EXPORT TARGET COUNTRY SELECTION TOOL FOR MORE COMPETITIVE ENTERPRISES

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Abstract. Export is one of the main drivers of economic development of Latvia. Therefore, facilitation of exports is important, especially in regional level thus ensuring more integrated regional development. As the competition increases globally, identification of export target countries and export market research are becoming increasingly important. The choice of the export target countries is done in several levels – government, associations and enterprises. If the same export target countries are chosen at different levels, enterprises can focus more on increasing competitiveness rather than on marketing activities. The aim of the study is to create a tool for determining the export target countries of Latvia. This implies the choice of the most appropriate indicators to characterise selected criteria, which are obtained from several statistical databases and world-wide assessments like *Doing Business*, *Worldwide Governance Indicators* and others. The elaborated export target country selection tool comprises data of 2016 for 240 countries. All the initial data are first ranked and then consolidated in 10 criteria, which are used for final ranking of all the countries. The representative of the Ministry of Economics found the tool useful. It is best suited for the initial selection of export target countries, which then can be analysed more thoroughly. The use of the tool by export authorities can ensure more qualitative cooperation, help to avoid duplication of information and plan international relations and export facilitation activities more efficiently thus ensuring more advantages to enterprises. The tool can be extended also for use by enterprises.

Key words: export target countries, target countries selection tool, selection criteria, competitive enterprises.
JEL code : F10, F13, F14, F60

Introduction

Latvia economy has undergone various changes over the past six years, as a slow transition in economic development is taking place - from rapid decision-making, to a sustainable development model, in which the main driving force is exports and the ability to compete in both internal and external markets. Export is one of the most important pillars of the economic growth for an open economy like Latvia (Broocks & Van Biesebroeck, 2017). Moreover, it is greatly influenced by the relations among the major economies like the EU and Russia (Supe & Jurgelane, 2017). Therefore, export facilitation policies and tools are essential for economic development of Latvia.

One aspect of the economic development is regional development. Overall development of the economy is not enough, it is important also to ensure the integrated economic development, which has become a global issue (Pike et al., 2017). It is evident that regions with higher economic activity level develop faster (Stuetzer et al., 2017). Thus, also export activities have to be facilitated in regions as well. Development of information and communication technologies has made this task easier (Portugal-Perez & Wilson, 2012); however, enterprises still need support from the government institutions both in terms of financial and non-financial help.

Export development relies on enterprises, which increase their export activities, enterprises, which decide to enter new export markets and enterprises, which begin their export activities. Human capital, organizational capital, technological capital, and social capital is important in all of these cases, especially for non-exporters (Michael et al., 2016), which ensures export ability of enterprises. Among other things, ability to choose the right export target country is essential to ensure that the product aimed for exports is appropriate. Moreover, export marketing strategy is the key determinant of exporters success (Morgan et al., 2012) and marketing capabilities influence export performance (Tan & Sousa, 2015) especially in case of low-cost and differentiation competitiveness advantage.

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A key element in export marketing strategy is a correct selection of export target country (Utama et al., 2017). Moreover, such a country should be selected, which gives the best results (Dzemydaite, 2017). Coherent export target countries selection at enterprise and government level can facilitate exports and regional development providing support for enterprise marketing activities as well. If institutions responsible for export facilitation strengthen relationships with the common export target countries, enterprises do not have to pay that much attention to the origin of their production but to the production itself, which may enhance their competitiveness. Thus, private and public sector can cooperate to ensure the targeted approach to export facilitation activities (Molander et al., 2017), including cooperation to select export target countries.

At present, Ministry of Economics of the Republic of Latvia has defined three criteria for export target countries' selection in the Export Guidelines (Cabinet of Ministers …, 2013). These are: economically stable and developed countries; geographical proximity; the market demand corresponds to the possibilities offered by Latvia. These criteria are not enough to determine the most appropriate foreign trade partners; therefore, it is necessary to increase the number of criteria. Analysis of export strategies of the Latvian export authorities (Ministry of Economics, Ministry of Foreign Affairs, Investment and Development Agency of Latvia (LIAA), their Social partner – Employers' Confederation of Latvia (LDDK) – and Cooperation partner – the Latvian Chamber of Commerce and Industry (LCCI)) as well enterprise survey and interviews with the export authorities showed that several important criteria have to be considered when choosing export target countries, namely: important export market for Latvia; economic indicators; quality of infrastructure; stable and secure banking and financial markets; national security; political stability; perception of corruption; geographical proximity; membership of international organizations; import volume (Krievina & Ozolina, 2017). The next step is to choose a set of indicators and join them in one common tool for quantitative analysis of these criteria. According to Hisrich (2016), five steps should be taken to do that: 1) choice of appropriate indicators; 2) collection of data, which are then transformed into comparable indicators; 3) establishment of weights for each indicator, 4) analysis of the data; 5) selection of an appropriate market from the list. The aim of the study is to create a tool for determining the export target countries of Latvia. The established tool would improve the existing cooperation between the responsible export authorities and facilitate the implementation of targeted export measures in selected countries as well as help enterprises identify Latvia's export target countries. Tasks of the research are to identify the most appropriate indicators to characterise the previously defined criteria for choosing export target countries, collect the data and transform them into comparable units, combine them in a common tool and test, if the representative of the Ministry of Economics find the tool usable and useful.

1. Methodology

Before choosing the most appropriate indicators to characterise the selected criteria, the authors decided to obtain all the data from publicly available, trusted, official, open data and statistics sites like Central Statistical Bureau (CSB) of Latvia (CSB, 2017), Bank of Latvia (Bank of Latvia, 2017), The World Bank (The World Bank, 2017a). This implies also the use of generally known indicators or elements from already existing world-wide assessments such as Doing Business (The World Bank, 2017b), Worldwide Governance Indicators (Kaufmann et al., 2010), Global Competitiveness Report (World Economic Forum, 2017) etc. Moreover, some criteria

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may have several indicators used for its characterisation as several criteria like economic indicators, quality of infrastructure and others are versatile. On the other hand, it was decided not to use more than five indicators for each criterion. It should also be noted that both statistical data and the results of expert/business surveys was found to be useful.

As most of the criteria consist of different indicators, it is necessary to compile statistics and convert them into comparable metrics to ensure that the export tool to functions properly. As the chosen indicators can be expressed in different units of measure - %, million, km etc. - the authors decided to rank the obtained data. This means that each country for each component obtains a rank according to the results. In the next step, all the components of a criterion are summed up and a new rank is made.

The final step is a summary of all the criteria in a common tool. The main part of the tool can be used in a simple average rank mode, when all the criteria are considered to be equally important, and in the weighted average mode, when it is possible to show, which criterion is more important (the value of the weight is larger than 1) or less important (the value of the weight is smaller than 1).

The values of the indicators were ranged and compiled for 240 countries. Data of 2016 were used in the research as data of 2017 had not been published yet.

2. Components of the criteria for export target country selection

All the components of the chosen criteria are summarized in Table 1, where also data sources are given. The first criterion is important export market for Latvia. It can be evaluated according to the country's activity in foreign markets that is the volume or the value of export. Therefore, the values of Latvian exports of goods and services were chosen.

The second criterion is economic indicators. As there is a huge number of different economic indicators, the authors chose five components in order to cover different aspects of the economy. These are GDP per capita, inflation rate, innovation, taxes and unemployment rate.

The third criterion is the quality of infrastructure. As the proposed tool is directly related to the export activities, this criterion should include the assessment of the part of infrastructure related to the exporting process, which is mainly transport and communication infrastructure. There are several transport modes, which not only provide transportation options for exports, but also for meetings. Therefore, chosen indicators are related to four kinds of transport infrastructure and electricity and communication. As the comparable data on quality of infrastructure cannot be obtained in databases, results of the Annual World Economic Forum polls were used, which summarize the opinions of experts in the scale from 1 to 7 (the best evaluation).

The fourth criterion is stable and secure banking and financial markets. There are no statistical data available, which characterise stability and security of banking and financial market, therefore experts' assessment is considered, using elements of the Global Competitiveness Report.

The fifth criterion is national security. As the most appropriate political stability and absence of violence/terrorism indicator from the Worldwide Governance Indicators was chosen, which summarizes views expressed in a large-scale survey.

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Table 1

Components of export target country selection tool

No.	Criteria	Indicator, unit of measurement, data source
1.	Important export market for Latvia	Components: 1. **Total value of Latvian exports of goods** [M EUR] (CSB, 2017).
		2. **Total value of Latvian exports of services** [M EUR] (Bank of Latvia, 2017).
2.	Economic indicators	Components: 1. **GDP per capita** [M EUR] (The World Bank, 2017a);
		2. **Inflation** [% against the previous year] (The Heritage Foundation, 2017);
		3. **Innovation** - a criterion which is composed of multiple, related components: Made of two sub-indices - a source of innovation sub-criterion and sub-criterion of innovation results. The first sub-index has five pillars - (1) institutions, (2) human capital and research, (3) infrastructure, (4) complexity of the market, (5) complexity of enterprises. The second sub-index has two pillars - (6) the contribution of knowledge and technology, (7) creativity. [quantitative assessment (1-100)] (Cornell University et al., 2016);
		4. **Taxes** - Taxes and compulsory contributions that a medium-sized enterprise has to pay in a given year, as well as administrative burdens. Combination and assessment of four sub-criteria - time, total tax rate, amount and time of submission of documents, amount of taxes[quantitative assessment (1-190)] (The World Bank, 2017b);
		5. **Unemployment rate** [% of total workforce] (The World Bank, 2017a).
3.	Quality of infrastructure	Components: 1. **Road quality**; 2. **Rail quality**; 3. **Air traffic quality**; 4. **Port and water quality**; 5. **Electricity and communication quality**. Overall evaluation of the system, availability [expert (qualitative) assessment, from 1-7] (World Economic Forum, 2017).
4.	Stable and secure banking and financial markets	Components: 1**. Financial market development**: access to financial services and risk capital, financing through the local capital market; 2. **Bank stability: trust and stability in banks** [expert (qualitative) assessment, from 1-7] (World Economic Forum, 2017).
5.	National security	Components: **Political stability and absence of violence/terrorism** [expert (qualitative) assessment (1-100)] (The World Bank Group, 2017).
6.	Political stability	Components: 1. **Voice and responsibility**: the citizen of the country is able to participate in the government's choice - 7 indicators (democracy index, freedom of the press, political rights, transparent government policy making etc.) and 12 additional sources of non-governmental organizations (trust in parliament, political participation, political, social integration, elections etc.);
		2. **Regulatory framework**: the notion of government's ability to formulate and implement policies and a provision that allows the development of the private sector to be promoted - 6 characteristics (price control, government regulation, impact of tax policy etc.) and 8 additional sources of non-governmental organizations (trade policy, regional integration, the regulatory environment for business etc.);
		3. **Effectiveness of the government:** an idea of the quality of public services, the quality of the civil service and its independence from political pressure; trust in the commitment of the government to adhere to the promised policy - 6 characteristic resources (infrastructure, bureaucracy, coverage areas - schools, health, transport etc.) and 10 sources of non-governmental organizations quality of administration, health, education, effective revenue mobilization etc.);
		4. **Rule of law**: trust in rules, performance of contracts, property rights, police and judicial quality - - 8 characterizing resources (judicial independence, protection of intellectual property, effective legal regulatory system, etc.) and 14 additional sources of non-governmental organizations (trust in the justice system, crime, rights, gender etc.). [expert (qualitative) assessment (1-100)] (The World Bank Group, 2017).
7.	Perception of corruption	Component: **Corruption Perceptions Index** [Expert assessment of the country or territory where the result indicates the level of corruption in the public sector marked 0 (very corrupt) to 100 (very clean)] (Transparency International, 2017).
8.	Geographical proximity	Component: **Geographic distance** [Distance measured in straight line, km.] (Distance Calculator, 2017).
9.	Membership of international organizations	Components: **Membership in the organization** –
		1. **OECD** [Is there a membership in the organization] (OECD, 2018);
		2. **WTO** [Is there a membership in the organization] (World Trade Organization, 2018);
		3. **EU** [Is there a membership in the organization] (European Union, 2018);
		4. **Double Taxation and Anti-Fraud Agreements with Latvia** [Is there an agreement concluded] (The Ministry of Finance, 2017).
10.	Import Volume	Components: 1. **World Import value of agricultural and food products**; 2. **Chemistry**; 3. **Pharmacy**; 4. **Metalworking**; 5. **Mechanical engineering and transport**; 6. **Electronic data processing**; 7. **Telecommunication equipment**; 8. **Textiles**. [MEUR] (World Trade Organization, 2017).

Source: author's compilation

The sixth criterion is political stability, which again can hardly be characterised by the statistical data. Political stability is the average duration of one government in parliament, as well as public

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satisfaction with ruling parties, party system, activity, which implies that there are revolutionary or arbitrary ideas (LIAA, 2018). Accordingly, four of the Worldwide Governance Indicators were chosen, which are essential to ensure the political stability.

The seventh criterion is perception of corruption. As the name indicates, a strictly qualitative indicator is needed, therefore Corruption Perceptions Index was chosen as the most appropriate.

The eighth criterion is geographical proximity. As there are many ways to characterise the distance between two countries, each of them having their pros and cons, the authors chose one of the distance calculators available online, which is easy to use and provides information of distance from the air and road perspectives. Here the air distance was chosen, because many countries cannot be accessed from Latvia by road.

The ninth criterion is membership of international organizations. As the most important organizations for Latvia OECD, WTO and the EU were chosen. The OECD has 35 member states, including Latvia, and is a unique forum providing representatives of the member states with an opportunity to effectively address issues of interest to them based on the experience of individual countries and to coordinate the development of national and international policies (OECD, 2018). WTO currently has 164 member states, but in the process of accession are 19. The main objective of this international organization is to facilitate trade based on equal conditions, also taking into account the capacities of developing countries (World Trade Organization, 2018). The EU consists of 28 member countries (European Union, 2018). Additionally, this criterion includes the double taxation and anti-fraud agreements with Latvia, that is, if such agreements exist or not. Such list is available in the Ministry of Finance of the Republic of Latvia (The Ministry of Finance, 2017), which states that to date Latvia has concluded with 73 countries.

The tenth criterion is import volume, which basically shows the demand for particular imported products in a particular country. This criterion is important, if the export target countries are selected for particular enterprises or industries and thus is an addition to the tool.

3. A Tool for determining the criteria for exporting countries selection

The overall picture of the Latvian export target countries' tool showing top 20 export target countries of Latvia is given in Table 2. In the original version, country ranks are displayed in colour – from the green tone (top position), yellow (middle ranking) to red (the lowest point), which makes it possible to understand the positions of each country more clearly. In addition, this tool also shows Latvia, therefore the users are able to understand where our country is positioned globally.

In Table 2, all the criteria are considered as equally important (the values of the weights in the second row are equal to 1). You can see that eight criteria form the basis of the overall ranking and importance of each of these criterions can be changed using weights as stated in the previous section. Two of the criteria are additional ones – membership in organisations and import volumes, which provide more information about the particular countries, but are not essential for everyone. Moreover, it is possible to use the filter function, which allows filtering the membership in particular organisations or particular countries of interest. In addition, it is possible to rank all the countries according only to one criterion.

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Table 2

Export target country selection tool

| | | | | WEIGHT | | | | | | | |
| | | | | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |

Np.	Country	EU	OECD	WTO	DTA	Important export market for Latvia	Economic indicators	Quality of infrastructure	Stable and secure banking and financial markets	National stability	Political stability	Perception of corruption	Geographical proximity	World import value of agricultural and food products	Chemistry	Pharmacy	Metalworking	Mechanical engineering and transport	Electronic data orocessing	Telecommunication equipment	Textiles
1	Switzerland		X	X	X	9	1	9	13	10	4	7	28	31	15	8	107	30	24	33	17
2	Finland	X	X	X	X	12	22	7	7	25	3	2	6	44	41	40	50	42	41	47	38
3	Norway		X	X	X	10	3	27	6	21	5	6	12	40	47	46	45	35	37	39	28
4	Sweden	X	X	X	X	6	6	21	17	35	2	3	5	23	29	27	34	29	25	23	21
5	The Netherlands	X	X	X	X	11	8	3	41	41	7	5	20	6	7	9	135	10	4	4	9
6	Luxembourg	X	X	X	X	47	12	23	9	6	9	11	23	71	72	79	108	60	50	40	62
7	Denmark	X	X	X	X	8	4	14	54	46	6	1	9	28	35	26	39	37	32	38	20
8	Germany	X	X	X	X	5	7	5	38	55	12	12	14	3	3	2	2	3	5	5	2
9	Austria	X	X	X	X	27	13	24	43	19	14	17	18	26	24	14	27	28	31	28	16
10	United Kingdom	X	X	X	X	4	11	12	50	70	10	10	33	5	6	4	1	5	6	8	4
11	Estonia	X	X	X	X	2	21	43	28	62	24	26	2	80	84	84	89	72	79	61	76
12	Czech Republic	X	X	X	X	16	18	35	26	36	34	37	11	37	31	23	22	26	12	24	29
13	Belgium	X	X	X	X	19	25	10	47	64	17	15	22	9	4	3	14	16	23	31	12
14	Canada		X	X	X	42	23	16	5	13	8	9	123	11	12	12	12	8	11	13	10
15	France	X	X	X	X	13	26	11	32	80	25	25	40	7	5	5	6	6	10	11	5
16	Iceland		X	X	X	56	14	13	84	11	16	14	49	117	115	121	10	104	86	108	90
17	Malta	X		X	X	40	30	30	14	24	31	39	50	121	114	113	139	94	106	124	97
18	Hong Kong			X	X	34	15	1	2	31	18	18	142	16	25	37	42	4	3	2	8
19	Lithuania	X		X	X	1	36	41	70	57	32	34	3	57	57	58	73	65	56	66	59
20	Singapore			X	X	39	2	2	1	14	27	8	182	30	20	34	36	12	9	16	27

Source: developed by authors.

It needs to be emphasized that, by far, there is no instrument for identification of export target countries in Latvia. In order to understand, how useful is the tool in practice, the tool was tested by the Deputy Director of the EU and Foreign Economic Relations Department of the Ministry of Economics, who co-ordinates, manages and oversees the development and implementation of foreign economic relations policy on a daily basis. She explained that the tool is easy to read, use and it contains the necessary information to identify the most important target countries at the first stage of export target countries' selection process, taking into account different criteria. This tool could save time, which is spent for exploring information on different spheres for each individual country - infrastructure, political stability, economics etc. A positive assessment is that the five criteria are made up of several components, thus providing more comprehensive information to the institution that will use it. Also the introduction of weights is evaluated positively. The tool is assessed as valuable because the countries that are presented in the tool include also countries, with which a bilateral economic cooperation agreement is not concluded yet and it provides a number of options for future cooperation. This instrument could also improve inter-institutional cooperation, as it would be a common source of information for research of potential markets for export or export activities.

The tool for determining the criteria for Latvian export target countries should be a part of a common mechanism, which involves the Latvian export authorities – Ministry of Economics, Ministry of Foreign Affairs and LIAA and social and cooperation partners – LDDK and LCCI. This means that the responsible institution implements activities such as maintenance, renewal, and retrieval of data annually to update this tool and provide the tool to the other parties involved to use it .In this way the tool can prevent duplication of information, more precisely identifying Latvia's export target countries in the framework of the single system, thus making the export planning process more efficient and useful also to exporters, if they are willing to be active and participate in the process as members of LDDK and/or LCCI. In that case, enterprises can influence the export policy as well as international relations of Latvia by helping to choose countries, which

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are more suitable for macro marketing activities and for closer cooperation, including new trade or anti-fraud agreements. In such a way it is possible to eliminate some obstacles for exporting thus making exporters more competitive.

The tool for defining the criteria for exporting target countries can also be adapted for use in companies, including enterprises in regions. In this case the tool should be adapted, changing or adding new criteria, including those which are essential for particular industries or groups of enterprises, for example, micro enterprises.

In the long run, this tool can be built not only for one year, but for a period of several years to see the changes and trends thus making the tool even more useful. Moreover, it could be developed as an online platform (virtual tool) to facilitate access to the tool and replenishment of information.

The authors point out that this tool is the first step in exploring the country of destination of the export - selecting a country from a common ranking can then be followed by an in-depth analysis of the relevant market. Such a study would provide a more accurate ground for export-related decisions.

Conclusions

1) A complex approach has to be used in the process of export target country selection as there are many important criteria that have to be taken into consideration. If the selection process involves parties from different levels, that is, government, associations and enterprises, it is possible to reach the synergy effect, which means that enterprises can focus more on competitiveness issues.

2) The export target country selection tool developed by the authors evaluates 10 important criteria from several indicators ranging from statistical data to generally known assessments like Doing Business, which ensures that different important aspects are considered, when making decisions about international relations and export promotion.

3) The tool for determining export target countries is a comprehensive yet easy-to-use instrument for the initial selection of export target countries, which afterwards can be analysed more thoroughly. This instrument is designed to facilitate and improve the work of the Latvian authorities responsible for export development and their partners in order to achieve more targeted approach to potential export countries selection process followed by more appropriate activities in cooperation with these countries.

4) Only one institution, the Ministry of Economics, should be responsible for updating the tool, however it should be used by all the involved parties to avoid duplication of information and reduce time spent on gathering information. In the long run, the tool should be developed as an online platform thus insuring even more flexible use of this instrument.

5) The tool can be adjusted for use by companies, which would be especially useful for enterprises in regions, where availability of qualified workforce or consultation services is limited.

Acknowledgements

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