



**Department of Commerce**  
Innovation is in our nature.

# Effectiveness of International Trade Services

*Data-based Evaluation (ESSB 6002, Section 127(30), 2014)*

January 2015  
Report to the Legislature  
Brian Bonlender, Director

## Acknowledgements

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## Overview

The 2014 Washington State Legislature directed the Washington State Department of Commerce (Commerce) to provide a data-based evaluation of the effectiveness of its international trade services (right). Commerce's international trade services are provided by the agency's Export Assistance Program for Small Businesses.

Topics of the evaluation included comparison with other states' trade programs, effectiveness of services provided by Commerce, and the possibility of contracting service provision to a non-state entity.

### Evaluation Approach

The following research questions respond to the proviso's directive.

1. What services are provided to Washington companies by Commerce's Export Assistance Program, and how do these offerings compare to those of other states' international trade programs?
2. What are the economic impacts associated with Commerce's Export Assistance Program, and how does the program's performance and cost-effectiveness compare to other states' international trade programs?
3. How are Commerce's international trade services currently delivered, and what are potential advantages and disadvantages of contracting these services to a non-state entity?

**Excerpt from Engrossed Substitute Senate Bill 6002 (2014), Supplemental Operating Budget, Section 127(30):**

*Within existing resources, the department must conduct a data-based evaluation of the effectiveness of the department's international trade services. The report must include comparative data from other states and detail the possible advantages and disadvantages of contracting these services to a non-state entity. The department must present its findings to the economic development committees of the legislature no later than January 15, 2015.*

Commerce's Senior Economic Analyst conducted the evaluation with the support of the agency's research and evaluation unit, and Export Assistance Program staff. Professor Andrew Cassey of the Washington State University's School of Economic Sciences provided methodological assistance. State International Development Associations' network (SIDO), the national association of state trade programs, provided comparative data on other states' programs.

Both quantitative and qualitative methods were employed to answer these research questions, including a literature review to understand the role of international trade programs and identify

best practices; interviews of trade office staff and key informants; and analysis of data from federal, state, program, and private sources.

The evaluation addresses the four-year period from FY 2011 to FY 2014<sup>1</sup>, except where otherwise noted. This period was chosen to maximize the availability of data for complete periods, and because programmatic changes have resulted in a realignment of services relative to earlier periods.

The evaluation drew from the following data sources:

- *WISERTRADE/U.S. Census Bureau* – international trade statistics
- *U.S. Small Business Administration* – STEP program performance measures, and state trade program organizational structures
- *State International Development Organizations survey and publications* – state trade program organizational structure, staffing and pay levels, service types, etc.
- U.S. Internal Revenue Service/Guidestar and U.S. Bureau of Labor Statistics – size, tenure, and wage information of non-state trade entities
- *Washington State University School of Economic Sciences* – review of prior research on state trade offices
- *Commerce EAP Client Surveys* – export sales realized with program assistance
- *Commerce EAP Salesforce database* – leads, client service requests, and other program outputs

## Research Constraints

As discussed in recent reports from the Washington State Auditor’s Office<sup>2</sup> and the former Washington State Economic Development Commission,<sup>3</sup> methodological constraints limit the extent to which economic outcomes can be causally attributed to economic development programs.

In general, these include challenges in establishing direct links between program activities and subsequent economic growth, particularly because external factors unrelated to the program can confound results. Even programs with robust performance measures may fail to capture benefits that are not directly measurable, or that occur over the long term.

Research designs such as randomly assigning clients to “treatment” and “control” groups and tracking performance over extended time periods can mitigate such limitations given sufficient resources, however the timeframe available to conduct this evaluation necessitates an *ex-post*, or after the fact, approach.

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<sup>1</sup> The state fiscal year runs from July 1 to June 30 of the named year. FY 2011 thus refers to July 1, 2010 to June 30, 2011.

<sup>2</sup> [http://sao.wa.gov/state/Documents/PA\\_Economic\\_Development.pdf](http://sao.wa.gov/state/Documents/PA_Economic_Development.pdf)

<sup>3</sup> [http://www.wedc.wa.gov/Download%20files/Evaluation\\_Practices.pdf](http://www.wedc.wa.gov/Download%20files/Evaluation_Practices.pdf)

In addition, the evaluation is limited in the degree to which it can draw direct comparisons between Commerce's trade program and those offered by other states, or services offered by non-state entities, as it is not possible to access proprietary and confidential records of these other entities. As noted above, a number of data sources do contain consistent information across states and other entities, and serve as a basis from which to draw general comparisons.

These constraints notwithstanding, a review of prior research on export assistance programs, and of best practices among state international trade offices, suggests that available measures can demonstrate programmatic effectiveness, particularly when informed by the views of program participants and partners.

## Findings

### **1. What services are provided to Washington companies by Commerce's Export Assistance Program, and how do these offerings compare to those of other states' international trade programs?**

Commerce provides a competitive and diversified suite of services to businesses, among the most extensive offered by state international trade programs. Between fiscal years 2011 and 2014, Commerce assisted over 1,500 businesses with 5,000 export assistance requests.

Consistent with best practices noted in the academic literature, services are designed to help small businesses overcome a number of different types of barriers that are recognized as preventing firms from exporting.

Services are primarily targeted to assist small businesses that are new to exporting, or seeking to expand to new markets. Assistance is also provided to larger firms when requested. The continuum of services offered allows the program to support businesses over several years, as their export needs change.

### **2. What are the economic impacts associated with Commerce's Export Assistance Program, and how does the program's performance and cost-effectiveness compare to other states' international trade programs?**

Clients of Commerce's Export Assistance Program reported \$639 million in assisted export sales between fiscal years 2011 and 2014.

Economic impact analysis suggests that these export sales generated several thousand jobs in the state, and resulted in \$1.44 billion in economic activity when indirect and induced effects are considered.

Washington has met, or is on track to meet, each of the five-year performance targets for state exports established in 2010 under the Washington Export Initiative.

Commerce's Export Assistance Program led the nation in the dollar value of export sales assisted, and was a top performer in the number of businesses assisted and return on investment, during the first two years of the U.S. Small Business Administration's STEP grant program.

The program is both less costly, and more cost-effective, than is typical for state trade programs, operating with an average level of staffing and with salary ranges that are lower than average.

### **3. How are Commerce's international trade services currently delivered, and what are potential advantages and disadvantages of contracting these services to a non-state entity?**

Commerce's Export Assistance Program is structured similarly to the majority of states' trade offices. Of the 49 states with trade offices, 36 are part of a state agency, 12 operate as public-private partnerships, and one provides trade services exclusively through a contract with a private entity.

Washington is nationally recognized as demonstrating best practices among state trade offices for its strategic planning and coordination with partner trade-promotion entities.

Although Commerce's program is state-operated, services are delivered through a mix of state staff and non-state entities. The program currently expends over 30 percent of its state funds on contracts with non-state entities.

Advantages associated with providing certain services through contracts with non-state entities include allowing for cost-effective, specialized services such as representation in foreign nations, trade financing expertise, and on-the-ground logistical support for trade missions.

Disadvantages to contracting trade services currently provided by Commerce staff to non-state entities would potentially include reductions in service levels or programmatic cost increases; reduced accountability and transparency; and decreased credibility for firms seeking to export to developing markets.



## Role of Export Assistance

The importance of exporting to a region's overall economic growth is hard to overstate. With \$2.3 trillion in exports nationwide in 2013, direct employment for exporting firms was estimated at 11.3 million. This represented an increase of 16.5 percent over exporter employment in 2009, a growth rate above that experienced by non-exporting firms.<sup>4</sup> Export jobs have also been shown to pay better than comparable positions in non-exporting firms. Still, only 1 percent of American businesses export, and most firms that do export do so to only one country.<sup>5</sup>

The role of international trade in Washington's economy is even more pronounced. In 2013, exports of goods from Washington were valued at \$81.6 billion, a figure equal to 20 percent of the state's GDP. Although state-level data is not available, it is estimated there was at least a further \$30 billion of services exported in 2013, which includes software, professional services, etc. More than 12,500 companies export from Washington, a rate four times higher than nationwide, and 400,000 in-state jobs are directly supported by the international trade of goods.<sup>6</sup>

Export assistance programs (EAPs) are initiatives by federal, state, and local governments to assist private-sector firms, typically small businesses, to reach the international market, or to increase and expand international sales. The need for export assistance arises due to significant complexity of the international business environment, which results in barriers that disadvantage small- and medium-sized enterprises (SMEs) in general, and new-to-export firms in particular. EAPs are intended to complement the internal capacity of small businesses by providing resources, expertise, and knowledge that might otherwise be unaffordable. As of 2014, EAPs are operated by 49 states, the federal government, and some metropolitan regions.

### Export Assistance in Washington

The Export Assistance Program within the Business Services Division provides Commerce's international trade services.<sup>7</sup> In addition to the program's director and shared support staff, there are five export assistance managers, one assigned to each of the following areas: 1) aerospace and composite materials; 2) advanced manufacturing, clean technology, and marine technology; 3) information and communication technology; 4) life sciences, medical devices and

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<sup>4</sup> United States Department of Commerce, International Trade Administration, 2013. [http://www.trade.gov/mas/ian/oceahome/tg\\_ian\\_003063.asp](http://www.trade.gov/mas/ian/oceahome/tg_ian_003063.asp)

<sup>5</sup> Brookings Institute, 2011. <http://www.brookings.edu/research/papers/2011/01/26-exports-katz-istrate>

<sup>6</sup> <http://www.trade.gov/mas/ian/statereports/states/wa.pdf>

<sup>7</sup> In addition to services offered by Commerce, the Washington State Department of Agriculture has an international marketing program to help promote agricultural exports, which works closely with the respective commodity commissions and the U.S. Department of Agriculture. These services are beyond the scope of the present evaluation.

global health; and 5) higher education, professional services, and export documentation. The program also contracts with foreign business development consultants in Western Europe, China, and India.

The program is designed to directly address the needs of SMEs to access foreign markets and find new customers by offering the following types of free services.

- Education about international trade
- Assistance in developing an export plan
- Assistance in an export transactions, primarily via foreign representatives, contracted by Commerce
- Identification and vetting of a potential foreign markets or customers
- Supporting market research; connecting interested SMEs with appropriate resources across state and federal government
- The organization of trade missions and trade shows

Finally, but perhaps most importantly for most foreign markets, the association of a potential Washington exporter with state governmental support carries significant weight, potentially opening otherwise closed opportunities. This is particularly the case for small businesses trying to enter developing economies, with research indicating, for example, that state-led trade missions are perceived by firms as important for establishing contacts and gaining exporting experience. Anecdotal evidence also points to government involvement as important to firms in gaining credibility with high-level business contacts, and support from foreign officials who interact closely with their nations' business sectors.

The program is funded primarily through the state general fund, however its appropriation declined from \$5.8 million in the 2003-05 biennium to \$3.3 million in 2013-15. As a result, the number of state-funded FTEs was reduced from 15 to six, and funding for contracted representation in Mexico, Korea, Taiwan, and Japan had all been discontinued by 2012.

Since 2011, Commerce has received three federal grants, totaling \$3.5 million, from the Small Business Administration's State Trade & Export Program, or STEP. These funds are used primarily to provide support to Washington SMEs to participate in targeted industry trade shows and to provide export vouchers to Washington state businesses to support export activities. In October 2014, the program received a \$300,000 grant from the U.S. Department of Commerce's Market Development Cooperator Program to support the expansion of exports by Washington aerospace supply chain SMEs.

## Export Assistance Services Provided by Commerce

The primary strategic objective of Commerce’s Export Assistance Program is to assist small businesses to increase export sales in targeted industries, and to increase the number of small businesses that are exporting. The program accomplishes these goals by offering a suite of services intended to support businesses at each step in the process of deciding to export.

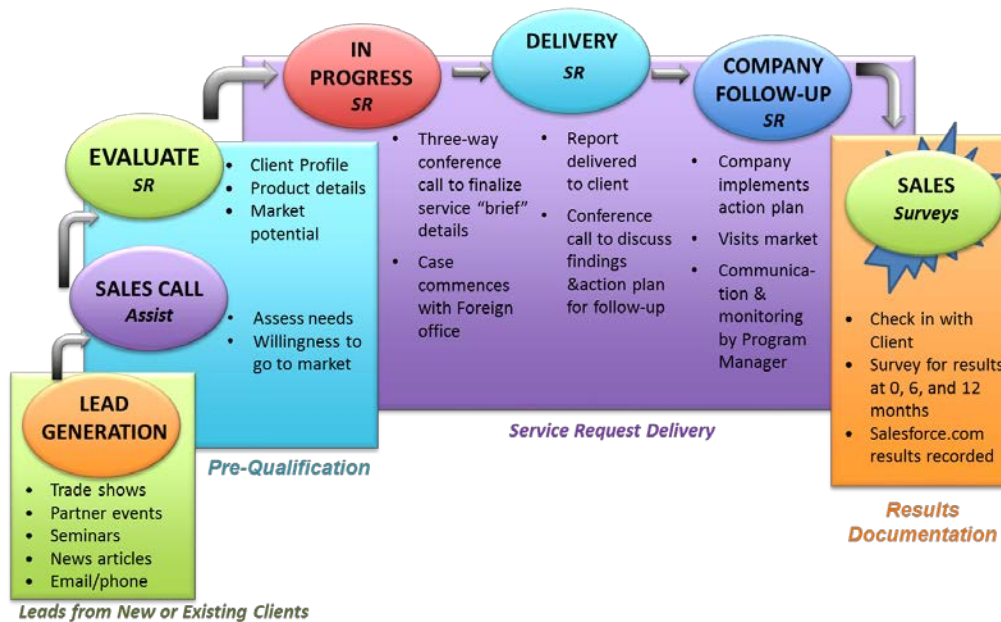
### Commerce Export Assistance Program’s Business Model

Commerce’s Export Assistance Program is designed to establish and build relationships with client businesses over time, in order to be responsive to the evolving needs that come with exporting or expanding to new markets.

Figure 1 shows the program’s business model. Lead generation, or intake, results from outreach activities such as trade shows, seminars, news articles, or partner events. Once contact is made with a business interested in exporting, an export assistance manager works with the client to assess needs and readiness to market.

Depending on the type of business, level of experience, and similar factors, the program may work further to evaluate opportunities, or may initiate a service delivery request with an overseas representative. The foreign representative will then work with the client on an action plan for initiating or expanding exports to that nation. Where applicable, the client may also attend a trade show or mission to the destination country.

Figure 1: Commerce Export Assistance Program Business Model



Source: Commerce

Throughout the process, clients may take advantage of other types of services offered by Commerce, including obtaining review of marketing and promotional materials, obtaining required documentation such as certificates-of-free-sale, or receiving export finance counselling assistance through Commerce’s contract with the Export Finance Assistance Center of Washington (EFACW).

Commerce also provides referrals to other public entities, including the U.S. Export Assistance Center or the Washington State Department of Agriculture, or private firms. As discussed further below, partner entities may be able to assist firms in nations where Commerce has no direct presence, and private firms offer more intensive, client-paid services to firms that have advanced further in exporting.

**Services Provided to Clients**

Between fiscal years 2011 and 2014, Commerce assisted over 1,500 businesses with 5,000 export assistance service requests (Table 1).

Table 1: Businesses Served and Number of Export Assistance Requests, FY 2011-2014

	2011	2012	2013	2014	Total
Number of businesses	518	446	734	474	1,521
Export assistance requests	1,145	1,049	1,785	1,062	5,041

Source: Commerce

About one-third of businesses served by the Export Assistance Program from FY 2011-14 received trade-financing assistance, followed by client visits (28 percent), trade show participation (23 percent), counseling (18 percent), and outreach (17 percent), as shown in Table 2. (Totals sum to more than 100 percent, as many firms received more than one type of assistance.) The most frequent *types* of assistance requested were export documentation, (24 percent), followed by assistance with trade finance through EFACW (17 percent), trade shows and client visits (14 percent each), and outreach (7 percent).

Table 2: Businesses Served and Number of Export Assistance Requests, FY 2011-2014

Type of Service	Number of Businesses Requesting Service	Number of Requests
Trade finance	554	876
Client visit	419	686
Trade Show	346	707
Counseling	275	324
Outreach	257	324
Outbound mission	173	246
Referral to Partner	99	115
Matchmaking (overseas)	93	120
B2B Referral	86	95
Partner search	85	129
Market Intelligence	75	98
Documentation	54	1,207
Advocacy	46	58
Inbound delegation	44	56

Source: Commerce

Of the various types of services provided by the Commerce Export Assistance Program, SMEs typically used export finance assistance and trade show support. Documentation was most commonly used by larger businesses, accounting for the variance between the high number of requests (1,207) and low number of businesses receiving the service (54).

### Comparison of Services across States

Commerce's service offerings are among the most diversified in the nation. A 2013 survey conducted by State International Development Organizations (SIDO), the national association of state trade offices, identified 16 different types of *direct* services offered to businesses (Table 3). These range from general outreach activities, such as offering training programs and seminars, to highly firm-specific services, like market entry strategy development.

Of the 24 trade offices responding to the survey, the typical number of service types provided was 12. Commerce's Export Assistance Program was one of only two that reported providing each type of direct client service, the other being Mississippi's program.

**Table 3: Direct Services to Business Clients Offered by State International Trade Programs**

Service Type	Percent of States Providing Service	Service Provided by Commerce?
Training Programs and Seminars	100%	Yes
Market Research	96%	Yes
Client Export Counseling	96%	Yes
Trade Missions	96%	Yes
Export Readiness Training	92%	Yes
Trade Shows	92%	Yes
Market Entry Strategy Development	88%	Yes
Overseas Offices or Representatives	88%	Yes
Agent Distributer Searches	79%	Yes
Inbound Buying Missions	67%	Yes
Foreign Company Background Checks	63%	Yes
Marketing/Promotional Literature Reviews	63%	Yes
Identifying Suppliers Abroad	58%	Yes
Competitive Analysis/Pricing Information	42%	Yes
Import Counseling	25%	Yes
Contract Review	25%	Yes

Source: SIDO Survey of State Trade Offices

The SIDO survey also asked about seven types of *supporting* services provided by state trade offices (Table 4). Commerce indicated it provides four of these services, which was a typical level of supporting service provision among respondents.

**Table 4: Supporting Services Offered by State International Trade Programs**

Supporting Services	Percent Providing Service	Provided by Commerce?
Maintains or contracts international trade offices overseas	83%	Yes
Advises the governor on trade policy	63%	Yes
State contact for U.S. Office of Trade Representative	58%	No
Responds to press inquiries	58%	No
Advises the legislature on trade policy	42%	Yes
Covers state and/or federal trade policy	38%	Yes
Foreign student recruitment to your local colleges or universities	33%	No

*Source: SIDO Survey of State Trade Offices*

Considering both direct and supporting services, the average number of types of services offered by a state trade office was 15. Commerce and two other states (Idaho and North Carolina) lead the nation in diversity of services, each providing 20.<sup>8</sup>

## Summary

Commerce provides a competitive and diversified suite of services to businesses, among the most extensive offered by state international trade programs. Between fiscal years 2011 and 2014, Commerce assisted over 1,500 businesses with 5,000 export assistance requests.

Consistent with best practices noted in the academic literature, services are designed to help small businesses overcome a number of different types of barriers that are recognized as preventing firms from exporting.

Services are primarily targeted to assist small businesses that are new to exporting, or seeking to expand to new markets. Assistance is also provided to larger firms when requested. The continuum of services offered allows the program to support businesses over several years, as their export needs change.

<sup>8</sup> Responses presented in Tables 3 and 4 are those provided by Commerce’s Export Assistance Program at the time of the survey in early 2013 to ensure comparability with other state’s responses. Since then, Commerce has become the state contact for the U.S. Office of Trade Representative, and has resumed providing support for foreign student recruitment (a service that had been provided up to 2011, but was discontinued during 2011-2013 for budgetary reasons). The program also occasionally responds to press inquiries.

## Economic Impacts and Program Cost-Effectiveness

Services provided by Commerce’s Export Assistance Program are focused on assisting firms, particularly small businesses, to increase export sales. The program’s principal outcome measure is therefore the dollar value of export sales assisted.

Sales are reported to the program directly by client firms, via survey, after sales have occurred. Because sales can take years to materialize after the program’s assistance, firms are surveyed regularly over time, and assisted sales are recognized by the program at the point they are reported by the client, rather than when the service was provided. Surveys are returned for about one-fifth of provided services.

Between fiscal years 2011 and 2014, 274 businesses reported over \$639 million in export sales assisted by Commerce (Table 5).

Table 5: Businesses Reporting Export Sales, and Export Sales Assisted, FY 2011-2014

	2011	2012	2013	2014	Total
Businesses reporting assisted sales	56	67	137	141	274
Export sales assisted (\$ million)	\$147	\$78	\$198	\$215	\$639

Source: Commerce

### Economic Impacts of Assisted Sales

To estimate overall economic and employment impacts of these export dollars on the state, three methodologies may be employed. These approaches rely on different assumptions and result in different estimates of employment effects.

The first approach draws on prior research on Commerce’s Export Assistance Program conducted by the Washington State University School of Economic Science and the Washington State Economic Development Commission. A 2013 paper found that each million dollars in additional exports was associated with 4.4 additional jobs. This equates to 2,812 jobs attributable to the \$639 million in assisted export sales between FY 2011 and 2014.

A second method of economic impact analysis employs the Washington State Office of Financial Management’s Input-Output model. Export sales that could be assigned to a particular industry based on the exporting firm, totaling \$618 million of the \$639 million in assisted exports, were input into the model. The overall economic impact of these dollars, including indirect and induced effects, was modeled to be \$1.44 billion, and the resulting employment was modeled to be 7,245 (see Appendix B).



Finally, the U.S. Department of Commerce has developed a general jobs multiplier estimate that every \$185,000 of exports supports one job. On this basis, the employment impact of the \$639 million export assisted sales would be 3,454 jobs, a figure that falls within the range of the other estimates.

## **Progress Towards 2015 Performance Targets**

As part of the 2010 Washington Export Initiative, discussed further below, five-year performance targets were established to highlight the importance of exporting to the state's economy. These targets included increasing the number of Washington state companies exporting by 30 percent, helping 5,000 Washington businesses achieve \$600 million in new export sales, and increasing general statewide exports of goods and services by 35 percent to over \$100 billion per year, by 2015.

As of 2014, Washington has met, or is on track to meeting, each of these performance targets. The number of firms exporting from the state has grown at a quick pace, with over 12,000 in 2013, assisted sales has surpassed the \$600 million target, and exports of goods and services from Washington in 2013 are estimated at over \$109 billion.<sup>9</sup>

## **STEP Grant Performance**

As discussed above, export sales assisted, and derived economic impact estimates of this nature, are considered "best practice" performance measures for state international trade offices.<sup>10</sup> However, even among programs that track such metrics (including 20 of the 24 SIDO survey respondents), states vary in the definitions and calculations used. For example, while Commerce's measure reflects sales actually realized, in some cases states include anticipated sales. For this reason, it is not generally possible to directly compare performance on this metric across states.

Fortunately, some comparisons may be drawn on the dollar value of export sales assisted, and associated performance measures, for state programs participating in the U.S. Small Business Administration's State Trade and Export Promotion (STEP) Grant Program.

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<sup>9</sup> No official data is available for service exports at the state level. For WEI purposes, national-level service exports were scaled down to estimate state service exports. This report's estimate holds the 2011 estimated amount of service exports steady at \$27.8 billion. Exports of good rose from \$64.8 billion in 2011 to \$81.6 billion in 2013. \$81.6 billion in goods exports + \$27.8 billion in estimated service = \$109.4 billion in total exports as of 2013.

<sup>10</sup> <http://www.brookings.edu/research/papers/2011/01/26-exports-katz-istrate>

The STEP program provides states and territories with funding for small business export promotion activities. According to the SBA, among states reporting actual sales assisted for the first two years of the program, Commerce led the nation in combined sales (Table 6). The combined value of \$118 million was the highest of reporting states, and more than double the amount of sales reported by the next closest state, Florida.

Table 6: STEP Grant Recipients, Export Sales Assisted, FFY 2011 and 2012

	Year 1 (\$ million)	Rank		Year 2 (\$ million)	Rank
MO	\$38.51	1	WA	\$82.24	1
WA	\$36.24	2	FL	\$41.26	2
PA	\$29.37	3	AL	\$34.04	3
AZ	\$27.23	4	OK	\$31.83	4
MD	\$26.20	5	MO	\$24.66	5
MT	\$14.68	6	ND	\$12.05	6
FL	\$10.03	7	CO	\$8.82	7
OH	\$7.74	8	IL	\$7.92	8
CA	\$6.71	9	NE	\$6.90	9
PR	\$5.45	10	ID	\$5.92	10

Source: U.S. Small Business Administration

Commerce also led in the number of businesses participating in the STEP program, and its return on investment of STEP dollars ranked fifth in the first year of the program, and improved to third in the second year. In part due to this strong performance, Washington received the second highest STEP award in the third round of funding, which began on October 1, 2014.

### Comparison of Staffing Levels and Salary Ranges

Another source of comparative information on the cost-effectiveness of Commerce's Export Assistance Program is the 2013 SIDO survey, as responding states provided information on FTEs and salary structures.

The median number of domestic FTEs reported by state trade offices was seven, and the average was 10. Commerce reported eight FTEs, ranking it 10<sup>th</sup> of the 23 responding states (Table 7). Although Washington State has among the highest rates of exporting companies, Commerce's staffing was close to the average level among state trade programs.<sup>11</sup>

<sup>11</sup> Since the period covered by the survey, the number of Commerce FTEs has changed, but more recent comparative data on other states' programs is not available. Currently the program has 7 permanent FTEs, and two additional positions funded by grants.

**Table 7: State Trade Office FTEs as Reported to SIDO, 2013**

	FTE
Median	7
Average	10
Washington	8
Washington rank (of 24 states reporting)	10

Source: SIDO Survey of State Trade Offices

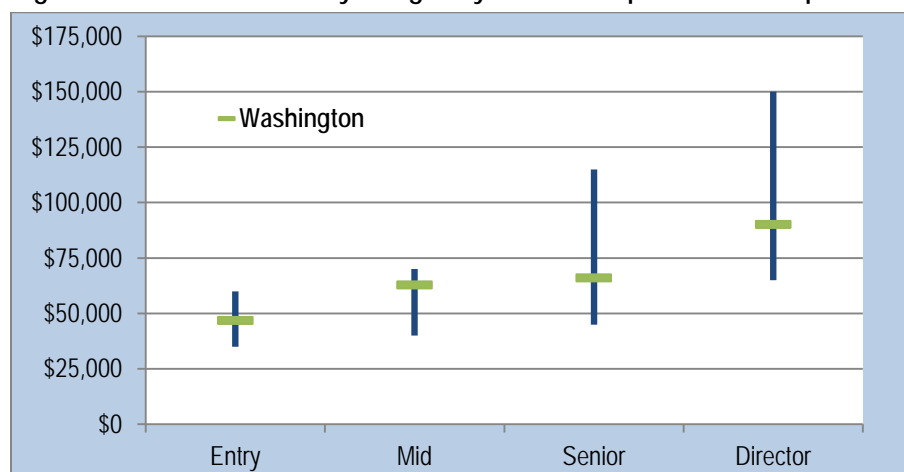
In terms of staff costs, Commerce’s salary structure is close to the average among all states’ international trade programs (Table 8/Figure 2). Entry- and mid-level positions are paid at the average or slightly above average of the reporting states,<sup>12</sup> while senior- and director-level positions are paid about 10 percent below average.

**Table 8: Trade Office Salaries by Level of Experience as Reported to SIDO, 2013**

	Entry	Mid	Senior	Director
Average of reporting states	\$48,774	\$58,050	\$75,610	\$100,800
Washington	\$46,708	\$62,796	\$65,976	\$90,000
Washington as percent of average state	96%	108%	87%	89%
Washington rank (of 20 states reporting)	10	7	12	12

Source: SIDO Survey of State Trade Offices

**Figure 2: Trade Office Salary Ranges by Level of Experience as Reported to SIDO, 2013**



Source: SIDO Survey of State Trade Offices

<sup>12</sup> Not all states reported salary ranges. The number of reporting for entry-, mid-, senior-, and director-level positions were, respectively, 19, 16, 18, and 20.

These salary ranges do not take into account the differences in cost of living, or variations in pay rates, among the reporting states. When expressed as a percentage of each state’s median income, Commerce’s Export Assistance Program salaries are lower than average among states for each experience level, and are in the bottom quartile among responding states at the senior and director levels (Table 9).

**Table 9: Trade Specialist Salary Comparison, Relative to State Median Income**

	Entry	Mid	Senior	Director
Average of reporting states	.91	1.07	1.44	1.92
Washington	.78	1.04	1.10	1.50
Washington as percent of average state	85%	98%	76%	78%
Washington rank (of 20 states reporting)	12 <sup>th</sup>	7 <sup>th</sup>	15 <sup>th</sup>	15 <sup>th</sup>

*Source: SIDO Survey of State Trade Offices, U.S. Bureau of Economic Analysis*

Together, the comparative staffing and salary levels suggest that Commerce’s Export Assistance Program is less costly than the average of states’ programs, particularly since Commerce’s permanent staff are all at the senior- or director-level. The program reports that recruitment and retention of qualified staff is adversely impacted by the level of pay it can offer for these positions.

**Summary**

Clients of Commerce’s Export Assistance Program reported \$639 million in assisted export sales between fiscal years 2011 and 2014.

Economic impact analysis suggests that these export sales generated several thousand jobs in the state, and resulted in \$1.44 billion in economic activity when indirect and induced effects are considered.

Washington has met, or is on track to meet, each of the five-year performance targets for state exports established in 2010 under the Washington Export Initiative.

Commerce’s Export Assistance Program led the nation in the dollar value of export sales assisted, and was a top performer in the number of businesses assisted and return on investment, during the first two years of the U.S. SBA’s STEP grant program.

The program is both less costly, and more cost-effective, than is typical for state trade programs, operating with an average level of staffing and with salary ranges that are lower than average.

## Advantages and Disadvantages of Contracting Services

Commerce’s Export Assistance Program delivers services through a mix of state staff and non-state entities, and works closely with partner entities from the public and private sectors. The program and has been recognized for the extent of its partnerships with other trade promotion entities.

### Organizational Structure

Commerce’s Export Assistance Program is structured similarly to the majority of states’ trade offices. Of the 25 states reporting organizational structures on the 2013 SIDO survey, 16 programs were operated directly by state agencies, eight were delivered through public-private partnerships, and one state provides services exclusively through a contract with a private non-profit organization. Similarly, the U.S. Small Business Administration’s list of state economic development agencies shows that, of 49 states with trade offices, 36 are part of a state agency, 12 operate as public-private partnerships, and one private non-profit organization (Table 10).

Table 10: Structure of State International Trade Programs, from SIDO Survey and the U.S. SBA

	SIDO Survey (25 states reporting)	U.S. SBA
State agency	16	36
Public-private partnership	8	12
Private sector	1	1
No trade office	<i>n/a</i>	1

Sources: *SIDO Survey of State Trade Offices, U.S. Small Business Administration*<sup>13</sup>

Although Commerce’s program is state-operated, services are delivered through a mix of state staff and contracts with non-state entities, as discussed further below. The program also works closely with other export promotion entities. Commerce staff regularly conduct joint client meetings with U.S. Export Assistance Center (USEAC) colleagues to optimize recommendations for the client’s strategy and service options. The program also collaborates with the Washington State Department of Agriculture’s International Marketing Team, the Trade Development Alliance of Greater Seattle (TDA), and the state’s port districts.

While Commerce’s mission is to provide no-cost export assistance tied to the state’s overall economic development goals, partner entities focus on specific sectors (as in the case with the Department of Agriculture) or regions of the state (as with the TDA), or charge clients for their services (USEAC, World Trade Center of Tacoma).

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<sup>13</sup> <https://www.sba.gov/content/economic-development-agencies>

Still, the program collaborates significantly, including by co-locating facilities, cross-referrals of clients, partnering on trade shows and missions, etc.

To facilitate these collaborations, Commerce implemented a co-location strategy in 2010 at its office in Seattle, with Export Finance Assistance Center of Washington (EFACW), USEAC, and the U.S. Export-Import Bank's regional office.

### **Washington Export Initiative Recognized for Collaborative Best Practices**

Many of these collaborations were brought together under the framework of the Washington Export Initiative, a strategic plan to leverage federal support for state export programs, which was launched in June 2010.

As part of the Initiative, Commerce developed a pilot memorandum of understanding with the U.S. Department of Commerce's Export Assistance Center to identify opportunities for Washington exporters to expand their reach in emerging markets, such as China, India and Brazil. Commerce also expanded partnerships with other non-state entities, including the Small Business Development Center network, Washington State University, and the Washington Biotechnology and Biomedical Association.

The Initiative received national recognition from the Brookings Institution as a demonstration of best practices among state trade offices for its strategic planning focus, and the degree of coordination with partner trade-promotion entities.<sup>14</sup>

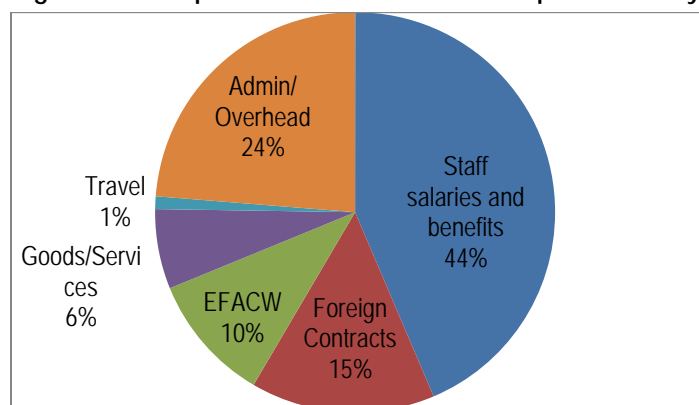
### **Advantages Associated with Contracting with Non-state Entities for Certain Services**

In the current biennia, Commerce's Export Assistance Program expends about 30 percent of its state funds on contracts with non-state entities. These include an agreement for provision of export finance counselling with EFACW, and contracts with trade representatives in China, India, and Western Europe (Figure 3). In addition to these contracts, the program regularly obtains supporting services for program activities, including for logistical support for trade missions, construction of trade show booths, and data services, from private firms.

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<sup>14</sup> <http://www.brookings.edu/research/papers/2011/01/26-exports-katz-istrate>

Figure 3: Anticipated General Fund State Expenditures by Type, FY 2015



Sources: Commerce

Providing these types of services through contracts with non-state entities allows Commerce to offer cost-effective, specialized services that might otherwise be unavailable. The practice of contracted representation in foreign nations, for example, is common among state trade offices, with 20 of 24 SIDO respondents indicating at least some such contracts. Similarly, the program is able to provide its clients with export financing expertise through EFACW.

### Potential Disadvantages of Expanded Contracting with Non-state Entities

Key informant interviews were conducted and public data sources were reviewed to understand the extent to which additional services could viably be contracted to non-state entities, and assess potential impacts on clients of Commerce's Export Assistance Program. Non-state entities were evaluated on organizational capacity, as demonstrated by factors such as size, services offered, and longevity; and comparative cost to deliver the types of services currently provided by Commerce staff.

Informants described the state as playing an important role in providing export assistance services, one that complemented rather than overlapping the role of non-state entities

- The president of a private firm that specializes in export assistance, and which works both directly for individual company clients and under contract with other state trade offices, noted that the state's role was typically to provide basic orientation services and high-level market expertise to a large number of firms with varying degrees of interest in, and capacity for, exporting.
- In contrast, his firm specialized in in-depth assessments of market conditions, typically involving services like collecting detailed information about foreign firms, serving as corporate officers for overseas entities, etc. These services, which can cost thousands of dollars or more per month, would not be accessed by small, new-to-export firms;

likewise, it would generally not be lucrative for his firm to offer less intensive services at lower rates to new-to-export firms.<sup>15</sup>

- As another example, a past chair of the Trade Development Alliance of Greater Seattle noted the unique role that Commerce’s program plays in the overall spectrum of trade promotion entities. “The services of a strong international trade effort and posture at the state government level is critically important to positioning Washington and therefore our businesses properly in a very competitive world environment. The state provides the foundation so that organizations like the TDA can exercise our more specific focused actions.”<sup>16</sup> (*Emphasis added.*)

While the proprietary nature of non-state entities’ financial, staffing and client service records limits the ability to compare the cost and quality of services delivered, some such information is available from public sources.

- Private firms providing export assistance in Washington are typically classified as “marketing consulting services” by the North American Industrial Classification System (NAICS), and report under NAICS code 541613. Data from the U.S. Bureau of Labor Statistics shows the average annual pay for employees of firms reporting under this code to be \$72,595, which is somewhat higher than the average pay of Commerce’s Export Assistance staff.
- Some information on nonprofit corporations is available from required IRS Form 990s, including overall budget, major activities, and salaries of certain positions. Review of this information for nonprofit trade promotion organizations in Washington likewise suggests somewhat higher staff costs to provide services. In addition, limitations on the size of such organizations, and past funding variability, suggest that organizational capacity would need to be developed before the level or quality of services provided by state staff could be replicated.

In addition to these factors, state agency involvement in providing trade services has other benefits, which could be reduced if further programmatic activities were contracted to non-state entities. These include ensuring oversight and accountability for the use of public monies, as well as the unique advantages that governmental participation can offer firms seeking to export to developing markets.

Examples of the erosion of transparency and accountability associated with full or partial privatization of state economic development activities are documented in a 2013 report,<sup>17</sup> which found cases where private development corporations “grossly exaggerated job-creation claims,” created public perceptions that “pay to play” contracts were being directed to political donors, paid excessive salaries, and resisted basic public oversight.

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<sup>15</sup> A. Mockridge (personal communication, November 26, 2014)

<sup>16</sup> W. Glassford (personal communication, November 16, 2011)

<sup>17</sup> <http://www.goodjobsfirst.org/sites/default/files/docs/pdf/scandalsnotjobs.pdf>



Finally, anecdotal evidence and some prior research shows that the participation of governmental staff in trade missions and other contacts increases the credibility of firms seeking to export, particularly in developing markets. This issue was among the themes noted by former Commerce director Rogers Weed in discussing the importance of the Export Assistance Program, which he saw as among “the most valuable things government can do to support jobs and economic growth.”

*[T]his work is best done inside the government since close coordination with the Governor’s Office and other government agencies is a critical part of the work and this is accomplished more easily from inside. Also, when interacting with delegations from abroad, there is clearly more impact if you are part of the government than not.*

*One of the biggest surprises during my four years at Commerce was the degree to which government-to-government contact can open up business-to-business opportunities internationally. Prior to my time in Commerce, I thought businesses could fairly easily make their own contacts and pursue international business directly. I came to see that it is far more challenging than that and that government can play a uniquely valuable role in assisting this process on many levels.<sup>18</sup>*

The loss of these functions provided by state staff and the balance of Commerce’s Export Assistance Program to be contracted to non-state entities would potentially result in negative impacts to client businesses, albeit not ones that can be easily measured.

## **Summary**

Commerce’s Export Assistance Program is structured similarly to the majority of states’ trade offices. Of the 49 states with trade offices, 36 are part of a state agency, 12 operate as public-private partnerships, and one provides trade services exclusively through a contract with a private entity.

Washington is nationally recognized as demonstrating best practices among state trade offices for its strategic planning and coordination with partner trade-promotion entities.

Although Commerce’s program is state-operated, services are delivered through a mix of state staff and non-state entities. The program currently expends over 30 percent of its state funds on contracts with non-state entities.

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<sup>18</sup> R. Weed (personal communication, May 22, 2014)

Advantages associated with providing certain services through contracts with non-state entities include allowing for cost-effective, specialized services such as representation in foreign nations, trade financing expertise, and on-the-ground logistical support for trade missions.

Disadvantages to contracting trade services currently provided by Commerce staff to non-state entities would potentially include reductions in service levels or programmatic cost increases; reduced accountability and transparency; and decreased credibility for firms seeking to export to developing markets.

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## Appendix B: Summary Results of Input-Output Model Analysis

	Export Sales Assisted, 2011-2014 (\$ million)	Overall economic impact (\$ million)	Employment	Labor Income (\$ million)
1. Crop Production	\$7.20	\$14.20	129	\$4.47
2. Animal Production	\$0.73	\$4.17	27	\$1.30
3. Forestry and Logging	\$0.00	\$2.73	8	\$0.50
4. Fishing, Hunting, and Trapping	\$0.00	\$3.16	8	\$0.92
5. Mining	\$0.00	\$0.78	3	\$0.16
6. Electric Utilities	\$0.00	\$18.70	27	\$6.02
7. Gas Utilities	\$0.00	\$4.04	3	\$0.30
8. Other Utilities	\$0.00	\$3.38	12	\$0.92
9. Highway, Street, and Bridge Construction	\$0.00	\$0.52	1	\$0.12
10. Other Construction	\$4.05	\$63.00	229	\$14.79
11. Food, Beverage and Tobacco Manufacturing	\$122.41	\$146.78	222	\$12.32
12. Textiles and Apparel Mills	\$0.04	\$0.96	4	\$0.19
13. Wood Product Manufacturing	\$10.51	\$14.95	43	\$2.42
14. Paper Manufacturing	\$0.00	\$4.24	5	\$0.54
15. Printing and Related Activities	\$0.58	\$2.81	16	\$0.86
16. Petroleum and Coal Products Manufacturing	\$0.00	\$38.52	3	\$0.48
17. Chemical Manufacturing	\$8.33	\$9.44	14	\$1.86
18. Nonmetallic Mineral Products Manufacturing	\$0.00	\$4.66	11	\$0.72
19. Primary Metal Manufacturing	\$0.00	\$1.04	2	\$0.15
20. Fabricated Metals Manufacturing	\$28.07	\$31.29	111	\$6.64
21. Machinery Manufacturing	\$7.59	\$9.74	20	\$1.47
22. Computer and Electronic Product Manufacturing	\$116.48	\$120.61	354	\$35.64
23. Electrical Equipment Manufacturing	\$1.11	\$1.40	3	\$0.22
24. Aircraft and Parts Manufacturing	\$0.98	\$1.03	2	\$0.21
25. Ship and Boat Building	\$26.03	\$26.27	77	\$7.60
26. Other Transportation Equipment Manufacturing	\$0.40	\$0.85	1	\$0.10
27. Furniture Product Manufacturing	\$0.00	\$0.69	4	\$0.18
28. Other Manufacturing	\$30.90	\$31.89	109	\$6.04
29. Wholesale	\$131.53	\$196.29	851	\$67.89
30. Non-Store Retail	\$1.50	\$3.28	25	\$0.86
31 Other Retail	\$9.83	\$72.75	770	\$29.34

32. Air Transportation	\$0.00	\$8.78	15	\$1.26
33. Water Transportation	\$0.00	\$3.54	8	\$0.75
34. Truck Transportation	\$0.00	\$11.74	65	\$3.73
35. Other Transportation/Postal Offices	\$0.00	\$13.10	70	\$5.24
36. Support Activities for Storage, Transportation and Warehousing	\$10.80	\$19.72	97	\$7.16
37. Software Publishers & Data Processing & related services	\$13.42	\$27.19	52	\$9.40
38. Telecommunications	\$0.08	\$30.16	54	\$4.98
39. Other Information	\$0.00	\$9.93	47	\$4.40
40. Credit Intermediation and Related Activities	\$31.48	\$96.97	177	\$17.75
41. Other Finance and Insurance	\$0.00	\$37.15	179	\$11.88
42. Real Estate and Rental and Leasing	\$3.20	\$29.15	284	\$5.84
43. Legal /Accounting and Bookkeeping /Management Services	\$10.91	\$35.10	340	\$27.95
44. Architectural, Engineering, and Computing Services	\$21.20	\$34.43	224	\$19.18
45. Educational Services	\$2.61	\$11.10	136	\$3.77
46. Ambulatory Health Care Services	\$0.00	\$42.50	306	\$21.99
47. Hospitals	\$0.00	\$32.23	158	\$12.01
48. Nursing and Residential Care Facilities, Social Assistance	\$0.00	\$20.64	308	\$9.41
49. Arts, Recreation, and Accommodation	\$0.00	\$19.86	217	\$6.32
50. Food Services and Drinking Places	\$15.68	\$52.87	701	\$16.13
51. Administrative/Employment Support Services	\$0.03	\$15.99	298	\$11.30
52. Waste Management/Other, and Agriculture Services	\$0.68	\$53.30	415	\$17.29
<b>Total</b>	<b>\$618.31</b>	<b>\$1,440</b>	<b>7,245</b>	<b>\$423</b>