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Export, learn ... profit: A new randomized evaluation

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In 2009, Aid to Artisans, a nonprofit organization that works to create market opportunities for artisans around the world, set up a program in Egypt. The goal was to support the growth of small rug-making businesses by giving them the opportunity to export to high-income countries. Working closely with an Egyptian intermediary called Hamis Carpets, Aid to Artisans (ATA) identified small-scale rug-makers and helped them improve productivity to meet the standards of foreign buyers.

Export promotion programs like ATA's work under a theory called "learning-by-exporting" – the assumption that the experience of exporting helps firms learn new skills and techniques and thereby become more productive. However, until now, no research has rigorously evaluated whether exporting actually causes businesses to improve their practices. It could be that more productive firms choose to export in the first place, which would mean that the higher productivity level of exporting firms is not actually due to the export process. To explore this, the SME Program at IPA provided support to researchers David Atkin, Amit Khandelwal and Adam Osman to conduct the first randomized controlled trial investigating whether firms actually learn through the experience of exporting.

The researchers worked closely with ATA to evaluate whether the export opportunity offered to rug-making firms by ATA and Hamis Carpets ultimately improved firm production practices. As part of the study, 74 businesses in Fowa, Egypt, were randomly selected and offered an export contract for a certain type of rug. If the firm accepted the contract, Hamis Carpets would provide the thread and other materials needed and discuss the rug specifications with the business owner. A second set of 145 rug-making firms were included in the study, but were not offered an export contract. All of the participating businesses were small, with one to four employees, and few had exported before. Throughout the program, researchers collected information on firm profits and productivity, the quality of the rugs produced, and the characteristics of the firm owners' households.

The research results show that firms offered the opportunity to export produced higher-quality rugs at the end of the study than businesses that were not offered an export contract. To determine whether this difference in quality was due to learning-by-exporting, the researchers had to determine if businesses were always capable of creating higher-quality rugs but chose not to because there was no demand, or if the opportunity to export taught them to produce higher-quality rugs. A number of key pieces of evidence led the researchers to conclude that the rug-making firms did indeed learn from the process of exporting. First, when the firms given the opportunity to export were asked to create a rug for sale in the domestic market, they produced a carpet in the same amount of time as non-exporting firms, but their rugs received higher scores along every quality metric. Second, the researchers saw that the increase in rug quality happened progressively over time, rather than all at once, indicating that the firms were learning rather than immediately changing their practices. Additionally, the types of quality improvements aligned with the topics that Hamis Carpets discussed with the business owners during the contract process. Together, this evidence suggests that exporting firms learned to improve their practices and did not just decide to put more effort into quality at the expense of time.

The study results also show large gains in profits for firms that were offered export contracts, particularly when compared to studies of other SME promotion programs. Firms with the opportunity to export earned profits 15 and 25 percent higher than businesses that were not offered export contracts. In contrast, studies of other types of SME development programs generally find mixed results and often limited impact on profits. In a recent review of studies that looked at the impact of business training on firms, only two of nine studies observed a significantly positive impact on profits. The same is true for evaluations of programs aimed at improving access to credit for SMEs. Both training and credit-related interventions focus on the supply side: They aim to help businesses improve their products or increase their production, and assume that the market will absorb the additional output. This export promotion program, on the other hand, focused on increasing the demand for the goods and services produced by SMEs. The often underwhelming results from credit and training programs may therefore hinge on whether there is demand to absorb the increased or improved supply resulting from additional credit or training.

The World Trade Organization estimates that $48 billion is spent annually on Aid for Trade programs, and the proposed Trans-Pacific Partnership could significantly alter trade norms. Research on the impact of international trade programs is therefore sorely needed to guide government decision-making. The initial evidence from the evaluation of the ATA program offers promising results, suggesting that trade can generate large productivity improvements, in particular for developing countries, in part due to learning-by-exporting. Access to international markets can help narrow the large productivity and income gaps across poor and rich countries. Yet, more research is needed to determine whether these results hold in different contexts. To further build this body of evidence, the SME Program at IPA prioritizes the evaluation of access to market programs. Export promotion programs tend to be costly, and it is also important to understand whether the benefits justify the costs.

David Atkin, Amit Khandelwal and Adam Osman are currently conducting a cost-benefit analysis of ATA's program, so stay tuned!

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