# Exports and innovation

## Embrace innovation to increase international market share


**MICHAEL R. CZINKOTA**

**ANDREAS PINKWART**

Michael R. Czinkota researches international marketing issues at Georgetown University and the University of Birmingham in the United Kingdom. He may be reached at czinkotm@georgetown.edu. Andreas Pinkwart was the Minister for Innovation, Science, Research and Technology in Germany, where he also served as Deputy Chairman of the Free Democratic Party. He is the incoming president of the Handelshochschule Leipzig and can be reached at pinkresearch@gmx.de.


Innovation is key to the resolution of ongoing trade imbalances. It decisively influences the comparative advantage, the performance in competition and the quality of life of nations. The knowledge that is embedded in goods, processes and services determines international marketing opportunities, as well as profits. A simple example illustrates this claim. In the past century, the value of U.S. exports, when measured in real terms, has increased more than twentyfold. In contrast, the weight of U.S. exports over that period has remained the same. It was not the quantity of products exported, but the knowledge embedded in the exports that led to the increase in value. For both managers and policy makers who aim to improve their international performance, the structure and strategy of innovation is therefore most important.

Opportunities and challenges of an export strategy based on innovation were the topic of a recent international conference in Washington D.C., organized by the National Academies of the United States and the German Institute for Economic Research, in which we participated. The meeting's primary focus was an analysis of U.S. and German innovation policies, and their impact on international marketing performance. The Germans highlighted their consistent trade surplus since World War II, fundamentally based on restrained consumption, high savings and ongoing innovation. U.S. demands for a decrease in the export orientation of trade powerhouses were labeled as Halloween scares. Market responsiveness and continued innovation were seen as key underpinnings to a continued strong German export emphasis.

The U.S. side stressed the importance of understanding new requirements and conditions, and heading in the right direction. U.S. planning only uses a small "p," and emphasizes the requirement for a strong manufacturing sector. Innovation needs to play to a country's strength. Government's role is to bridge market gaps and support the reemergence of market forces.

After 50 years, the United States can no longer remain the largest market for global exports; new growth opportunities must arise elsewhere. With exchange rates driving trade, new currency theories and values will be a key policy issue.

Globalization is supported much more by its winners than by those who have lost. Therefore, a winning performance by U.S. firms will be an important cornerstone for continued U.S. support of international marketing. Since companies, not governments, achieve export success, corporations not only have a profit motive—they have a social obligation to succeed. Here are some key issues to be explored in terms of further developments in international marketing:

- Should trade be a public concern, or be placed again only in the hands of trusted specialists?
- Is there a wheel of internationalization, with gradual declines and rises?
- Who is part of the ride and how does innovation drive the wheel?
- How does one provide financially prudent adjustment assistance?
- Exports are typically supported by either decreasing risk or increasing rewards. Which approach works better to increase exports?
- Should governments support innovation directly or indirectly?
- How do you educate the public on international marketing issues and the need for innovation?
- Should TV sitcoms touch on international marketing?
- How about a national prize for firms and managers for overcoming obstacles in international markets so that we all can learn?

Education and research transform money into knowledge, while innovation converts knowledge into money. Forced import cutbacks can reduce trade deficits, but can also result in a decrease of inputs and exports. Export expansion by itself offers more payoffs, but requires continuous increase in the speed of change. A third and perhaps more long-term path to reducing trade deficits is a cutback in the raw materials and energy used for production, accompanied by private consumption oriented toward higher efficiency. A prerequisite for such a third path is innovation in the fields of renewable energy, traffic, distribution and facility management. One additional advantage of this third path is a reduction on the dependence on those raw materials that are most susceptible to crisis.

Today, U.S. exports are roughly 8 percent of global trade. To balance the U.S. current account, this needs to rise to 12 percent under condition of stable imports. To achieve such an increase, one needs to focus on what the difference is between the players, and how those differences can be strengthened by innovation. It's important to consider the linkage of innovation and rapidly developing countries like China, India and South Korea. They are closing in on the welfare states, achieving key industrial and information advances within a very short time. A focus on strength and collaboration based on a systems perspective will raise efficiencies, lessen friction and increase the global standard of living.

**Education and research transform money into knowledge, while innovation converts knowledge into money.**

The creation of knowledge is the foundation of innovation. But to be successful, companies have to use international marketing pull in addition to the knowledge push. Understanding buyer behavior and finding ways to meet user needs is a key source of innovation in business-to-business, as well as in consumer markets. Close relationships with existing customers and potential users, combined with the systematic use of customer ideas and suggestions for improvement, are crucial for the competitiveness of companies. Ideas from New York, London or Munich may not be inevitably successful in Singapore, Cape Town or Tianjin. But delays in tracking down new trends and new user ideas will result in missed connections.

There is no doubt that a globalized world brings more pressure on governments and firms. Experts from universities, research centers and companies need to find new forms of collaboration and search for alternating alliances. Corporate and government innovation has to support such networking, and build bridges between natural sciences and the humanities and basic and applied research.

Let us remember: Governments rarely create innovations. But they can prevent individuals and companies from innovating. Bureaucracy and overregulation paralyzes creativity and the willingness to take risks. Insufficient investment in infrastructure, especially in education and research, weakens the fundamental platform for innovation. High taxes and insufficient risk capital constrict the scope of investments.

Innovation is a difficult task: There needs to be a freedom of innovation. Rules need to be few, yet one requires clear and strong rules together with a competitive infrastructure, so that there are fewer bubbles and system failures. Of equal importance is the openness of international markets. Protectionism is the greatest risk for the innovative strength of an economy and consequently for the export strength of a nation. MM