningful value to clients. To the extent that export promotion agencies work more with high growth potential firms, investments will need to be made into strengthening organisational capabilities.

High performing export promotion agencies deliver this in at least two ways. First, they increasingly hire for business experience that enables them to work with firms; and particularly for relevant international business experience. Second, many export promotion agencies are developing partnerships with external agencies that can deliver advice and support to high growth firms. For example, Singapore and New Zealand have long-term relationships with advisory/consultancy firms to deliver specific growth programmes to client firms. This enables selected portfolio firms to receive advisory and other services in a way that would not otherwise be possible.

The international small economy experience shows that other organisational changes should be considered in order to deliver value. For example, export promotion agencies need to get the balance right between services that are provided onshore versus offshore. Offshore delivery through a network of offices and advisors is relatively expensive, but can add significant value to firms that are looking to internationalise strongly, the demographic of firms that are most likely to add material economic value to the Northern Ireland economy.

Another element of this is to appropriately arrange the division of labour within the organisation. In small economies that have a geographically distributed network of local/regional offices (such as Ireland, New Zealand, Denmark, and others), the local offices provide light touch assistance to the full range of the agency's clients – while the high-touch services and support provided to high growth firms are led by specialised staff in national agencies.

- Beyond exporting

It is important that the support provided to internationalising firms is broadly defined, extending to the exports of services as well as outward direct investment (ODI). Exports of services and ODI flows have been growing rapidly, and are relatively resilient to emerging dynamics in the global economic and political environment (such as global supply chain frictions, and political pressure for reshoring of economic activity).

ODI, in which locally based firms invest offshore (the inverse of inward foreign direct investment, FDI), can be a particularly effective (if demanding) model of internationalisation for firms from small advanced economies. ODI allows for production to be located in advantageous locations (e.g. low cost production platforms, or near the end consumer). As noted above, it is striking that ODI/GDP shares are also very high in small advanced economies.

The type of services provided (capability building, advisory, offshore support) will frequently be very similar to firms internationalising via exports of goods and services. There should not be substantial marginal costs involved in servicing these different types of firms.

Export promotion agencies have increasingly moved into providing support to client firms that are internationalising through ODI. Although there have been concerns about 'hollowing out' of the domestic economy due to ODI, the analysis undertaken in several small countries suggests that ODI is often a commercial imperative for firms in order to internationalise successfully and remain competitive. Indeed, many export promotion agencies in small economies now assist firms with internationalisation through ODI in addition to exporting (such as New Zealand, Singapore).

The implication is that Northern Ireland should adopt a policy approach that supports a range of internationalisation models – and which extends beyond standard exporting models. The way in which these services are described, and the selection criteria that are used, should be sufficiently expansive to allow for support to be provided to firms internationalising in these various ways.

- Market prioritisation

Export promotion activities should also be thoughtful about export market composition, and positioning for global dynamics. To an extent, market concentration is inevitable for small advanced economies. Small economies tend to have concentrated export market positions, particularly those that are near a large neighbour or region. For example, Denmark, as well as several other small Northern European economies, sends about 70% of its exports to EU members.

This suggests that the priority markets for Northern Ireland should be the rUK, Ireland, as well as the EU and the US. There are higher growth markets elsewhere (for example, in Asia), but these markets are more challenging for firms for Northern Ireland to access. The growth of the market is less important than the likely scale of the market; which economic models consistently show are likely to be proximate.

Market diversification per se should not be a major policy priority for Northern Ireland. The focus should be on ensuring that Northern Ireland firms are successful in the core markets; with ongoing market diversification happening on the margin, in a gradual way, and perhaps in response to specific opportunities (e.g. where a firm has actual demand).

The growth of specific markets should not be the subject of 'hard' performance targets. Some countries (e.g. New Zealand) have developed country strategies for key markets, which set aspirational targets to grow exports/trade into certain markets by a certain date. However, this is more a commitment device across agencies to encourage cooperation on the issues that constrain growth in the relationship than a hard target. Such country targets may be useful for Northern Ireland, to stimulate discussions about the resourcing and structures required to deliver these targets.

About the author

Dr David Skilling is the founding Director of Landfall Strategy Group, which was established in 2011. David advises governments, companies, and financial institutions across small advanced economies, and writes regularly on global economic and political trends from a small economy perspective. Previously, David was an Associate Principal with McKinsey & Company in Singapore, as well as being a Senior Fellow with the McKinsey Global Institute. Before joining McKinsey, David was the founding Chief Executive of the New Zealand Institute, a privately-funded, non-partisan think-tank. Until 2003, David was a Principal Advisor at the New Zealand Treasury. David has a Ph.D. in Public Policy, and a Master in Public Policy degree, from Harvard University, as well as a Master of Commerce degree in Economics from the University of Auckland. David was named as a Young Global Leader by the World Economic Forum in 2008.

About Landfall Strategy Group

Landfall Strategy Group is a research and advisory firm that provides advice on strategic economic and policy issues to governments, firms, and financial institutions, particularly in small advanced economies. We provide distinctive perspectives on emerging global trends, working with decision-makers to understand key global changes and how governments, firms, and institutions should respond and position themselves in the emerging global economic and political environment.

contact@landfallstrategy.com

www.landfallstrategy.com

LANDFALL
STRATEGY GROUP