



UNIVERSIDADE CATÓLICA PORTUGUESA

The Role of ED in Portuguese SMEs' Internationalization

The case of the Internationalization of
Portuguese SMEs to the USA/California

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Abstract

In the last decades, the focus on Economic Diplomacy (ED) has intensified, as governments from most countries have been realizing that, in a globalized world, there is the urge to internationalize. In this sense, to boost a country's growth, ED must impact the companies.

This dissertation attempts to assess the role of ED in the internationalization process of Portuguese firms, with a focus on the US and, particularly, California. For that, the method followed was based on the case study research strategy, under a qualitative approach, complemented by some quantitative data. Besides, some interviews were conducted in order to obtain targeted data on the subject. My internship in AICEP's San Francisco delegation fostered my interest in the topic and was instrumental in the data collection for this study.

The main findings of this thesis lead to the conclusion that ED, by fostering exports, plays a crucial role in the internationalization process, holding an extremely positive impact on firms and, consequently, on the country.

For future research, the measurement of the effect of ED in a country should be improved because, although it is demonstrated that, in general, its impact is positive, there are not many data that allow to disentangle the effective impact of ED *per se*.

Key Words: Economic Diplomacy, Internationalization, Exports, Support, SMEs, Portugal, United States of America, AICEP, Trade

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Resumo

Nas últimas décadas, o foco na Diplomacia Económica (DE) intensificou-se, à medida que os governos da maioria dos países se foram apercebendo de que, num mundo globalizado, a internacionalização é crítica. Neste sentido, para impulsionar o crescimento de um país, a DE deve impactar as empresas.

A presente dissertação tenta avaliar o papel da DE no processo de internacionalização das empresas portuguesas, com foco nos EUA e, em particular, na Califórnia. Para isso, o método utilizado baseou-se na estratégia de pesquisa de estudo de caso, sob uma abordagem qualitativa, complementada por alguns dados quantitativos. Para além disso, foram realizadas algumas entrevistas de modo a obter dados mais direcionados sobre o assunto. O meu estágio na delegação da AICEP em São Francisco despertou o meu interesse pelo tema e foi fundamental para a recolha de dados neste estudo.

Os principais resultados obtidos nesta tese permitem concluir que a DE, por via do aumento das exportações, desempenha um papel crucial no processo de internacionalização, tendo um impacto extremamente positivo nas empresas e, conseqüentemente, no país.

Para investigação futura, a medição do efeito da DE num país deve ser melhorada, pois, apesar de a presente tese demonstrar que, em geral, o impacto é positivo, existem poucos dados concretos que permitam identificar o impacto da DE por si só.

Palavras-chave: Diplomacia Económica, Internacionalização, Exportações, Apoio, PMEs, Portugal, Estados Unidos da América, AICEP, Comércio

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Abbreviations Index

AI – Artificial Intelligence

AICEP – *Agência para o Investimento e Comércio Externo de Portugal*

APICCAPS – *Associação Portuguesa dos Industriais de Calçado, Componentes e Artigos de Pele e Seus Sucedâneos*

B2B – Business to Business

B2C – Business to Consumer

ED – Economic Diplomacy

EPA – Export Promotion Agencies

EPE – *Entidades Públicas Empresariais*

EU – European Union

FDI – Foreign Direct Investment

GDP – Gross Domestic Product

IAPMEI – *Instituto de Apoio às Pequenas e Médias Empresas e à Inovação*

ICEX – *Instituto de Comércio Exterior*

ICT– Information and Communications Technology

IMD – Institute for Management Development

INE – *Instituto Nacional de Estatística*

IT – Information Technology

KAM – Key Account Manager

NJ – New Jersey

NY – New York

SF – San Francisco

SMEs – Small Medium Enterprises

UK – United Kingdom

US(A) – United States (of America)

YoY – Year-on-Year

Chapter 1

1. Introduction

In the last two decades, the term Internationalization has been conceptualized into Economic Diplomacy (ED) (República Portuguesa Diplomatic Portal, 2020), whose meaning has concurrently been changed and updated over the years. ED was initially perceived as a way of dealing with economic issues through rules: “the conduct of relations between states and other entities or actors with standing in world politics” (Bull, 1997). Once the world started being recognized as a global market, the so-called rules began to be transformed into policies related to the investment in goods and services, and regarding its production and regulation (Chohan, 2021). Finally, Bayne and Woolcock described ED as “the process of international economic decision making” by governments (Bayne & Woolcock, 2017). As it is an extremely vast concept, ED encompasses economics, international relations and public administration, making coordination of policies and agents a crucial issue.

A global economy makes internationalization (from exports to investing abroad) a must, forcing companies to adapt their strategies to encompass the global level and gain and sustain their competitive advantage in the extremely wide market that is the world. This is true for large companies as well as SMEs, in both large and small countries. While on one hand, internationalization opens the path to export increase, reducing SMEs’ dependency on their domestic markets, it also entails a set of risks and challenges that companies have difficulty overcoming without support; for instance, the reduced knowledge of foreign markets, the way they operate, the investments required and, thus, the risk associated. In this sense, since internationalization became a primary goal for Portugal, the Minister of Foreign Affairs, in coordination with AICEP Portugal Global, E. P. E. pursues the objective of providing SMEs with the needed external support. This support consists in fostering international relations through economic, commercial and tax agreements,

conventions, and brand/country promotion, whilst protecting the national interest. The referred assistance is visible through the AICEP initiatives, e.g., individual meetings with delegates, customized advisory to companies, workshops with specialists, information conferences, or the participation in certain international trade fairs (Portuguese pavilions) (República Portuguesa Diplomatic Portal, 2020).

This assistance is particularly imperative in Portugal, as SMEs correspond to 99,9% of all companies (PORDATA, 2020)¹, generating most jobs. Furthermore, the role of ED in supporting these enterprises is also vital since most Portuguese SMEs present structural limitations – for instance, the lack of financial resources or even absence of some competencies (e.g., knowledge of external markets or speaking the required foreign language) –, making it difficult to reach international markets efficiently (Sequeira, 2017). In this regard, ED can aid since it operates within a wide scope of tools and fields to enhance foreign interest in national companies and identify international business opportunities, boosting exports.

Statistics from INE and PORDATA confirm that the United States of America (USA) is not only Portugal's most important trading partner outside the European Union but also the fourth biggest exporting market for Portugal overall. However, despite the significance and potential of the American market to Portuguese companies, the weight of these relations could and should be more relevant, particularly when compared to other European countries. In this regard, ED is defied to provide public support to national SMEs in order to enhance their international presence and improve the business flow, either by diversifying or by deepening the expansion of Portuguese SMEs to the North American market.

In this sense, and since very little attention is given in the literature concerning this topic, the main goal of this study is to comprehend the role of ED in the internationalization of SMEs, with a focus on the USA, and particularly in California. My internship in AICEP's San Francisco delegation fostered my interest in the subject and was instrumental in this study, whose structure is presented next.

¹ Such figure makes Portugal the second country in the European Union as regards SMEs weight.

First, chapter 2 is dedicated to a literature review, encompassing a more theoretical part (the overall role of economic diplomacy) and a more applied one (support of ED to the internationalization process of SMEs). The following chapter presents what is ED in practice: in the first section, it is investigated what is the support that is currently given to Portuguese SMEs (section 3.1.); the next section (3.2.) is dedicated to the comparison between the actions of the Portuguese Diplomacy for international expansion and the procedures of counterparts agencies from Portugal's competing countries. After one chapter dedicated to the Methodology (chapter 4), the next step is to focus on the case study. To illustrate the theoretical findings, this study is narrowed to the case of the international affairs with the US, and particularly with California (chapter 5), benefiting from the data gathered during my internship at AICEP San Francisco delegation. Chapter 6 complements the analysis with an overall assessment of the potential contribution of ED in Portugal (section 6.1.), and the examination of the actual results and effects of the measures that are applied to the Portuguese companies with potential and tangible trade relations with California (section 6.2.).

The last chapter (number 7) addresses the conclusion, as well as some research limitations and a basis for future investigation.

To fulfill the objectives of this report, qualitative research was followed on the theories regarding the meaning of ED, its evolution and its framework. To illustrate the significance of ED nowadays and how it can help SMEs evolve internationally, qualitative and quantitative data were collected from numerous online resources and from the work done during the internship in AICEP's delegation in San Francisco. In addition, some contacts/interviews took place with certain companies that are already established in the US/California and that benefitted from the aid of AICEP.

Chapter 2

2. Literature Review

2.1. The Role of Economic Diplomacy

“The process of international economic decision-making, which we call economic diplomacy.” (Bayne & Woolcock, 2017).

Diplomacy is classically defined as “the conduct of relations between states and other entities with standing in world politics by official agents and by peaceful means” (Bull, 1995), or, as more recently stated, the “concern with the management of relations between states and between states and other actors” (Barstone, 2006). In this sense, “economic diplomacy is concerned with international economic issues” (Bayne & Woolcock, 2017), which, in a very broad definition, means that ED relates to governmental activities. In fact, this term goes further beyond, as all public agencies with economic responsibilities are part of ED.

Despite these definitions being generally accepted, there is an abundance of attempts to fine-tune the meaning of ED. One of the reasons for it is the fact that the concept of ED is constantly evolving side by side with the world’s development, presenting notable changes over the years. Since the end of WWII, the world has been through a process of globalization, with a great intensification of all economic activities at the international level. In the words of Friedman (2000), globalization “is not a phenomenon. It is not just some passing trend. Today it is an overarching international system shaping the domestic politics and foreign relations to virtually every country, and we need to understand it as such”. This evolution shaped the necessary policies of ED, as well as its importance and sense.

The other reason for the inexistence of one standard definition for ED relates to the scope of this term, which has also gone through a transformation. Bayne highlights that the range of ED has widened over the years, to encompass new subjects and approaches, probing deep into domestic policies and involving not only government

actors (Bayne & Woolcock, 2017). In an attempt to determine the scope of this concept, Odell acknowledged that ED encompasses the “policies relating to production, movement or exchange of goods, services, investments (including official development assistance), money, information and their regulation” (Odell, 2000).

Four stages can be defined in the ED system: trade promotion, which is a set of activities aimed at increasing sales; networking, the process of interacting with other agents to develop professional contacts; country promotion to publicize the country’s culture, products, and services; and regulation, which entails directives dictated and maintained by the authority. Through time and with countries’ progression in international economic activities, the mentioned stages became more complex, even though they still stand as a reference. For instance, trade promotion and investment do not get diminished when the tasks of networking and regulation arise as a priority, since all these actions intend to drive the country in the same direction (Rana & Chatterjee, 2011).

Despite the different definitions of ED, authors agree that it has had increasing importance in the international political economy and inter-state interactions over time, due to the growing necessity for cooperation between countries that resulted from the increasing economic interdependence caused by globalization.

2.2. The Support of ED to the Internationalization Process of SMEs

“[Internationalization] is the process of increasing involvement in international operations.” (Welch & Luostarinen, 1988).

To boost each nation’s growth, ED must primarily impact companies. SMEs demand particular attention, since on the one hand they represent most enterprises in all economies and, on the other, SMEs are the firms that present the most structural limitations. Aiming to develop and make a stand in today’s global world, SMEs need to expand and extrapolate that growth to their own countries, since exports have been increasingly perceived as being critical to the improvement of a country’s economic

performance (Alexander & Warwick, 2007). This can be explained by a boost in productivity, higher efficiency and economies of scale (Alvarez & Crespi, 2000). Perhaps due to these circumstances, some authors, such as Kishan Rana (2013), identify external economic promotion, e.g., trade promotion and investment promotion, as the core priorities of ED (at least in developing countries).

Before getting to the actions of ED on the companies' international expansion, it is crucial to clarify the meaning and relevance of internationalization.

Like the majority of concepts, the term "internationalization" has been evolving throughout history even though some broad aspects remain consensual: "[internationalization] is the process of increasing involvement in international operations" (Welch & Luostarinen, 1988). It is also crucial to state that the internationalization process, which is the gradual increase of firms' involvement in foreign markets (Johanson & Vahlne, 1977), has been fostered by the globalized system that made the world borderless, expanding global trading opportunities to companies and also defying them with new challenges. The involvement of firms in internationalization has two variants: plain exports and imports of goods and services, and investment (both investment pull and investing abroad). ED must act on both situations, though with different procedures. In the present thesis, when internationalization is mentioned without any other qualification, it refers to exports.

In this context, ED's objectives are to support firms in the process of finding suitable and valuable international business opportunities, to provide knowledge about international markets, and to support companies' penetration efforts in foreign markets. This way, firms are better informed to make strategic decisions and understand what are the best markets to bet on, avoiding errors and reducing the risk and uncertainty of international expansion. From an ED operational perspective, the question is: how can such support be provided and what exactly does it mean to support SMEs in their international expansion?

As already mentioned, there are various forms of internationalization. Exports are the simplest and most common approach to a foreign market since companies benefit

from low implementation costs as the production is still made in the home country, saving expenses with manufacturing and facilities. Exports also apply to services, although it is more usual for service firms to install themselves in foreign markets to assure higher proximity to their clients (Mariadoss, 2019).

Even though exports are the form of internationalization that entails fewer risks, challenges are always implicit in the process – ED has definitely still a role to play. Theoretically, nowadays firms have the whole world as their market, which represents not only a substantial increase of potential consumers but of competitors as well, meaning that companies need to be made more aware of the global market tendencies. Despite challenging, internationalization has been proving to be worth it, or even inevitable if a company intends to stay competitive. Competing in international markets forces firms to foster their sources of competitive advantage and raise the brand image/awareness, being an opportunity for companies to improve and increase their competitiveness in the national market as well. Through this process, firms enhance their capability of risk management, leverage their long-term sustainability, and, most importantly, create their path on their way to domestic market independence (uGlobally, 2019; Bloom et al., 2014).

As politicians started to understand the importance of internationalization to the national economy, much more attention was given to ED, which is currently recognized as central to foreign relations. Hence, through its actions of trade and investment promotion, regulation, and networking, ED can provide SMEs with knowledge of external markets, help identify business opportunities, and enhance the country's image and international recognition as a result of publicity and institutional credibility (Sequeira, 2017).

Chapter 3

3. ED in Practice

3.1. The Existing Support of ED in Portugal

If ED is crucial to help increase any nation's reputation and recognition at an international level, that necessity is even bigger in the case of relatively small countries such as Portugal.

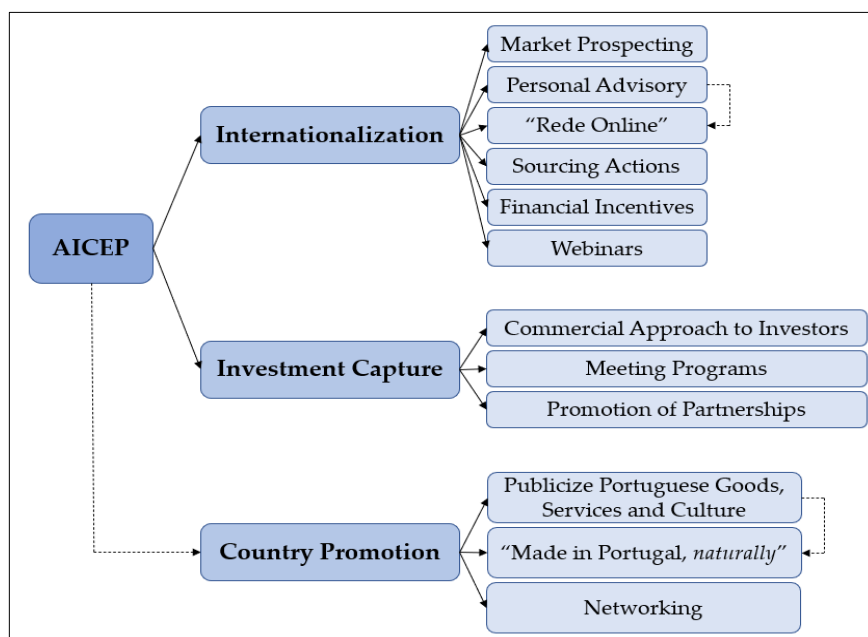
Accordingly, successive governments have been providing further support to companies and focusing on the country's promotion². One recent example is "Internacionalizar 2030", a program whose main target is to increase the weight of exports to 53% of the Portuguese GDP until 2030 (an increase of 9 p.p.) and to widen the base of the export sector, raising the number of Portuguese exporters between 20% and 25% while diversifying the exports' markets³. Other top priorities are related to investment: increment the volume of Foreign Direct Investment (FDI), strengthen the Portuguese Direct Investment abroad, and increase the national added value (Governo da República Portuguesa Portal, 2020). Additional measures are focused on the 'Portugal brand', bringing together the Portuguese trading and investment Agency, AICEP, and Turismo de Portugal. Less obvious, but no less important, is the priority given to the qualification of the Portuguese SMEs by training human resources, as well as to the creation of a specific credit line for supporting companies in the fulfillment of international purchase orders.

AICEP is central to the Portuguese international competitiveness, acting on two fronts: support the internationalization of Portuguese companies and their exporting

² Country promotion consists of publicizing the culture (e.g. the External Cultural Action approved in 2016 by the Portuguese Government, with Annual Indicative Plans) and the country's goods and services (for instance, through AICEP campaigns and initiatives).

³ The program stands on six axes: Business and Market Intelligence, Training and Qualification of Human Resources, Financing, Support in the Access to Markets and Investment in Portugal, Development of the Portugal Brand and Commercial Policy, and Context Costs (Governo da República Portuguesa Portal, 2020).

activity, and attraction of foreign investment. In parallel, AICEP fosters and publicizes the global image of Portugal in external markets. For that purpose, AICEP has several “customer/account managers”⁴ and “export shops”⁵ in Portugal, as well as a wide network of delegations in fifty-eight countries, all over the world, that allow proximity to almost every project and mission.



Graphic 1 – The branches of AICEP and some examples of actions

Source: Self-elaboration, data from AICEP

To achieve its mission in the internationalization branch, AICEP monitors closely, and advises, Portuguese companies throughout all development stages of their internationalization projects: provides market prospecting by identifying international business opportunities; offers critical information on the targeted sector/market, from tendencies to any relevant data that helps support the investment decision; and organizes online and in-person training actions to deepen the knowledge and abilities of the Portuguese enterprises. The support provided may also

⁴ The Key Account Manager is a company’s liaison in the Agency; is the link that reinforces the connection between Portuguese industries and AICEP. In today’s age of knowledge and globalization, the KAM is a key player in strengthening the competitive capabilities of Portuguese companies, playing a fundamental role in providing information and facilitating the internationalization process.

⁵ There are ten Export Stores in Portugal, part of the IAPMEI Agency Network and in articulation with AICEP Portugal Global. The main strategic objective of the Export Stores is to broaden the national export base. In this space, companies are able to find information and technical clarifications about products and services to support the strategy of approach to international markets.

involve financial incentives for internationalization (e.g., co-funding of participation in international events), as well as sourcing actions that help find Portuguese suppliers for specific international companies. Additionally, AICEP fosters other programs, like “Rede Online”, which consists of providing personal advisory and guidance to internationalization to some companies that are registered in AICEP (and, therefore, have a KAM), through an online service of meetings, for one month, with the network of AICEP delegations.

This Agency also provides full assistance to the potential foreign investor in all phases of its investment project. Firstly, AICEP does the intermediation with potential foreign investors, by commercially approaching them and delivering critical information for the decision-making – for instance, customized value propositions and location proposals. Then, AICEP organizes meetings in Portugal to validate certain critical aspects and to foster visits to office spaces or industrial parks for project implementation. Another relevant action is the promotion of partnerships with domestic suppliers, whether technological or industrial.

On top of the activities just described, AICEP also carries the flag of promoting Portugal, either by publicizing Portuguese goods and services in foreign markets or by publicizing the image of the country itself. This is done by emphasizing the Portuguese culture and focusing on the coordination of the National Plan of External Promotion, in articulation with the Associations, Chambers of Commerce, City Councils, and other relevant entities. The networking and promotion of Portugal’s image in the external markets is developed through the organization of seminars, entrepreneurial missions, scheduling of customized contact programs in foreign markets, and image campaigns, for instance, “Made in Portugal, naturally” (international campaign to promote the House and Building Materials ranks).

Finally, the Portuguese Agency arranges trade and investment missions to specific strategic foreign regions.

In line with the already mentioned need to increase the visibility and recognition of Portugal across borders, in the second semester of 2021, AICEP announced the

program “Marca Portugal”, whose strategic plan for the next decade will be presented in 2022. It aims to enhance the perceived value of the country’s brand in foreign markets, strengthening Portugal’s last decade tendencies: an increase in the exports, in the value-added of foreign trade and in the investment. Quoting Luís Castro Henriques⁶, “international buyers recognize Portuguese products and services for their quality, innovation, sustainability, authenticity and competitiveness”, allowing Portuguese firms to be relevant in international markets, however, “The real challenge is differentiation (...) there is a good awareness of our products by professionals, but now we need to reach the end consumer”, thus generating more added value (AICEP, 2021).

Indeed, one of the major drawbacks of Portugal’s positioning in the foreign markets is the lack of brand culture⁷, making it difficult for the Portuguese quality to be perceived internationally. To accomplish this notoriety in extremely competitive markets, Portuguese firms must create synergies, approaching the market together and not in an isolated way. Furthermore, the government considers it is essential to reinforce the effectiveness of the cross-promotion between tourism and international trade in goods and services, being fundamental to have an efficient promotion of tourism and investment, as tourists are potential buyers and investors (AICEP, 2021).

3.2. Comparison with Competing Countries

Similar to Portugal, other countries also have Agencies or Institutes that aim to help the companies in their nations grow, supporting the internationalization process and the attraction of investment.

For that matter, it is pertinent to compare the actions of Portuguese ED with the ones from counterparts’ agencies from competing countries.

⁶ Chairman and CEO of AICEP Portugal Global

⁷ “Brand Culture can be defined as the inherent DNA of the brand and its values, that governs every brand experience, brand expression, interaction with the customers, employees, and other stakeholders of the company along with every touchpoint” (Bhasin, 2019). In this sense, the brand culture of a country, for instance, Portugal, means not only the recognition of Portuguese brands abroad but also making known to the world the Portuguese values inherent to every “Made in Portugal” good or service.

Being Portugal’s main exporting client and the country with which Portugal has the most trade relations, Spain is an obvious choice for this comparison. ICEX *España Exportación e Inversiones* is a national public business entity whose mission is to promote the internationalization of Spanish companies and promote foreign investment.

The other country chosen for this comparison was Ireland, as it is a small country, with an even less population than Portugal, but that has high international notoriety, displaying numerous and heavyweight foreign companies established in the country. Inter Trade Ireland is an organization that supports SMEs in Ireland to explore foreign markets, develop new products, processes and services, and become investor-ready for the next decades. This Agency also holds a branch, Invest Northern Ireland, dedicated to helping the local economy grow, by attracting new investment to Ireland.

The table below highlights some of the initiatives that each Agency develops regarding certain crucial aspects of the internationalization process.

	AICEP	ICEX	Inter Trade Ireland
Promotion of National Products	-“Made in Portugal, naturally”	-“ICEX Influencer”	/
Support for the Internationalization of SMEs outside the E.U.	-Private and targeted advisory with the countries’ delegations	-“ICEX Localiza”	-“Acumen Program”
Specialized counselling and follow-up	-“Como vender em...” -“Rede Online”	-“ICEX Next”	-“Go 2 Tender”
Financial Support	-Innovation Incentive System -FAIE (Internationalization and Export Support Fund)	-FIEM (Fund for the Internationalization of the Company)	-Trade Accelerator Voucher Program -Funding Advisory Services -Funding in various programs
Clarification of doubts about external markets	-ABC Mercado Webinars	-“Conecta2 a ICEX”	/
Sourcing	-Sourcing Actions	-“ICEX Sourcing”	-Supplier Engagement Events
Development of Online Channels/Marketplaces	-Basic International E-Commerce Courses -Internal Training Program “Exportar Online”	-eMarket Services	-“E-Merge”

Table 1 - Initiatives and programs implemented by the Portuguese, Spanish and Irish Agencies for the process of firms’ internationalization

Source: Self-elaboration, data from ICEX, AICEP, Inter Trade Ireland

As it is possible to observe, the Irish Agency column is less complete, since Inter Trade Ireland tends to focus more on investment attraction. This emphasis on investment is patent once looking at how many multinational companies, from sectors

such as ICT, life sciences and financial services, are established in Ireland: “The contribution of Foreign Direct Investment (FDI) to the Irish economy is far-reaching and it is estimated that 20% of all private-sector employment in the State is directly or indirectly attributable to FDI (...). At present, Ireland is home to over 1,600 overseas company operations that directly employ over 250,000 people.” (Department of Enterprise, Trade and Employment, 2021).

Meanwhile, AICEP and ICEX concentrate a great part of their efforts on internationalization, displaying numerous initiatives that support the process of firms’ internationalization. Whether it is regarding country promotion, personal advisory, knowledge transmission, sourcing actions or the reinforcement of e-commerce, both Portuguese and Spanish Agencies provide a very complete service with similar solutions. The exception is the promotion of firms’ participation in international fairs, where ICEX is more active than AICEP. This happens because in the case of Portugal, the sector associations are the ones accountable for the presence of firms in international fairs, not the trade and investment Agency, as it is the case of Spain.

Another point that might be important to note is that Inter Trade Ireland, mostly due to its strategy focused on investment, has created a successful dynamic that made it very strong in terms of financial support when compared with the other two mentioned Agencies.

It seems fair to conclude that, at least concerning the functions listed below, AICEP and ICEX do not differ much. Even in terms of personnel, at the end of 2020, AICEP counted 486 employees and ICEX 606, which is quite similar, but as a proportion of the total population, ICEX has fewer workers. However, it is necessary to bear in mind that while Portugal has AICEP alone covering the whole country in this matter, Spain counts on different agencies for each autonomous region, as is the case of ACCIÓ, the competitiveness Agency of Catalonia.

Chapter 4

4. Methodology

The case study research strategy appears to be the most adequate, as this thesis focuses on the “how” (e.g., “How can international relations be fostered?”), the “why” (e.g., “Why is ED relevant to help SMEs stepping on to the global level?”) and the “what” (e.g., “What support do public entities such as AICEP provide to SMEs?”), making descriptions, posing exploratory questions and evaluating the results and patterns found, narrowing the research to the particular case of the Portuguese trade with the US.

In this sense, the current study follows a qualitative approach with the aim of discovering the literature’s statement on how ED and public entities such as AICEP can enhance the relationship between American and Portuguese companies, fostering the globalization of Portuguese companies, and involving detailed data and multiple sources of information. More specifically, it follows an exploratory case study research type, as it is intended to explore the concrete actions of ED, regarding the internationalization of Portuguese SMEs to the US, digging into the real-life procedures of the Portuguese government in this process, as well as discovering the relevant information on the commercial and investment relations between Portugal and the USA, allowing to evaluate ED’s support.

To make a more assertive assessment, some quantitative data are also used regarding exports and relevant indicators that illustrate the significance and impact of ED in present days.

Concerning the data collection techniques, the main sources of evidence for the thesis are documentation, as it provides stable, pondered and broad information; archival records for the quantitative statistics, for instance from INE, AICEP and PORDATA; and direct and participant observation, since a relevant amount of data was obtained during the internship at AICEP San Francisco delegation, in real-life and contextual events and situations, allowing the collection of information and insights.

Finally, to obtain more specific and targeted data on the impact of Portuguese ED on the national SMEs, some interviews were conducted: one with Teresa Fernandes, my internship advisor and the Trade and Investment Commissioner at AICEP San Francisco; two other interviews with the CEOs of Liquid Company (Licor Beirão), Tiago Patrão, and YData, Gonçalo Ribeiro (both Portuguese companies that benefitted from the support of AICEP, in particular from the San Francisco delegation); and one more with João Maia, who is the General Manager of the Portuguese Footwear Association (APICCAPS), that encompasses various footwear companies linked to AICEP through their exporting process.

Chapter 5

5. The US/California Trade with Portugal – Case Study

The support provided by the government to the internationalization of SMEs is now clearer. This chapter aims to describe, in particular, the actions taken to foster trade relations with the US.

Firstly, to be closer to the market, i.e., to enable the delivery of more precise information to Portuguese SMEs and facilitate the intermediation between them and the American companies, the governmental Agency AICEP established two delegations in the US, one on each coast: New York on the East Coast and San Francisco on the West Coast. Then, in 2020, AICEP announced the opening of a new delegation in Chicago. The need for another team in the country is a positive indicator, as it is a signal of necessity and new opportunities.

Meanwhile, AICEP developed a new program in 2020, “Portugal to Take Off”, to accelerate the growth of Portuguese companies in California. Participants had the opportunity to polish their go-to-market strategy and gain access to the huge market that is California. For that purpose, AICEP California-based mentors validate the SMEs’ business value propositions and market approaches, provide personalized feedback about their commercial presentations, and identify potential customers, helping to tackle the difficulties most entrepreneurs face when trying to enter the American market. The program also facilitates networking, as AICEP connects companies with relevant contacts, industry leaders and potential customers in California. The applicant companies are mainly early-stage tech-enabled firms that are selected based on their fit to the Californian market, strong will to enter the market and capability to construct a solid and differentiated presence (AICEP, 2021).

During 2021, AICEP developed two digital marketing campaigns to promote Portugal in the North American market: “Made in Portugal, naturally” and “Invest in

Portugal". The growth and consolidation of Portugal's visibility in North America through these campaigns had as reference three fundamental requirements for successful communication: a strong and consistent message to the market and decision-makers, a multiplatform communication, and a sector specialization, meaning precise identification of not only sectors in which Portugal already shows high notoriety but also sectors that still aren't positioned in the market but have the potential of making a stand through quality differentiation and competitiveness.

Following the slogan "Invest in Portugal", the digital strategy was focused on promoting Portugal as a destination of talent, innovation, opportunity, security and stability. The three target sectors chosen were life sciences, technology and shared service centers, based on the competitive advantages of Portugal in attracting investment of this nature.

In the commercial area, the already developed brand "Made in Portugal, naturally" was used to stress the quality, innovation and sustainability of the selected products: molds, floors and coverings, ceramics and porcelain, furniture and decoration, wine, fashion, footwear, food, home textiles, and technology and digital transformation. The strategic approach of these sectors allows the dissemination of the Portuguese values of tradition, know-how, innovation, differentiation, quality, customization and sustainability. In the scope of this campaign, a new website fully dedicated to the communication of AICEP with the American market was also developed, presenting around four hundred and thirty dedicated company pages. As it is intended to have multichannel communication, the campaign also counts on a social media integrated strategy, as well as on an e-mail marketing strategy for segmented client bases for each industry, and on influencer marketing for the B2C approach.

To sum up, this campaign stands on four big objectives: to generate B2B leads for the Portuguese exports to the American market; to generate leads for potential American investment in Portugal; to promote the image of Portugal and national products; and to foster the awareness, image, presence and reach of AICEP's communication in the American market (Revista Portugal Global, AICEP, 2021).

Other initiatives of the Portuguese trade and investment Agency include the organization of webinars, intended to deliver knowledge to the Portuguese SMEs that aim to start, develop or enhance business across borders. An example is “ABC Market: USA – California”, which seeks to increase trade and investment between this State and Portugal. Another example is the “Go to Market – USA” seminar, where it is discussed, along with the Portuguese firms, what are the best approaches for companies that are already present in this very demanding and competitive market, or that intend to start exporting to it.

Still concerning this matter, AICEP offers “Going Global”, which is a seminar that intends to encourage and assist companies to take the leap across borders in a structured and sustained way. In 2021, “Going Global – *Como as startups europeias podem chegar ao mercado global*” consisted of a conversation between different personalities and various CEOs of start-ups founded in Europe and the US. In this seminar, guest speakers explained the different steps their startups have taken to reach the global market, and participants had the opportunity to acquire knowledge of the technological environment in Silicon Valley and learn from the experiences shared.

Finally, it is also worth mentioning that AICEP promotes specific missions to certain strategic states or regions (for example, in the case of the San Francisco delegation, to Los Angeles, San Diego, or the state of Arizona), intending to identify possible targets to sectors that have a higher chance of success in those markets.

Chapter 6

6. Performance Evaluation of ED's Support

6.1. General Evaluation of ED's Support

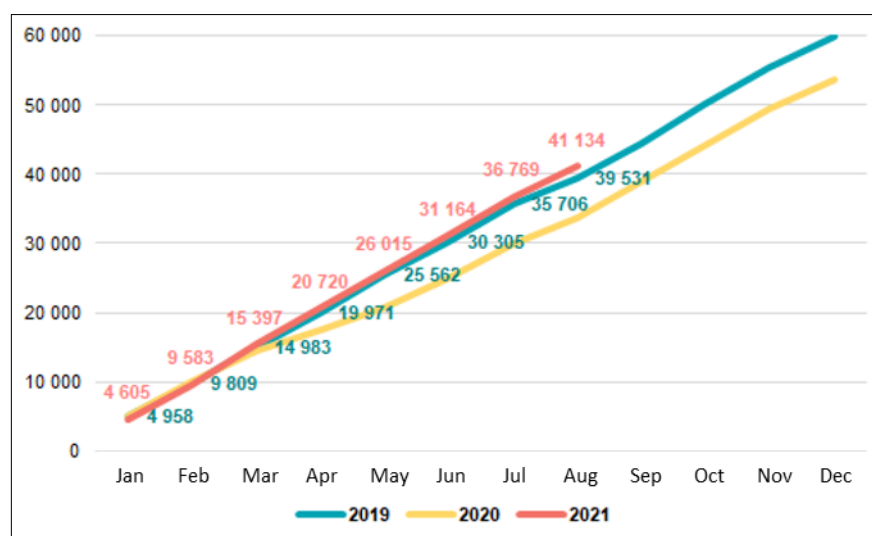
In this section, it is intended to do an overall assessment of ED's impact on the performance of the Portuguese economy. The support that ED provides to the SMEs' internationalization process, as well as in enhancing Portugal's notoriety and recognition as a country, is not easy to assess, as many variables are qualitative and depend on multiple factors, for instance, the international juncture. Nonetheless, some rough indicators can help understanding if the assistance given is achieving the intended results.

Before proceeding to the statistical analysis, it is relevant to mention that the importance of ED has in fact been increasing in Portugal over the last decade. One way to measure this is the evolution of AICEP's external network: in 2008 (the first year for which data are available), AICEP counted forty-eight offices, while currently, in 2022, there are sixty AICEP representations all over the world, a 25% increase. Those figures are a sign of a wider exporting base, which, in turn, requires a broader institutional coverage of the international market. Moreover, at least another office will be opened this year, precisely in the US, in Chicago, demonstrating once again the growing importance of the American market to Portuguese companies and the tendency to widen the Portuguese external network (AICEP, 2022).

Various studies and empirical literature conclude that the reinforcement of ED through EPAs (Export Promotion Agencies) and promotion instruments is associated with an increase in the number of export markets, generates more exports, and creates higher diversification of the exporting base of markets and products (Alvarez & Crespi, 2000). As a matter of fact, Andrew Rose (2007) points out that "each additional consulate placed abroad is associated with a rise of bilateral exports of between 6% and 10%". Despite the importance of embassies and consulates, EPAs appear to have

a greater impact on the internationalization of firms. On this same line, Volpe Martincus (2011) states that the positive effect in bilateral trade of opening an EPA tends to be 5.5 times higher than of opening an embassy or a consulate. Also, according to Kichun Kang (2010), “an increase of 10% in the budgets [of EPAs] increases exports by 2.45% – 6.34%”. Having said that, and since governments’ resources are limited, it is essential to place the right bets. Given the already mentioned effectiveness of EPAs in bilateral trade, investing in these agencies seems an obvious priority for governments.

Even though it is not possible to assert if its evolution is only due to ED, which most likely it is not, one of the most obvious and valuable indexes to evaluate the effect of ED is, almost by definition, exports’ evolution. A comparative analysis based on data from INE demonstrates that Portuguese exports of goods reached around 41 billion euros in August of 2021, a record figure which represents an increase of 1,6 billion euros when compared to the homologous pre-pandemic period of 2019 (YoY 4,1%) (AICEP, 2021).



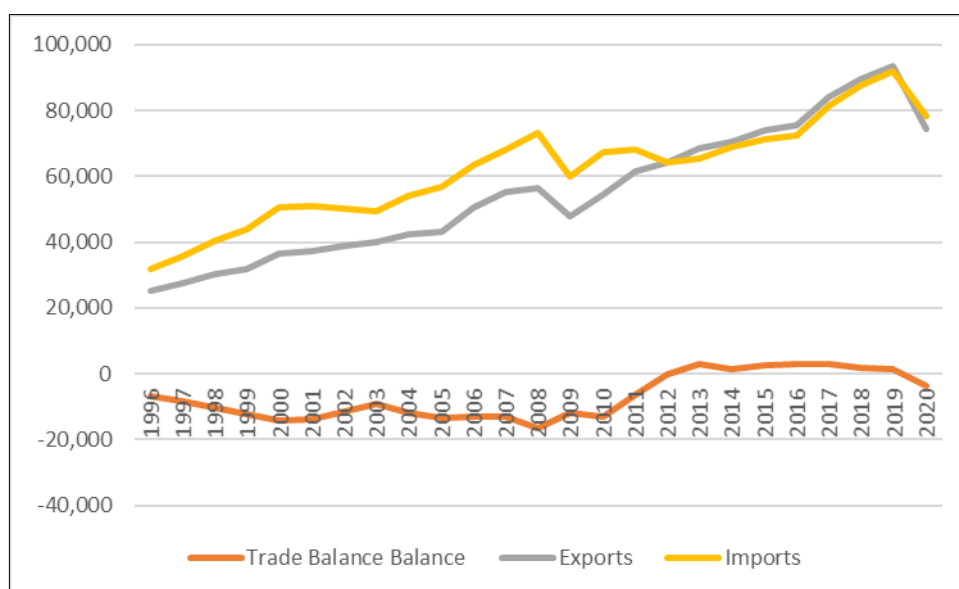
Graphic 2 - Exports of Goods in million euros (accumulated monthly values)
Source: AICEP, 2021

According to Luís Castro Henriques, “2021 was a record year for Portuguese exports worldwide”, as Portuguese companies have maintained their extreme

reliability and resilience, adapting quickly to the new normal in international trade, after the chaotic pandemic year of 2020.

More updated data demonstrates that the exports of goods kept growing after August, reaching a total value of 63,477 million euros in 2021, which represents an increase of 18.1% relatively to 2020. Even considering the damaging effect of the covid-19 pandemic in 2020, the yearly average growth rate of the value of Portuguese exports, from 2017 to 2021, was 6.9%, and the registered value of exports of goods in 2021 was 6% above the one in 2019 (AICEP, INE, 2021).

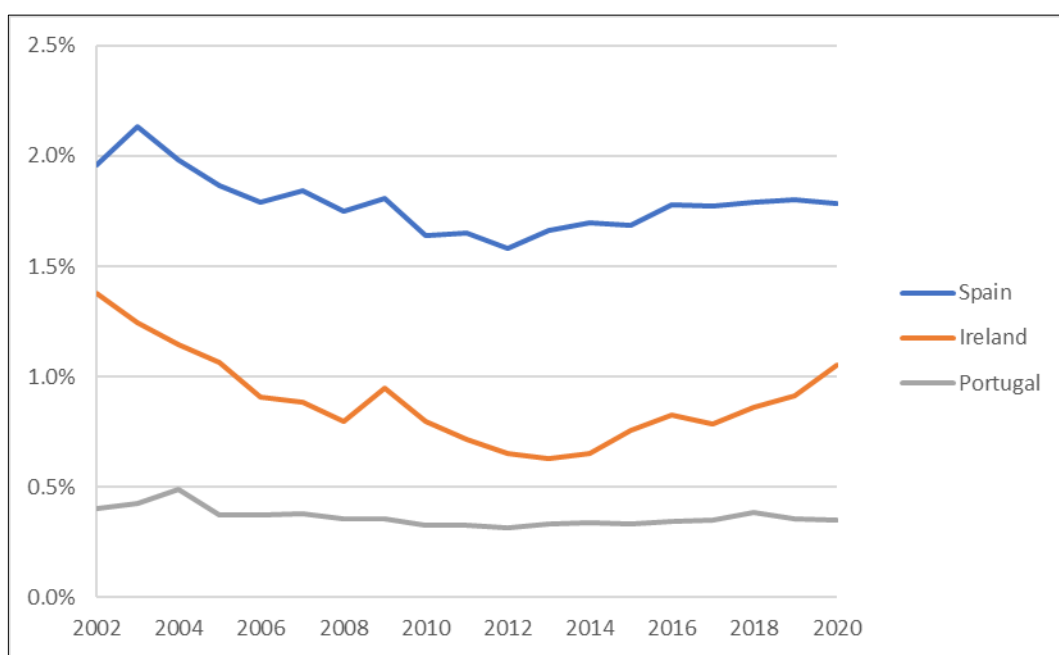
Analyzing data from 1996 until 2020 relating to the trade balance of goods and services (Graphic 3, derived from Table 9 in Attachment II), it is clear that exports have been growing sustainably, from 25,065 million euros to the 93,615 million euros registered in 2019 (the last pre-pandemic year). Obviously, imports also grew but roughly after 2011, the trade balance of goods and services turned positive, with a peak of 3,175 million euros in 2016. The exception was 2020 and 2021, when, due to the pandemic, the trade balance became negative.



Graphic 3 - Trade Balance of Goods and Services in million euros
Source: Self-elaboration, data from PORDATA, 2022

The tendency of commercial trade growth since 1996 was, of course, also verified in the EU as a whole, leading to the conclusion that the international economic context

also played an important part in Portugal's positive evolution: we surfed the wave. As a matter of fact, Portugal's share of global exports of goods remained roughly constant from 2002 until 2020. Nevertheless, this is not the whole story. The worldwide economic juncture does not explain some very important details and as well known, the devil is in the details: if Portugal managed to keep its trade share, the two competitor countries already used in this thesis for comparison matters (Spain and Ireland) saw their share of global exports diminishing until 2012, and not recovering enough after that to return to the 2002 value.



Graphic 4 - Share of Global Exports of Goods
 Source: Self-elaboration, data from Trademap, 2021

Therefore, it seems reasonable to conclude that something made a difference. A good explanation is that a combination of improved firms' competitiveness and ED efforts made it possible to benefit from the European favorable economic condition, something not visible in other countries.

In the framework of this thesis, it was conducted a set of interviews with relevant economic players, to get a feeling of their assessment of the role of ED, in general, and AICEP, in particular. While in the quantitative analysis was very difficult to disentangle ED's specific contribution, interviews were more targeted, enabling a

better evaluation of ED's real contributions. With that in mind, but also trying to have the perspective of entrepreneurs from different sectors, the selected companies were YData (tech company), Liquid Company/Licor Beirão (spirits sector) and APICCAPS (footwear companies trade association). The two chosen companies and the trade association received the support of AICEP in their international expansion process.

From the different interviews emerged the pattern that ED, more specifically AICEP, plays a crucial role in the exporting process of firms. The interviewed companies emphasized the access to a much wider network of contacts, the identification of targets, the higher capability to get in touch with potential partners, market prospecting, and the aid with event logistics, affirming it would definitely be much harder to approach the market without the aid of the Agency. AICEP made a difference either incrementally, speeding up things, or opening new ventures. Still, two of the three interviewed firms provided insights on some factors to improve. One of them regards financial support, mentioning that monetary incentives are welcome, for example, to increment the company's attendance at trade fairs, to encourage promotion events, to help establish offices abroad, or simply to advertise and promote the firm, as it is a crucial step in the process of internationalization, that requires spending financial resources. The other element to improve concerns the size of teams in AICEP's delegations: although dynamic, they tend to have few people, restricting their capacity to act proactively and to provide full support to companies.

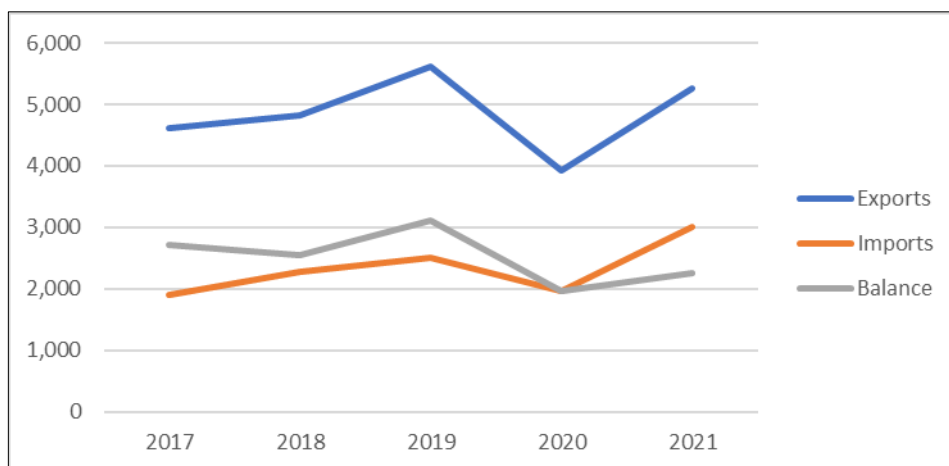
The information gathered does not allow for a strong case. Still, based on the data just presented, it seems reasonable to conclude that Portugal is evolving positively, potentially demonstrating the efficiency of ED policies. Yet, despite some good indicators and indications, the statistics and results could still be better, clearly indicating that there is still work to be done in the field of ED's support and role, not only in quantitative but also in qualitative terms. As previously mentioned, one clear path would be for governments to invest more in EPAs, since their effectiveness in enhancing bilateral trade has already been demonstrated and recognized.

6.2. Performance Evaluation: Concrete Measures of USA/California

The main purpose of this thesis is to try to clarify the role of ED in fostering Portuguese exports to the American market, more specifically the Californian market, with a focus on the impact of the AICEP delegation in San Francisco. The approach will be mainly qualitative since the quantitative data do not allow for thorough evaluation but just for the construction of some simple, yet elucidative, indicators.

Like the approach in the previous section, the exports and trade evolution between Portugal and the US will be used to establish a first approach to the impact of ED in the internationalization process in the US. Traditionally, the US ranks fifth among the countries to where Portugal exports more, being the most relevant country outside Europe. Between 2016 and 2020, while the imports from the US grew, on average, 2.5% per year, exports from Portugal to the US grew at a rate of 10.4% per year. As a result, the trade balance of goods and services scored a surplus that, in 2020, reached 1,962.7 million euros (Portugal Exporta, AICEP, 2021).

In 2021, Portuguese exports to the US topped 5,254.8 million euros, an increase of 33.6% when compared to the previous year. This growing trend has been taking place at least since 2017, only dropping in 2020 due to the pandemic, but quickly recovering to figures similar to 2019 (Graphic 5) (INE, 2022).

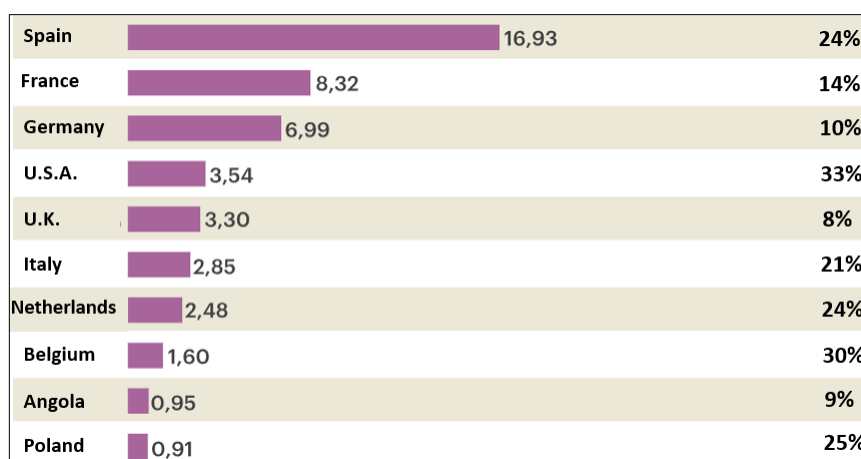


Graphic 5 - Commercial Balance of Goods and Services of Portugal with the USA in million euros
Source: Self-elaboration, data from INE, 2022

Because of such good performance, the US overtook the UK as the fourth largest importer of Portuguese products (Table 2). It is pertinent to state that from the ten countries to where Portugal exports the most, the US was the country with the highest growth in 2021, while the UK was the one that registered the smallest growth, revealing Brexit's impact, as can be seen in the graphic below.

		2017	2018	2019	2020	2021
USA as a client of Portugal	Position	5	5	5	5	4
	% Export.	5.17	4.97	5.07	4.97	5.59

Table 2 - US Position and Share in Portuguese Exports in Goods
Source: AICEP, INE, 2022



Graphic 6 - Top 10 Portuguese Exports Destinations in 2021 – export values in million euros and variation compared to 2020

Source: INE, 2022

The improvement of the US position as a client of Portugal led to a bigger contribution to the growth of the Portuguese global exports, as displayed below.

	Unit	2017	2018	2019	2020	2021
USA - contribution to the growth of Portuguese global exports	pp	0.76	0.05	0.28	-0.61	1.64
Portugal - global exports	YoY %	10.0	5.1	3.5	-10.3	18.1

Table 3 - US Contribution to the Growth of Portuguese International Trade in Goods
Source: AICEP, INE, 2022

As mentioned in AICEP *Portugalglobal* no. 147, in November 2021, “The supply chain disruptions caused by the pandemic have made the US realize its dependence on Asian suppliers”, which resulted in a change in the sourcing strategies of many firms. That, combined with the good price/quality ratio of Portuguese goods, as well

as the innovation and sustainability they present, led to an increase in imports from Portugal.

The aforementioned growth was mainly sustained by some traditional sectors, not only because they were already the categories that weigh more in the Portuguese exports of goods to the US, but also because they registered large positive variations: Mineral Fuels (which in 2021 represented 20% of the total exports to the US and recorded a growth of 59.7% from 2020 to 2021), Machinery and Appliances (9.8% of the total and a YoY of 33.4%), Chemicals (8.8% of the total and a YoY of 49.6%), Plastics and Rubber (8.5% of the total and a YoY of 52.3%) and Textile Materials (also 8.5% of the total but with a YoY of 31.5%).

Exports from Portugal to the USA by Groups of Products							
	2017	% Tot 17	2020	% Tot 20	2021	% Tot 21	Var % 21/20
Mineral Fuels	672.7	23.6	444.4	16.6	709.8	20.0	59.7
Machinery and Appliances	283.1	10.0	261.4	9.8	348.6	9.8	33.4
Chemicals	232.7	8.2	208.5	7.8	311.9	8.8	49.6
Plastics and Rubber	160.7	5.6	197.7	7.4	301.1	8.5	52.3
Textile Materials	221.0	7.8	228.2	8.5	300.1	8.5	31.5

Table 4 - Exports from Portugal to the USA by Groups of Products (thousand euros)

Source: AICEP, INE, 2022

Three other categories stood out for their growing statement in the trade with the US: Bed and Table Linen, Fresh Grape Wines, and Furniture and its Parts.

Bed and Table Linen has the US as its main exporting market and presented a positive variation of 87.4% between January and July of 2021, compared to the homologous period, which can be translated into an increase from 43.536 million euros in 2020 to 81.581 in 2021, following a growth, despite small, even in 2020⁸.

⁸ For the sake of comparison, the tables that follow show exports' growth rates for some of the most important markets.

	2019 (Jan/Dec)			2020 (Jan/Dec)			2020 (Jan/Jul)			2021 (Jan/Jul)		
	1000 EUR	%Tot	1000 EUR	%Tot	Var. %	1000 EUR	%Tot	1000 EUR	%Tot	1000 EUR	%Tot	Var. %
TOTAL	497 878	100,0	468 247	100,0	-6,0	TOTAL	235 763	100,0	347 735	100,0	47,5	
USA	97 658	19,6	100 002	21,4	2,4	USA	43 536	18,5	81 581	23,5	87,4	
France	91 778	18,4	84 028	17,9	-8,4	France	43 707	18,5	65 112	18,7	49,0	
Spain	89 976	18,1	64 030	13,7	-28,8	Spain	33 561	14,2	45 597	13,1	35,9	

Table 5 - Bed and Table Linen
Source: ABC California, AICEP, 2021

The Fresh Grape Wines category was fundamental for the US to surpass the UK, since the exports in this category, in the last four years, have been always increasing, turning the US into the 2nd country to where Portugal exports the most in this sector.

	2019 (Jan/Dec)			2020 (Jan/Dec)			2020 (Jan/Jul)			2021 (Jan/Jul)		
	1000 EUR	%Tot	1000 EUR	%Tot	Var. %	1000 EUR	%Tot	1000 EUR	%Tot	1000 EUR	%Tot	Var. %
TOTAL	819 402	100,0	856 190	100,0	4,5	TOTAL	456 733	100,0	519 488	100,0	13,7	
France	114 137	13,9	110 831	12,9	-2,9	France	60 986	13,4	67 290	13,0	10,3	
UK	77 748	9,5	95 304	11,1	22,6	USA	56 984	12,5	65 139	12,5	14,3	
USA	89 480	10,9	92 250	10,8	3,1	UK	38 944	8,5	42 971	8,3	10,3	

Table 6 - Fresh Grape Wines
Source: ABC California, AICEP, 2021

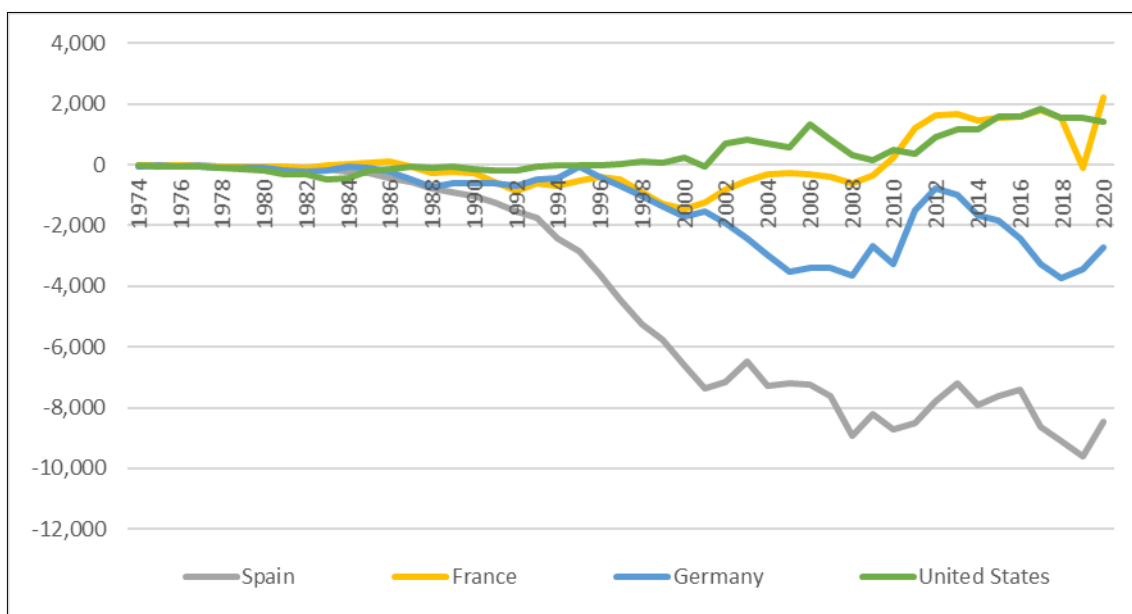
For the last category, Furniture and its Parts, 2021 (from January to July) was also an excellent year with exports to the US rising 28.7% compared to the same period of the previous year.

	2019 (Jan/Dec)			2020 (Jan/Dec)			2020 (Jan/Jul)			2021 (Jan/Jul)		
	1000 EUR	%Tot	1000 EUR	%Tot	Var. %	1000 EUR	%Tot	1000 EUR	%Tot	1000 EUR	%Tot	Var. %
TOTAL	754 605	100,0	661 744	100,0	-12,3	TOTAL	364 009	100,0	447 477	100,0	22,9	
France	269 557	35,7	245 471	37,1	-8,9	France	131 484	36,1	163 324	36,5	24,2	
Spain	156 025	20,7	128 921	19,5	-17,4	Spain	70 117	19,3	96 259	21,5	37,3	
USA	68 906	9,1	53 610	8,1	-22,2	USA	2 445	8,9	41 741	9,3	28,7	

Table 7 - Furniture and its Parts
Source: ABC California, AICEP, 2021

The analysis of the graphic below (derived from Table 8 in Attachment I) allows to conclude that, from 1974 until 1996, the trade balance of goods of Portugal with each and every country of the now top four clients (Spain, France, Germany, and the US, top-down) was always negative. Concerning the US, however, 1997 marked a turning point since, from then on, the overall balance of goods was, in general, positive, with the surplus of exports growing from just 13 million euros in 1997 to 1,434 million euros in 2020. The US became then one of the few developed countries with which Portugal

has a trade surplus and the only country from the top four with which Portugal has a positive trade balance from 1997 until now.



Graphic 7 - Balance of Goods by Top 4 Partner Countries (1974-2020) in million euros

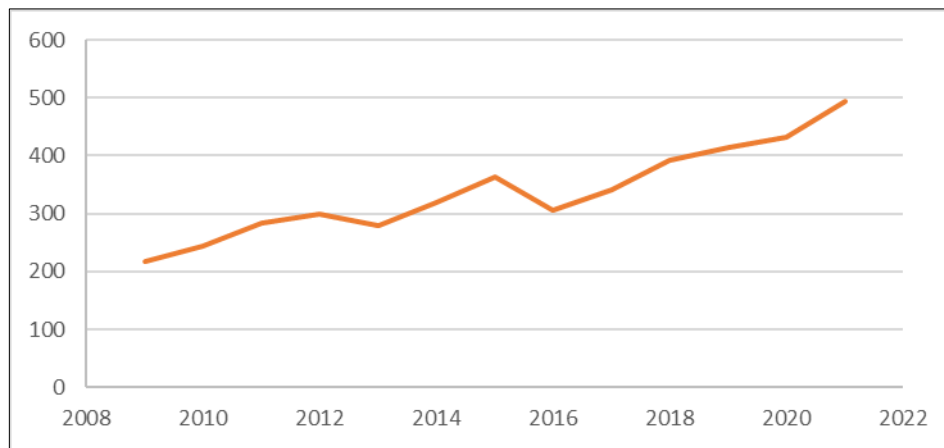
Source: Self-elaboration, data from PORDATA, 2021

Services-wise, Travel and Tourism is the most important industry in terms of exports to the US, representing 27.3% of the total. Despite the 59.2% increase from 2020 to 2021 (312.6 million euros to 497.8), the absolute value of the exports from this sector in 2021 is still less than half the value registered in 2019 (1,231 million euros), which means that this category hasn't yet recovered from the covid-19 pandemic.

Furthermore, the graphic below clarifies that the importance of the US West Coast in the internationalization process of Portuguese SMEs has been significantly increasing in the past decade. In 2009, California imported goods from Portugal in the value of around 200 million USD, a value that more than doubled in the next decade⁹, until reaching a maximum of 500 million USD in 2021¹⁰.

⁹ When referring to the increase of Portuguese presence in California, it is pertinent to mention the significant investments made by Amorim Cork, which included the implementation of a new factory in Napa Valley, in 2019. Paradoxically, this might translate in a reduction of trade between Portugal and California.

¹⁰ It is relevant to note that these data record the destination of the product, which means that if the importer is in NY and the products are unloaded there, and only then transported internally to California, the goods are registered in NY. Services are also not considered here. However, it provides a very relevant notion of the volume of exports, in USD, from Portugal to California.



Graphic 8 - California (CA) Imports from Portugal in million USD
 Source: Self-elaboration, data from United States Census Bureau

This means that, in 2021, 11.4% of the Portuguese exports to the US had California as a destination, the second most important State, only behind New Jersey. Part of the relevance of the Californian market might be explained by the fact that it houses a numerous Portuguese American community, estimated at 1.5 million (ABC California AICEP, 2021). Despite this relevant aspect, a large share of California's importance in Portuguese exports to the US can be related to AICEP's delegation in this State. Even with limited resources, it plays a relevant role in the internationalization process of firms in California, as the interviews made clear.

A quantitative analysis can just go this far. The data do not allow to establish a clear correlation between exports evolution and ED, namely AICEP's activity. Furthermore, AICEP also provides support to firms trying to invest and locate abroad. In this second domain of AICEP's activity, data are even more scarce, almost just anecdotal. To fill these caveats, some interviews were conducted. The companies chosen have all received the support of AICEP in their expansion process to the American and Californian markets. Nevertheless, they have different objectives and approaches to the American market. Before resorting to AICEP, Licor Beirão and various APICCAPS' companies were already present in the US, albeit at a small scale, while YData wasn't yet established in this market. In this sense, the first two mentioned companies had the objective of strengthening their presence in the US, whereas YData intended to position itself in the American market.

Moreover, the interview with the San Francisco delegation Director, Teresa Fernandes, aimed to comprehend the dimension of the delegation and the scope of its intervention, as well as the perspective from inside, i.e., from the side that provides the mentioned support to companies.

The interviews confirmed what has been stated so far, as the companies recognize the relevance of the American market and the positive impact of exporting to the US, particularly California. Tech companies find this country highly appealing as it is extremely advanced in terms of technology, the country with the highest investment in AI (Gonçalo Ribeiro, YData, 2022). More specifically, California/Silicon Valley is known for being a tech hub, a global center of technological innovation, also called “startup heaven” (Seth, 2021). Portuguese footwear firms also look at the US as an interesting market, the most relevant one outside Europe. It is a market that has been registering a big growth in the last few years for national exports. Nonetheless, it still represents only around 6% of the total Portuguese footwear exports (João Maia, APICCAPS, 2022). Finally, the spirits sector also finds the American market extremely appealing, as it is the largest market for alcoholic beverages in the world, with a high level of consumption *per capita*. Besides, this country is a highly developed market, wide open to new products (Tiago Patrão, Liquid Company, 2022).

Concerning the AICEP delegation of San Francisco, it has had around eight hundred interactions with different companies from various sectors in the last three years alone. Among the industries, a reference was made, for instance, to food, home, technology, or capital goods, which demonstrates that the call for AICEP’s support comes from many different industries (Teresa Fernandes, AICEP, 2022). On top of their diverse economic specialization, companies that resort to AICEP are very different in size. This means that companies of all types find relevance not only in exporting to the demanding and competitive market that is the US but, exactly because of that sophistication, also in the support that AICEP provides. Together, this raises the question of the diversity of competencies needed to support such a wide

range of specialization and to respond to the specific demands of firms of different dimensions.

Concluding, the statistics presented above demonstrate that trade relations between Portugal and the US have been consolidating over the years. This positive evolution, along with the feedback from interviewees, seems to lead to the conclusion that ED has been exceptionally important in the internationalization process of firms, contributing to the affirmation of the USA as the top market for Portugal. The impressions I draw from the internship are also in line with the feedback given by companies in the interviews, as I have witnessed a great effort of the delegation to do everything in its power to aid the Portuguese firms. During the six months at AICEP, I had the opportunity of following, in firsthand, several initiatives that boosted the internationalization process of firms to California, such as Rede Online or one sourcing action in the Bed and Table Linen field. Six months wasn't long enough to observe the evolution of firms aided by AICEP. However, it sure was long enough to comprehend the support given by AICEP to companies that want to expand their activity to California. I have witnessed this support in the various forms already described in the thesis: either by putting the companies in touch with relevant players, broadening their list of contacts, transmitting knowledge of the market, giving support in promotion events' logistics, or by providing personalized consulting. The recurring feedback from firms after every meeting or action also helps to confirm the excellent contribution of the San Francisco delegation to companies' internationalization process in California, reinforcing its relevance and impact.

This is not a surprise, as this feedback meets the conclusion that EPAs are, in general, more efficient than embassies and consulates mainly due to their higher proximity to the market and economic agents (Martincus, 2011; Pacheco & Matos, 2022).

Chapter 7

7. Conclusion, Research Limitations and Further Investigation

7.1. Main Findings

ED is a vast concept, in permanent evolution, reason why it is hard to define. There are essentially two lines of approach: one, more theoretical; the other, more empirical. Both dimensions “(...) pose significant challenges for the way diplomacy is analyzed and practiced.” (Donna & Hocking, 2010). Nevertheless, ED is generally accepted as “the process of international economic decision-making” (Bayne & Woolcock, 2017). Despite different opinions on its scope, it is unanimous that the importance of ED has been growing over the years. The increasing attention it has been receiving is related to the perception of the importance of the critical role internationalization has for economic growth, something globalization made more evident. In general, to be effective, ED needs to support companies in their internationalization process.

Like in many other countries, Portugal’s focus on ED has been increasing over the last decades. The evolution of the number of AICEP delegations is a good indicator: from forty-eight representations in 2008 to sixty in 2022. AICEP has been central to the country’s international competitiveness by supporting companies on two fronts: internationalization and investment attraction. In parallel, the Portuguese trade and investment Agency also works on fostering and publicizing the image of Portugal (and, therefore, the image of its companies, products and services) in external markets. After characterizing AICEP’s activity, it was considered relevant to do some kind of benchmark exercise by trying to comprehend the approach of counterparts’ agencies from competing countries, such as Spain and Ireland. One conclusion derived from such study was that AICEP and ICEX perform under a similar framework, not differing much in their responsibilities. However, while in Portugal AICEP is accountable for the entire country, Spain holds additional agencies for each

autonomous region, making it difficult to compare resources available and effectiveness. Meanwhile, Inter Trade Ireland's action is quite different from its counterparts' agencies in Portugal or Spain, being more focused on investment attraction, an Irish resolve.

One of the main purposes of this thesis was to try to assess the effective support of ED to companies, attempting to understand if the assistance given, particularly by AICEP, is achieving its goals. Since many variables are qualitative and there are multiple factors at play, for instance, the international juncture, it is not easy to disentangle the real impact of ED. Even so, by resorting to some statistical and qualitative indicators, and backed by the results of some, it was possible to make a rough assessment of its performance.

From the literature, one major conclusion has emerged: EPAs are extremely effective and crucial for the development of a country. Authors such as Alvarez and Crespi (2000) have reached the conclusion that the reinforcement of ED through EPAs and promotion methods leads to a boost in exports, by generating more diversification in the exporting base, in terms of markets and products. Another interesting conclusion is that although consulates significantly increment bilateral trade, EPAs seem to have a greater impact on the internationalization process of companies, as the positive effect in bilateral exports of opening an EPA abroad tends to be way higher than that of opening an embassy or consulate (Rose, 2007; Marticus, 2011). These conclusions, allied to Kang's (2010) demonstration that increasing the budgets of EPAs makes exports grow, clearly indicate that governments should prioritize the investment in EPAs, particularly since financial resources are often limited.

Portuguese exports have been significantly growing over the years. Although increasing international trade was an overall trend, Portugal was successful in understanding how to benefit from such a favorable juncture, with ED playing an important role. Whereas Spain and Ireland saw their share of global exports diminish from 2002 until 2012, and not being able to recover to the 2002 value ever since, Portugal's global share of exports kept mostly constant since that date.

Narrowing the focus to the trade relationship between Portugal and the US, the evolution is highly positive. Traditionally, the US ranked fifth among Portugal's external markets (being the most relevant outside the EU). Currently, it ranks fourth, a consequence of the large growth in exports registered in 2021, along with the decrease of exports to the UK, mostly due to Brexit. Furthermore, the US is the only country of the top four with which Portugal has a trade surplus, and this has been growing consistently. This growing trend is also visible in Portuguese exports to California, the second State to where Portugal exports the most in the US. Although it is not possible to establish a direct relation, it seems fair to say that AICEP's only delegation on the west coast (San Francisco) must have a role in such performance. The extensive list of initiatives and measures to foster bilateral trade between Portugal and the US, particularly California, supports such assessment, something also corroborated by the interviews that were held with some company managers. They all underlined the importance of AICEP's support, admitting that without the Agency it would have been way harder to approach external markets, emphasizing the easier access to a much wider network of contacts, the identification of targets, the higher capability to get in touch with potential partners, the market prospecting, and the aid with events' logistics. In fact, one of the firms even mentioned to have chosen the Californian market due to the dynamic, proactiveness and willingness to help found in the San Francisco delegation, which was very in line with what the company was looking for, leading to immediate results. This coincides with what was perceived and experienced during the internship.

After concluding this study, both the literature reviewed and the direct and participant observation during the internship lead to the conclusion that, to obtain even better results, companies and AICEP must be on the same page. This means that AICEP must understand how to serve each company's necessities and how to adjust to firms' specificities, to gain their trust. Companies, on the other hand, should be clear on their intents, and on what they expect. Such a conclusion highlights not only the importance of AICEP's adaptability, but also the role of the entrepreneur, the

importance of a proactive attitude from companies to build reciprocal trust and collaboration.

7.2. Research Limitations

The present thesis was conditioned by certain limitations. One of them was the literature and data gap concerning the topic of ED, which can also be seen as an opportunity to contribute with new data and research. To be clear, such limitation is not so much related to the quantity of research (there is plenty!), but to the range and variety of the investigation, since ED is an extremely general and vast subject difficult to cover.

Another restriction concerns the difficulty in being able to identify concrete evidence on the impacts of ED on the country and the companies' performance, since that depends not only on ED but on multiple other factors not easily separable.

7.3. Future Research

Further investigation on the measuring of the impact of ED in a country, Portugal in this case, is necessary. This thesis lifts the veil on this topic but using a qualitative approach – to the best of my knowledge, there are not many targeted data that prove the positive effect of ED *per se*. Nevertheless, a pattern seems to emerge from this method: there is a positive relationship between ED and the improvement of some economic indicators, as well as between the activity of AICEP and the success of companies.

7.4. Final Remarks

Considering that the attention given to ED has been consistently growing in Portugal over the years, that the growth in the number of EPAs and consulates leads to an increase in bilateral trade, that the exports have in fact incremented over time,

and that the interviewed companies attribute great importance to AICEP's actions, it seems fair to proceed to the most significant conclusion of this thesis: ED does play a crucial role in the internationalization process, holding an extremely positive impact on firms and, consequently, on the country. Although it is tempting to conclude that ED justifies the allocation of more resources, an economist's recommendation should be more tempered: ED warrants further scrutiny and a design of incentives performance-driven, so that resources are better allocated among agencies and agents.

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Attachments

Attachment I

Year	Country			
	Spain	France	Germany	United States
1974	-20.8	-28.5	-55.9	-26.6
1975	-14.0	-21.0	-29.7	-43.8
1976	-24.7	-31.5	-46.4	-45.7
1977	-38.0	-46.0	-72.4	-71.0
1978	-51.2	-55.5	-89.1	-98.0
1979	-70.8	-56.4	-101.0	-140.5
1980	-88.8	-49.9	-121.9	-195.1
1981	-163.5	-75.3	-174.2	-296.5
1982	-167.9	-106.9	-231.6	-304.6
1983	-128.1	-26.5	-174.0	-477.7
1984	-245.8	14.4	-69.6	-443.6
1985	-287.9	84.8	-95.2	-196.2
1986	-425.9	95.2	-233.4	-124.9
1987	-559.5	-67.1	-465.5	-52.1
1988	-796.4	-275.4	-717.3	-85.3
1989	-911.3	-233.9	-592.0	-66.5
1990	-1,021.8	-251.1	-621.2	-141.7
1991	-1,253.1	-583.3	-600.7	-199.6
1992	-1,550.5	-866.3	-705.2	-186.4
1993	-1,755.7	-599.7	-480.7	-69.8
1994	-2,405.0	-676.8	-436.7	-37.3
1995	-2,838.3	-537.4	-42.9	-31.2
1996	-3,589.4	-389.0	-385.0	-15.8
1997	-4,449.6	-479.9	-696.9	13.0
1998	-5,248.6	-907.1	-1,049.2	126.5
1999	-5,746.5	-1,288.0	-1,362.8	81.2
2000	-6,621.2	-1,470.8	-1,710.6	245.8
2001	-7,354.4	-1,251.5	-1,521.2	-62.5
2002	-7,167.1	-810.7	-1,930.8	687.1
2003	-6,461.0	-511.7	-2,443.5	810.0
2004	-7,270.1	-320.2	-2,988.1	688.4
2005	-7,196.0	-285.0	-3,507.8	584.4
2006	-7,243.9	-325.4	-3,405.8	1,324.5
2007	-7,631.3	-383.4	-3,409.2	833.3
2008	-8,947.0	-616.0	-3,636.5	309.4
2009	-8,205.8	-355.1	-2,681.4	147.8
2010	-8,729.1	247.1	-3,277.8	481.3
2011	-8,488.6	1,197.6	-1,505.7	354.6
2012	-7,797.6	1,639.4	-795.4	903.8
2013	-7,216.9	1,662.0	-979.0	1,155.1
2014	-7,930.0	1,477.8	-1,652.0	1,180.4
2015	-7,622.8	1,562.8	-1,821.1	1,600.5
2016	-7,415.4	1,591.2	-2,416.1	1,587.1
2017	-8,645.7	1,804.9	-3,264.7	1,849.4
2018	-9,104.0	1,539.5	-3,731.5	1,558.0
2019	-9,594.8	-104.8	-3,421.9	1,559.6
2020	-8,453.1	2,214.2	-2,709.3	1,433.8

Table 8 - Balance of Goods by Top 4 Partner Countries (1974-2020) in million euros

Source: PORDATA, 2021

Attachment II

Year	Trade Balance	Exports	Imports
1996	-6,685.4	25,065.4	31,750.8
1997	-8,196.2	27,758.7	35,954.8
1998	-10,163.0	30,465.3	40,628.3
1999	-12,246.6	31,751.3	43,997.8
2000	-13,987.1	36,443.2	50,430.3
2001	-13,644.6	37,505.4	51,150.0
2002	-11,503.2	38,736.0	50,239.3
2003	-9,276.8	40,136.3	49,413.1
2004	-11,774.9	42,407.6	54,182.4
2005	-13,527.0	43,255.3	56,782.3
2006	-12,941.0	50,585.5	63,526.6
2007	-12,812.0	55,225.5	68,037.5
2008	-16,564.4	56,528.4	73,092.7
2009	-11,867.3	47,942.5	59,809.8
2010	-13,168.2	54,386.0	67,554.2
2011	-6,528.2	61,619.6	68,147.8
2012	3.0	64,254.3	64,251.3
2013	2,966.9	68,500.5	65,533.5
2014	1,371.7	70,350.2	68,978.6
2015	2,520.0	73,837.7	71,317.7
2016	3,174.7	75,684.5	72,509.8
2017	(R) 2,870.8	(R) 84,150.7	(R) 81,279.9
2018	(R) 1,849.0	(R) 89,619.3	(R) 87,770.3
2019	(R) 1,558.7	(R) 93,615.1	(R) 92,056.5
2020	-3,583.3	74,550.8	78,134.1
2021	(R) -5,569.4	(R) 89,142.9	(R) 94,712.3

Table 9 - Portuguese Balance of Goods and Services (1996-2020) in million euros

Source: PORDATA, 2021

Appendix

Interview to Teresa Fernandes, Trade and Investment Commissioner, Director of AICEP's San Francisco delegation – Script:

- How long have you been in the SF delegation?
 - “I have entered 3 years ago.”
- How many companies has AICEP helped to establish in the US/California market during this period?
 - “Since February 2019, we have had around 800 interactions with different companies.”
- Which are the main sectors of Portuguese companies that use AICEP to export to the USA/California?
 - “Very varied, from the food sector, home (home textiles, furniture, tableware, etc.), technology (IT, biotech and energy), capital goods (molds, etc) and, to a lesser extent, fashion.”
- How do you evaluate the results of AICEP's action in this market?
 - “The US market is demanding and competitive, requiring companies to prepare in terms of resources (time and money) and in terms of approach. California is the state with the largest population, with about 40 million inhabitants, and also the largest in terms of economy. If it was independent, California would be the 5th largest economy in the world, bigger than the UK and India. The Los Angeles metropolitan area has 13 million inhabitants, being the 2nd largest in the country, only surpassed by NY-NJ. In this sense, it requires companies to carefully assess their competitive advantages over the competition, the segments with the greatest potential, the appropriate channels and adapt the communication materials to the business culture of this region. To this extent, preparation, positioning and adequate investment in the US market are crucial but can produce considerable results. In that regard, AICEP can help by providing information on the market, potential customers, and potential partners/distribution channels, and by facilitating the local contacts of the San Francisco delegation, which is something highly valued by companies as it facilitates the creation of a trust relationship. Furthermore, in this region there is also an extensive Luso-American community estimated at around 1.5 million that we always try to use for the offspring of Portuguese companies.”

Interview to Tiago Patrão, CEO of Liquid Company (Licor Beirão) – Script:

– Before entering the US market, was Licor Beirão already exporting to other markets?

- “Yes, Licor Beirão has been exporting to the US since 1980 (to Massachusetts, New Jersey and on a smaller scale to California). In 1960/1970 the company was already exporting to the countries with more Portuguese communities (France, Luxembourg and Switzerland), and in the 80's it started exporting to the USA.”

– How much do exports represent in the revenue of the company?

- “Considering the group as a whole (companies linked to us by the portfolio, which means Licor Beirão and other producers of wine, gin, etc), the exports weigh around 20%. LCWS (Liquid Company) is 100% exporter, as it is the company in charge of international distribution.”

– Why did the company decide to export to the US and, more specifically, to California?

- “We already had a small presence in the US. We decided to invest in the country and place it as a priority in our internationalization process because it is the largest market for alcoholic beverages in the world, with a high level of per capita consumption and propensity to consume. It also has a high degree of market development, and it is very open to new products. Since our presence was tiny, we decided to bet more on the American market. We chose California because we found in the SF delegation a dynamic that was very in line with what we wanted.”

– How was the process of entering the American/Californian market developed?

- “After the approach moved to a concrete case, the SF delegation found us a large retailer, present in 24 states. They also helped us with the first contacts, by identifying the people who would be the target of this approach and by helping to make that first introduction. In the next month we are going to make a promotion action with the delegation, in the Consulate.”

– Do you have local partners/importers/representatives? What kind of service do they provide (agent/business development/importer)?

- “Our regular model is to have an importer in the country. Our type of business is very specific because it has lots of taxes and regulations. Our importer has two functions and at least the first one must necessarily be carried out. The first one is logistics and product integration according to the sanitary and fiscal

rules of the countries. The second is that the importer can develop brands and distribution with us. We want the importer to fill in these two channels, and secondly, to implement the marketing plan developed by us (in addition to selling the product, we invest in brand development).”

– Why did you turn to AICEP?

- “We have a principle to be complied regularly: if there is a relevant market, we want to connect with the local AICEP delegate so that he gets to know us and remembers us when there is any activity related to our sector. The second point of that principle (which is not always possible) is to pass from that contact to having space to visit the AICEP delegation when we go to that market, be with people, explain what we are doing, etc. We have taken advantage of both direct contact with the delegates and with the customer managers (KAMs) in Portugal, and when there are opportunities that AICEP offers (for instance, sessions to get to know the countries and markets), we always try to take advantage of this approach.”

– Would it have been more difficult to enter the market without the help of AICEP? To what extent?

- “Since we were only present on a small scale, it would have been more difficult to develop the market and grow if we didn't have the help of AICEP because they are in the market, they have a network of contacts, they help us to identify, select and contact targets, and, in some cases, they can help with some regulation.”

– What incentives/support has LCWS received?

- “We have an ongoing internationalization project, which has 4 or 5 aspects: presence at fairs, visits to markets both to customers and potential customers, some advertising, promotional materials, and social networks. AICEP gives us credibility, has direct contact with someone who is in the country and, in the case of the action we are developing, the event will take place at the Consulate's facilities. AICEP also helps us identify markets and importers, approaching and reaching them (without AICEP we wouldn't know about many local importers or how to reach them).”

– Would you like to have received additional incentives/support? Which ones?

- “No, the big challenge is not having more incentives, but to execute well the ones we have: making a balanced plan and being able to execute it. I don't think additional incentives are necessary but performing well what already exists.”

– How do you evaluate the success of the expansion to the US/California? What is the weight of LCWS' exports to this market?

- “It is still early to evaluate because we are still taking their first steps, but we have good indicators: in one of the projects in which we had the help of AICEP, we had planned to make the entry of 6 products for one American retailer that has 212 stores (spread by 24 states). Out of these 6 products, 2 are already listed, and started making sales last year (one product is already present in 72 stores and the other is in 93 stores out of 212).

So, there are several phases in our business: naturally, the first objective is to talk, negotiate, make potential partners know us, reach an agreement, until they start buying (the objective is to enter), the second goal is to gain distribution (to increase the number of stores).”

Interview to Gonalo Ribeiro, Co-Founder & CEO of YData – Script:

– Before entering the US market, was YData already exporting to other markets? How much do exports represent in the revenue of YData?

- “Yes, YData is international since day 1 and the exports represent 100% of our revenue.”

– Why did the company decide to export to the US and, more specifically, to California?

- “The US is the country with the highest investment in AI, so it is the best market for us as we sell a product that accelerates AI’s development. California is the state with the most investment and talent in the area.”

– How was the process of entering the American/Californian market developed?

- “We did market prospecting and started to get in touch with potential clients and partners, namely AICEP.”

– Do you have partners/importers/local representatives? What kind of service do they provide?

- “At this stage we only have AICEP. We’re still on the stage of getting to know the market and raising the first clients to understand the needs and the type of communication and relation we need to develop before allocating these responsibilities to partners.”

– Why did YData turn to AICEP?

- “We had the pleasure of meeting Teresa in WebSummit, and she explained to us how AICEP helps other companies. From there we have kept in touch, and we have received immense help. We have even contacted other AICEP delegations in other countries.”

– Would it have been more difficult to enter the market without the help of AICEP? To what extent?

- “Yes, of course, because without the network of contacts it is much more difficult to do prospecting. AICEP was ready to introduce us to potential clients and provided us with its network of contacts.”

- What incentives/support has YData received?
 - “We participated in the program ‘Portugal to Take Off’, where we received mentorship from an Entrepreneur in Residence, that help us immensely in our GTM strategy and also with its network of contacts.”
- Would you like to have received additional incentives/support? Which ones?
 - “Pecuniary support is always welcome.”
- How do you evaluate the success of the expansion to the US/California? What is the weight of YData’s exports to this market?
 - “It is still too early to evaluate, but if a pilot project that is in progress is implemented, it could gain a great deal of weight in our exports.”

Interview to João Maia, General Manager of APICCAPS – Script:

– Before entering the US market, were APICCAPS’ affiliated companies already exporters to other markets?

- “Yes.”

– Why did the companies decide to export to the US?

- “It is the most interesting market for footwear outside Europe.”

– How was the process of entering the American/Californian market developed?

- “APICCAPS has no regional focus, treating the US equally. The only thing the Agency has done there was to participate in a fair in Las Vegas (APICCAPS took at least 15 companies, in 2 consecutive editions). We have also been challenged to implement a pop-up in one shopping in California.”

– Why did APICCAPS turn to AICEP?

- “APICCAPS is always making proposals to companies, but it obviously cannot handle everything on its own, so it is good to receive challenges from AICEP, we feel the need to be challenged.”

– Would it have been more difficult to enter the market without the help of AICEP? To what extent?

- “Yes, AICEP helps a lot, at least in market logistics, so when APICCAPS wants to implement an action like the one in Vegas, AICEP is the first partner we contact, to help us formulate the context, assemble things, search contacts, etc.”

– What incentives/support have companies received?

- “To participate in the Las Vegas fair, APICCAPS received help to study the market, to identify competitors and contacts, to organize a seminar in Portugal with American players, to do a promotional action in an event in NY, and to bring to Portugal a group of buyers for the opposite mission.”

– Would the companies like to have received additional incentives/support? Which ones?

- “With the dimension of AICEP teams, the Agency can’t give more technical support... Everyone is very dynamic, but the teams are very small, I understand it is hard to do more. Also, it is harder to create a relationship with the smallest delegations, because the person in charge of every delegation changes over time and those teams are only them and one or two more persons.”

– How do you evaluate the success of the expansion to the US/California? What is the weight of exports of APICCAPS' associated companies to this market?

- “The US market is the most interesting one for footwear outside Europe, registering a big growth in the last few years, but the European markets are by far more important (the US represents only around 6% of the Portuguese footwear exports, which means around 2.3 million pairs in the value of 86 million euros). This has to do with the business model, which is based on quick response, which requires close logistics. It has also to do with the difficulty in a Portuguese brand to establish in the US with its own brand because they normally export in private label.”