

AID-FOR-TRADE: CASE STORY

THE INTERNATIONAL TRADE CENTRE

Market analysis tools and capacity building for LDCs and developing countries

MARKET ANALYSIS TOOLS AND CAPACITY BUILDING FOR LDCs AND DEVELOPING COUNTRIES

2011 AID FOR TRADE GLOBAL REVIEW: CASE STORY



EXECUTIVE SUMMARY



Developing countries' exports are typically concentrated in a few markets and products, leaving the countries vulnerable to specific shocks. The countries can lessen their risk by diversifying their markets and products, however, they have historically lacked access to timely information about alternative export opportunities.

ITC recognized these barriers to export diversification and expansion and set out to develop comprehensive, accessible, user-friendly tools that would enable developing countries to make relevant trade decisions. In 1999 and 2005, respectively, ITC developed two tools: Trade Map and Market Access Map. Both were significant innovations compared with existing trade related tools available on the market for use by developing countries. The overall objective was to improve the transparency of trade-related information and the decisions based on it.

This case story describes ITC's experience in large-scale dissemination of trade information through the market analysis tools. It outlines the rationale for their development, namely: to help developing countries diversify their products and export markets; align their market access negotiating positions to the needs of companies; and ensure that trade policies capitalize on national export potential and address market access impediments.

The case contains three key messages for Aid for Trade programmes and donors:

1. Companies, trade support institutions, policy makers and trade negotiators in developing countries all need access to accurate trade data as well as analysis tools. This allows them to optimize their export strategies and to ensure that policies and trade negotiating positions take into consideration the concerns of all those involved in the trade process. ITC's tools have proved successful responses to this need.
2. Developing and least developed countries should have free access to trade data and analysis tools to help overcome information asymmetries between poor and rich countries.
3. Providing technical assistance and capacity building in trade and market access analysis to users improves the chances of better trade decisions.

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ISSUES ADDRESSED

Export growth and a diversified trade profile are important contributors to economic growth and poverty reduction for least developed and developing countries. One of the obstacles to poor countries diversifying their products and markets has been their lack of access to relevant information. This is due to a number of factors:

- The cost of accurate market information can be prohibitive;
- Collating and comparing information about markets is time consuming due to the multiplicity of sources;
- Technical knowledge is needed as data accuracy and methodologies vary and, nomenclatures and time periods often need harmonizing;

Governments of wealthy, information-rich economies have the resources and knowhow to produce and publicly disseminate trade related information and there is a ready market for related decision support tools. Many developing countries, however, do not enjoy such conditions.

Prior to ITC's development of its market analysis tools Trade Map and Market Access Map (www.intracen.org/marketanalysis), the databases and tools available globally did not adequately serve the specific needs of developing countries – particularly of the private sector. Existing databases did not sufficiently cover developing countries, because many countries do not systematically collect and self-report data.

“ We conducted a study of the Russian market for export of Cubita roasted and ground coffee beans. The tools that you offer have allowed us to understand the growth of coffee imports in Russia, their main suppliers, growth trends and import duty levels. This study culminated last February in a concrete order to the value of US \$500,000. ”

A Cuban coffee exporter, responding to ITC's mid-2010 survey of tools users.

The existing databases / analysis systems available were also not user friendly. The data received required users to have an advanced technical knowledge in order to interpret it. The information typically presumed the analysis needs of highly trained economists. Most importantly the data were not particularly current or detailed unless users were prepared to turn to high cost databases available in advanced economies (but these still had very poor coverage of data from LDCs).

For companies, the timeliness of data and its level of detail can have immediate financial implications. An incorrect tariff can mean the difference between a product being competitive in a market or not. The latest figures emerging from monthly, tariff line level import statistics in a particular market can mean the difference between exporting the varieties and package sizes of products likely to attract the best price or not.

Developing countries and LDCs were also at a disadvantage in trade negotiations without access to databases, tools and methodologies. For multilateral negotiations in particular, negotiators need to consider their country's tariff and trade data in the context of all other countries' data in order to weigh their negotiating strength and determine offers and requests.

While developing countries' international trade performance and their bargaining positions are dependent upon a clear understanding of the global picture of trade and tariffs, many lack the technical skills to analyse export performance, export potential and market access conditions. Furthermore, they need assistance in bringing together private and public sector stakeholders for consultations to ensure that negotiating positions serve the country's broader economic interests. And finally they need assistance in training exporters on using and interpreting trade and market access data.

OBJECTIVE PURSUED

ITC sought to address the issues by collecting the most recent data, developing tools to enable private and public sector actors to make informed decisions, and developing capacity building services in trade and market access analysis. The overall objective was to improve the transparency of trade-related information and the decisions based on it.

The two decision-support tools developed by ITC were **Trade Map** and **Market Access Map**.

ITC set up a data collection team to source data directly from countries. Initially ITC relied almost entirely on trade data from other UN databases for dissemination through Trade Map and Market Access Map. However as the tools usage grew, so did demand for data that was more current, that had better geographical coverage and more detail. These issues were particularly important to the private sector for whom timeliness and detail was critical.

The tools have two unique value propositions. They brought together data in one place that was previously either not available, affordable or easily accessible for developing countries; Secondly the tools were built specifically to address the needs and questions facing developing countries. Vast amounts of complex data were brought together and presented in easy to understand tables, graphs and maps.

The market analysis tools had an immediate appeal to many LDCs whose private sector – SMEs in particular – for the first time could obtain a view of their country's trade position and performance vis-à-vis other countries and select their export markets on a more informed basis.

Query options were segmented for the user groups (ranging from SMEs with almost no technical background in trade, to highly trained policy makers and researchers) to ensure that each group could find answers to the questions most pressing for them. These included:

EXPORTERS (PARTICULARLY SMES):

- a. Which countries import the product that I export?
- b. In any one of these markets, with which other supplier countries am I competing for market share? How are exports from my country performing relative to competitors – i.e. who is gaining / losing market share? Am I exporting to the markets that offer the best growth prospects?
- c. Does my country face preferential tariff conditions in a particular market compared with competing suppliers from other countries?

TRADE SUPPORT INSTITUTIONS AND TRADE POLICY MAKERS

- a. What exported products / markets currently contribute most to my country's income from trade? Are exports concentrated in just a few products / markets or diversified?
- b. Which exported products are growing the fastest?
- c. What is my country's balance of trade overall and by product group?
- d. On which products and markets should we focus our limited trade promotion resources for maximum impact?
- e. What market access obstacles seem to be affecting my country's ability to realize its trade potential?

TRADE NEGOTIATORS AND THE PRIVATE SECTOR THAT NEED TO UNDERSTAND THE IMPLICATIONS OF TRADE NEGOTIATIONS

- a. What is the real level of protection facing my country worldwide, by product and by market?
- b. How does my preferential tariff access compare with other key competitors in key markets and how will this change under various tariff reduction scenarios?
- c. In the context of multilateral negotiations, how will the final bound tariffs of my country and my markets compare with the current applied tariffs? How will that affect my bargaining power in future regional or bilateral negotiations?

DESIGN AND IMPLEMENTATION

■ ASSESSING CLIENTS' NEEDS AND CUSTOM DESIGNING THE TOOLS TO SUIT THESE NEEDS

ITC took into account what needs various user groups would have, and then designed solutions to match their specific needs. Companies in developing countries needed user friendly tools that did not require detailed technical knowledge and with simple query types (e.g. "I am based in Ghana and produce shea butter, – what are some potential export markets"? Or "I wish to export t-shirts from Mauritius to the USA – what tariffs would I face"). Trade policy makers, trade negotiators and researchers needed more advanced functionality with flexibility to run large, complex queries and download large datasets. Functional specifications were tested on typical user profiles to check that designs were on target.

■ MOBILIZING RESOURCES

ITC collaborated with donors. USAID played a key role in supporting the development, dissemination and capacity building on Trade Map, providing \$1.6 million since 2002. Switzerland's State Secretariat for Economic Affairs (SECO) committed \$700,000 in 2005 to Market Access Map. These grants, together with ITC regular budget resources for some staff positions, grants from ITC's Global Trust Fund and the proceeds from the sale of national and institutional licenses, provided the requisite funds up until the end of 2007.

■ BUILDING NATIONAL OWNERSHIP

National licenses were coupled with national sub-sites and co-branded with the national institution license holder (typically the Ministry of Trade or national trade promotion body). This was done to build national ownership and dissemination and usage of the tools.

■ BUILDING CAPACITY & FACILITATING DIALOGUE BETWEEN PRIVATE AND PUBLIC SECTOR STAKEHOLDERS

There was a growing demand for ITC to provide customized technical assistance. ITC responded by providing in-depth customized assistance in market analysis to over 70 countries in 10 years.

■ COLLECTING REGULAR FEEDBACK AND MONITORING PERFORMANCE

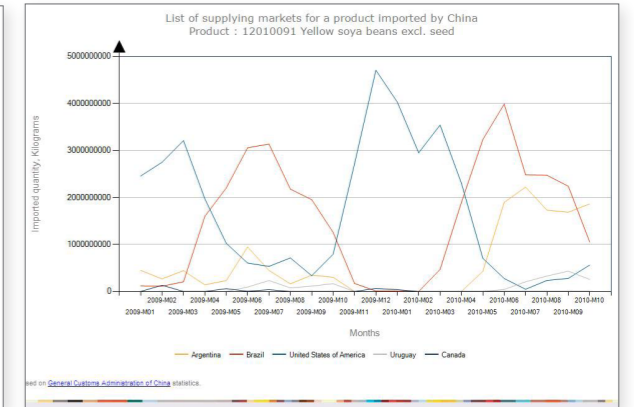
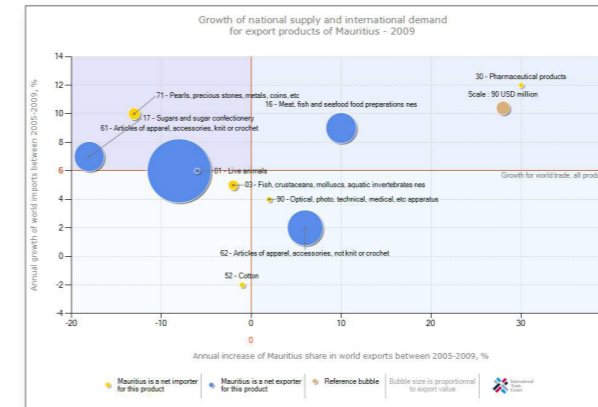
ITC regularly collected feedback and reported back to the donors. Maps users were surveyed online. For capacity building and advisory services, feedback questionnaires were used. ITC's annual client survey also provided guidance on the relevance, usage and user satisfaction with the services. Based on the feedback, Trade Map's interface was completely revised in 2006 and an upgraded version of Market Access Map will be launched in 2011. This is based on a collaborative effort with the World Bank to bring the functionality of the Bank's WITS and ITC's Market Access Map together in one tool.

■ MOVING TO A FREE ACCESS MODEL

Users paid a fee until 2007. This model was financially sustainable but sub-optimal from a development perspective: private sector users were mostly large companies in advanced economies that could afford user fees ITC, therefore, moved to free dissemination from January 2008. In January 2008, the World Bank committed funding under its Development Grant Facility for three years, which together with resources from donors to ITC's Global Trust Fund, were enough to cover the cost of data collection, tools maintenance and dissemination, some capacity building and ongoing research to ensure continuous improvement of the tools.

PROBLEMS ENCOUNTERED

■ How to increase usage in the poorest countries? Some regions are using Trade Map and Market Access Map more than others. Usage in Latin America and the Caribbean is 51% while on the African continent, usage is 12.5%. One of the challenges is that the poorest countries, particularly Sub-Saharan Africa, typically have poor internet infrastructure and in some cases electricity supply is unreliable. A "light" version of Trade Map was launched for users with low internet bandwidth. Other possible options include developing applications to access the tools via mobile phones.



■ The varied user groups place different demands on the server

Trade negotiators, trade policy analysts and researchers tend to run very large queries when simulating tariff reductions. During peak WTO negotiating periods, the number of simultaneous users rose dramatically and slowed down the application response time. As a short term solution, ITC ran some of the queries offline and provide the data to users on CD (for negotiators in Geneva). ITC also implemented a process where users could input their queries, and the server would notify the users when their queries were ready. This improved the query management system and allowed for faster responses to users who had smaller, less complex queries. A significant investment in extra server capacity and upgrading hosting services also improved response time.

■ Mobilizing the Aid for Trade community to act collectively and commit resources over the long term. The programme that enabled ITC's tools to be disseminated free to developing countries was a clear success but the grant that made it possible was originally limited to three years. Donors are under pressure to ensure their investments have exit-clauses that require programmes to eventually become self-sustaining, and at the same time, programmes that generate easily measured, quick results have the most appeal. However, the informational asymmetries that give rise to the case for Aid for Trade investment in free data dissemination and analysis tools are long term problems requiring a long term response.

FACTORS FOR SUCCESS

The factors that contributed to the success of ITC's market analysis tools include:

CAREFUL ASSESSMENT OF USER NEEDS during the design of Trade Map and Market Access Map, and then repeating the assessment on a regular basis as beneficiaries' needs changed over time.

MAKING ACCESS TO TRADE MAP AND MARKET ACCESS MAP FREE TO DEVELOPING COUNTRIES – this was a more equitable solution and resulted in a big increase in companies using the tools.

PROVIDING CAPACITY BUILDING AND CUSTOMIZED TECHNICAL ASSISTANCE (particularly to trade support institutions and trade policy makers) in methodologies for trade and market access analysis.

STRONG SYNERGIES BETWEEN THE DIFFERENT ACTIVITY AREAS – data collection, tools development and capacity building – resulted in better outcomes in each area than would have been possible had they been performed by separate functional units.

RESULTS ACHIEVED

▶ **USERS INCREASED FROM 18,000 TO 130,000 OVER 3 YEARS AFTER ACCESS BECAME FREE.**

In January 2008, ITC made the tools free to all developing and least developed countries thanks to grant from the World Bank's Development Grant Facility and funds from donors to ITC's Global Trust Fund. Over the next three years the number of users grew steadily to 130,000 by the end of 2010, representing a seven-fold increase. The number of countries and territories using the tools also grew substantially from around 75 at the end of 2007 to 224 in December 2010. Private sector users grew from a negligible share of users to 28%. The market analysis tools were rated ITC's most relevant and used services in ITC's annual survey in 2009.

▶ **THE FREE-USAGE MODEL REDUCED ITC'S TRANSACTION COSTS IN MANAGING LICENSES.**

Because of ITC's status as an international organization, annual licenses to use and disseminate the tools nationwide had to be contracted by way of memoranda of understanding with ministries of trade and national trade promotion organizations. By providing the tools free, transaction costs were reduced, allowing resources to be shifted to improving user-support services, data collection and data quality.

▶ **COUNTRY-SPECIFIC DATA, AND TIMELINESS AND DETAIL OF DATA, WERE IMPROVED.**

ITC's collection of tariff data increased from 178 countries in 2007 to 188 in 2010. No monthly statistics were available in Trade Map in December 2007. And in terms of granularity, only 51 countries showed data at the national tariff line level. By December 2010, monthly data were available from the most aggregated level to the most detailed product level for 81 countries, representing around 82% of global imports. National tariff line level reported data were available for 157 countries for one or more periods. As for timeliness, the lag of trade data updating has been consistently reduced to the point that Trade Map had more countries with December 2010 data in January 2011 than the best commercial subscription-based trade database on the market.

One of the implications of having more detailed and current data was that ITC was able to monitor and report almost in real time the impact of the global financial and economic crisis on developing and least developed countries.

▶ **APPROXIMATELY 10,000 PEOPLE HAVE BEEN TRAINED IN MARKET ANALYSIS.**

▶ **THE USEFULNESS OF THE TOOLS INCREASES WHEN USERS ARE TRAINED.**

Over the past 10 years, around 10,000 people have been trained (face-to-face) in areas ranging from assessing national export potential to preparing bargaining positions for multilateral or regional trade negotiations. Free web-based training videos are available for tools users not able to benefit from face-to-face customized training.

▶ **THERE HAS BEEN GREATER COLLABORATION WITH OTHER INTERNATIONAL ORGANIZATIONS.**

Once the Maps were available for free, it meant that ITC was able to share data with all international institutions without a concern for "data leakage" and reduction in ITC's ability to sell national or institutional licenses. This led to increased collaboration on analysis and dissemination of data and indicators through the tools and publications of other international organizations. It also led to a reduction of duplicated effort by different agencies and the generation of better and more consistent indicators. Applied tariff data collected by ITC is now published by the WTO on its web site.

LESSONS LEARNED

The benefits of making the tools free to users far outweighed any negative factors. While the cost of collecting the data, maintaining the software and providing technical assistance were very similar under both the subscription and free-usage models, **the collective benefits under the free dissemination model far exceeded those compared with the user-pay approach.** The total number of users increased by seven times and uptake by the private sector, especially SMEs increased significantly. Companies directly attribute export/import turnover of \$2.7 billion to the help they derived from their use of the tools.

The free-access model also created other benefits. It was fairer – everyone had access regardless of their ability to pay - and it resulted in lower transaction costs for ITC and beneficiaries. The free dissemination model however faces a "free-rider" challenge. Everyone benefits but only some pay. The challenge then is to **get donors to act collectively and commit long-term.**

An additional lesson has been that **beneficiaries' needs are constantly changing**, requiring trade related tools and technical assistance to also adapt in response. As customs tariffs have come down around the world, demand has grown for information on official non tariff market access measures and private voluntary standards. Much also needs to be done to improve international transparency in services trade and related market access ITC has expanded the scope of its data collection and analysis efforts to meet demand in these areas and will disseminate information by adapting existing tools (e.g. Market Access Map) and developing new tools such as Standards Map.

CONCLUSION AND RECOMMENDATIONS

Information about market demand, market access conditions and market trends is critical to developing countries' trade performance. Exporters, trade support institutions and trade policy makers from developing countries have consistently ranked access to market information among their top three needs in ITC's annual client surveys. Developing countries have historically had far less access to information compared with their counterparts in rich economies.

One of the most effective ways to generate better trade decisions is to provide accurate, timely trade and market access data, and to combine that with customized decision support tools and training. The combination of these can help spur growth and wealth creation in developing countries.

A fundamental objective of Aid for Trade should be to provide reliable, internationally comparable, current and comprehensive data on international trade trends and market conditions. Such information forms the foundation upon which so many other trade-related decisions are based.

Policy makers need data to ensure domestic and trade policies are oriented towards helping the country realize its trade potential and overcome the obstacles exporters' face to international competitiveness and market access. Trade negotiators need data to ensure their offensive and defensive positions are correctly aligned to their country's trade potential, competitiveness and market opportunities. And exporters need it to identify product and market diversification opportunities and stay abreast of competition in their markets. The international organizations and donor community also need it to ensure their Aid for Trade programmes are aligned to market demand and target the most pressing issues facing developing countries.

Trade and market access data is a public good where benefits gained by additional users do not come at the expense of existing users. Over the last 10 years ITC has tested two approaches to fund the collection and dissemination of its trade tools to developing countries 1) a user-pay approach and 2) free dissemination. Its experience is that **the free dissemination approach is superior.**

Trade related data and decision support tools are necessary but not sufficient to ensure better trade related decisions. **The data needs to be structured with a particular purpose and with clients' needs in mind.** Just as important is the need to build the capacity of institutions to conduct market analysis.

ITC's experience has been that decision makers, when armed with the right information and provided with targeted technical assistance, were able to substantially improve their trade decisions.