



ITC

TRADE IMPACT  
FOR GOOD

50 YEARS

1964-2014



50

years of unlocking

SME competitiveness

LESSONS FOR THE FUTURE

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A dark background with blurred financial data, including the word 'PREVIOUS' at the top, the number '24.01' on the right, and other numbers like '53', '0.32', and 'TOTAL VOLUME' scattered across the frame.

# 50 years of unlocking SME competitiveness

LESSONS FOR THE FUTURE



**ABSTRACT**

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International Trade Centre (ITC)

**50 Years of Unlocking SME Competitiveness: Lessons for the Future.**

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The book, published on the occasion of International Trade Centre's 50th anniversary, traces the history of the organization since its inception in 1964 - reflects on five decades of global growth and illustrates how the world economy is rebalancing; identifies and analyses the three major drivers of trade growth: technological change, policy reform and competitiveness; summarizes ITC's assistance in four primary areas: trade and market intelligence, institutional support, enterprise-oriented programmes, public-private partnerships; highlights key trends to watch for the future of international business; discusses the implications for trade-related technical assistance; elaborates on how dynamics and new trends will impact on ITC's efforts to strengthen SME competitiveness and to foster inclusive and sustainable growth in developing countries; includes bibliographical references (pp.120-124) and a snapshot of ITC's progress over 50 years.

Descriptors: **ITC, SMEs, Competitiveness, Technical Cooperation, Trade Policy.**

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## Foreword

This publication, *50 Years of Unlocking SME Competitiveness: Lessons for the Future*, is a testimony to the International Trade Centre of the past and to that of the future.

It traces this organization's beginnings from a four-person unit around a small desk in the offices of the General Agreement on Tariffs and Trade (GATT), to an institution of more than 300 committed individuals of diverse backgrounds, focused on 'trade impact for good'. The evolution of ITC is indeed the evolution of the trade landscape. It is a window into the dramatic transformations that the global system has witnessed, yet it also yields insight into what remains to be done.

In 1964, ITC was created with a clear purpose. The press release announcing its establishment referred to ITC as a 'new trade information and trade promotion advisory service' that would be available to 'all less developed' countries and, interestingly, to all developed nations as well.

The press release went on to set out the areas where ITC would focus its energy: establishing a document centre, a correspondence answering service and a register of sources of trade information; publishing a monthly trade news bulletin; preparing manuals on efficient export promotion services; providing training in export promotion; and undertaking studies on development trends. Many of these functions have been replaced, thanks to technology or the varying needs of its client base. Yet at its core, ITC remains the pre-eminent source of information, tools and expertise for trade promotion and development, and a highly recognized repository of trade and market intelligence.

Fifty years later, the ITC mandate has evolved with the changing topography and geography of trade, the maturing priorities of its partners and clients, and the shift in the way businesses produce, trade and interact.

ITC offers a suite of support services specifically focused on helping small and medium-sized enterprises (SMEs) to increase their competitiveness, achieve their economic potential and internationalize. Our offerings engage with the value chain along its full length, encompassing services, e-solutions, environmental solutions, quality standards, non-tariff measures, trade facilitation, branding and packaging, export strategies, tools to better empower women, youth, and poor communities economically, strengthening trade support institutions, public-private dialogues, finance for trade, and ... I could fill this page with the forms of innovative and relevant interventions that ITC continues to deliver.

This 50th anniversary publication sows the seeds of renewal by reaffirming our mandate, and by helping us as an institution to ensure that we continue to mature. In its pages, a clear road map is charted toward further growth – to grow in depth, breadth and impact. The millions of SMEs we have assisted over the last 50 years are an encouragement to devote our next 50 years to help SMEs become true engines of decent jobs and sustainable growth.

My thoughts and gratitude go to all my ITC colleagues, present and former, who devoted their careers to helping small and middle-sized businesses become true engines for growth, jobs and development. I extend my commendations to the authors of this book, Bernard Hoekman and Friedrich von Kirchbach, who, under the stewardship of Anders Aeroe, Director of the Division of Market Development, and with input from a team of in-house and external contributors, have created a true commemoration of a great moment in the institution's history, a moment of which we are proud.

A handwritten signature in black ink, appearing to read 'Arancha', written in a cursive style.

Arancha González  
Executive Director, International Trade Centre

# Acknowledgements

A book of this scope requires the dedication of many individuals. The book was developed under the leadership of Anders Aeroe, ITC Director, Division of Market Development, as a contribution to the ITC 50th anniversary. This included concept development, management and overall coordination. He was supported by a team including Rajesh Aggarwal, Acting Director, ITC Division of Business and Institutional Support; Raimund Moser, Programme Development Advisor; and Natalie Domeisen, Head of Public Affairs and Publications.

**Chapters 1 and 2:** Bernard Hoekman, the principal author for this publication, conducted the research and writing for chapters 1 and 2, drawing especially upon research of the World Bank, OECD, UNCTAD, WTO on trade developments and trade drivers of the last 50 years. Bernard Hoekman is the Research Director for Global Economics at the European University Institute, and is a former Director of the International Trade Department for the World Bank.

**Chapter 3:** Friedrich von Kirchbach, a former ITC Director of the Division for Country Programmes, served as the ITC historian and author of chapter 3. He conducted numerous interviews with ITC staff and retirees, and drew upon a growing body of external evaluations of ITC as an institution and of many individual projects and programmes. He also drew upon publications developed for previous ITC anniversaries: *The International Trade Centre 1964-1984* (a book by former ITC director Frederick Glover), *Trade Forum* magazine 1994 anniversary issue (by Janice Goertz of ITC) and *Portraits of Trade Development of 2004* (a book by Natalie Domeisen of ITC).

**Chapter 4:** Bernard Hoekman wrote the introduction and coordinated external contributions to this chapter. Thanks are due to the following contributors to this chapter: Michael L. Ducker, Chief Operating Officer & President, International, and Ralph Carter, Managing Director, Trade & International Affairs, of FedEx Express; Mark Gottfredson, Partner, Bain & Company; Jean-Guy Carrier, Secretary-General, International Chamber of Commerce; Wendy Jones, Vice President of Geographic Expansion and Cross Border Trade, and Usman Ahmed, Policy Counsel, eBay Marketplaces; Gary Gereffi, Professor and Director, Karina Fernandez-Stark, Senior Research Analyst and Penny Bamber, Senior Research Associate, Center on Globalization, Governance & Competitiveness, Duke University.

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**Editorial and design team:** Natalie Domeisen managed the book project. The editors were Steven Greenfield, Dianna Rienstra and Natalie Domeisen. Isabelle Jouve of the Trade Facilitation and Policy for Business section and Haley Petrarca, ITC intern for Public Affairs and Publications, provided editorial support. Kristina Golubic provided art direction and led the design team, with support from Iva Stastny Brosig for layout and Isabelle Jouve for quality control and preparation of figures and tables. Digital printing was done by Serge Adeagbo.

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# Abbreviations

The following abbreviations are used:

ACP	African Caribbean Pacific States	NTM	Non-tariff measure
BRICS	Brazil, the Russian Federation, India, China and South Africa	OECD	Organisation for Economic Co-Operation and Development
EPA	Economic Partnership Agreement	PPP	Public-private partnership
EU	European Union	PTA	Preferential trade agreement
FDI	Foreign direct investment	RBM	Results-based management
FTA	Free trade agreement	RTA	Regional trade agreement
GATT	General Agreement on Tariffs and Trade	SMEs	Small and medium-sized enterprises
GDP	Gross domestic product	SPS	Sanitary and phytosanitary measures
GSP	Generalized System of Preferences	TBT	Technical barrier to trade
IMF	International Monetary Fund	TPO	Trade promotion organization
ISO	International Organization for Standardization	TRTA	Trade-related technical assistance
ITC	International Trade Centre	TSI	Trade support institution
LDC	Least developed country	UN	United Nations
LLDC	Landlocked developing country	UNCTAD	United Nations Conference on Trade and Development
MDGs	Millennium Development Goals	USAID	United States Agency for International Development
MFN	Most favoured nation	WTO	World Trade Organization

## Notes

Unless otherwise specified, all references to dollars (\$) are to United States dollars, and all references to tons are to metric tons.

Geographic regions are referred to in graphs coming from several organizations around the world. Each defines the countries included in that region differently. Please see each chart for an explanation of which countries are included.

In the text, references to geographic regions are based on World Bank classifications.

Emerging markets in this text refer to Brazil, India, China, Indonesia, Turkey, South Africa and the Russian Federation.

The Europe Central Asia (ECA) region includes Turkey, the Russian Federation, as well as transition economies of Eastern Europe and Central Asia. They are based on the World Bank classification including 31 countries.

## Executive summary

*International business has changed radically over the last 50 years. The way countries and enterprises produce and trade has been reshaped by new technologies, transportation innovations and changing demand patterns. This has led to the emergence of new growth poles, growing trade in intermediate goods, an increasingly important role for small and medium-sized enterprises, and it has made countries and enterprises interdependent.*

*This book reviews major changes in global trade, analyses the main forces driving these changes and identifies key trends to watch for the future of international business, while telling the story of ITC's adaptability. It discusses the implications for trade-related technical assistance, including their impact on the work of ITC.*

### The global economy has shifted

The post-World War II period is characterized by the sustained increase in global trade, roughly three times more than the growth in global GDP. Chapter 1 reviews five decades of global growth and how the world economy has adjusted to the changing topography of trade. This chapter reflects on the rising trajectory of developing countries, which now account for nearly half of global merchandise exports. Their rising share of global trade is partly a reflection of rapidly increasing South-South trade.

The composition of world trade has changed significantly. Falling transportation and communication costs have enabled an ever-growing trade of intermediate inputs, components and services. Manufactured products dominate world trade in goods. Agricultural products have shifted towards higher-value processed products as the share of traditional commodities declined. Services play a more important role in GDP, as they play a growing role in the production and trade of manufactured goods.

The emergence of supply chain trade means that trade has become an integral part of the production process. The increasing reach of supply chains has dispersed the production and distribution process and created opportunities for small producers in developing countries to become part of a wider network of regional and global trade.

Global growth has contributed to substantial progress for some of the Millennium Development Goals. Large proportions of the populations in East and South Asian economies surmounted the poverty line. Yet this growth has not been evenly distributed. Sub-Saharan Africa still lags behind, despite economic growth, due to an inability to sustain growth over time. Vulnerability to economic shocks and climate change has threatened the gains achieved so far, especially in least developed countries and the Small Island Developing States.

While trade is a contributing factor, opening up an economy is not an immediate elixir for growth. Some developing country regions, including sub-Saharan Africa, are today among the most integrated into the world economy. This is not enough to stimulate growth. Without the right complementary policy frameworks, trade opening itself may not result in increased incomes and related wealth creation.

Developing countries continue to face higher barriers and related trade costs. This is a result of a number of factors, chief among them a lack of 'connectivity', regulatory shortcomings, an unfavourable business climate as well as infrastructural inefficiencies. To address these issues requires a supportive international policy framework but also concrete action at the regional and domestic level.

## Drivers of trade growth

Global trade growth has been spurred by many trends. Chapter 2 identifies the three major drivers: technological change, policy reform and competitiveness.

Technological innovation brought down communication costs and improved the quality and availability of information around the world. It also led to a radical restructuring in transportation through containerization, cheaper air travel and organizational innovations in transport networks. The rise of electronic business platforms offers huge opportunities to small firms to overcome challenges in connecting to global markets.

Policy reforms have reshaped trade. Growth has been driven by the pursuit of outward-oriented economic growth strategies in many developing countries and former centrally planned economies. Reforms led to reduced average level of tariffs, decline of quantitative trade restrictions, simplification of tariff structures, removal of tariff exemptions and reduced net taxation of agriculture. As a result, trade policy is more open and transparent today than ever before.

Multilateral trade negotiations and the creation of many bilateral and regional trade agreements have created a common language on trade. Organizations such as ITC and UNCTAD have played a key role in strengthening trade institutions and the private sector in developing countries to respond to complex global and regional trade rules and regulations. The process has been accompanied by increasing engagement of developing countries in the WTO and greater private sector participation in shaping international trade rules.

As traditional restrictions to trade relaxed, non-tariff measures involving regulatory, administrative and procedural requirements have become the major source of trade restrictions for companies. Private standards to protect consumer health and the environment are also on the rise, creating a web of regulations that developing country firms find challenging to address. In addition, the services sector has significant barriers to trade. The barriers are significantly higher in developing countries and hamper the potential for trade growth.

Finally, the chapter discusses the role of foreign direct investment as a growth engine in the context of global supply chain trade. It offers a broader view on competitiveness by exploring the different drivers and determinants at the national level. Most countries have greatly improved their macroeconomic policy framework in the past two decades. Equally critical are the microeconomic incentive frameworks needed to boost productivity and growth, and to harness the benefits offered by the global trading system.

## From trade information to integrated trade development

Chapter 3 traces ITC's history from its humble beginnings 50 years ago as the 'collective trade information centre'. Throughout its existence, ITC has served as an important conduit for informing the debate on trade-related technical assistance and as a development partner for policymakers, trade-related institutions and companies by providing concrete and customized solutions. ITC has been at the forefront of fundamental shifts in the business of trade promotion and export development and has continually adapted its services according to the evolving trade environment. Chapter 3 summarizes ITC's assistance in four primary areas:

## Trade and market intelligence

Providing actionable trade intelligence to developing country exporters and overcoming trade information asymmetries was the defining objective for the establishment of ITC and has remained a major mission over the past five decades.

## Institutional support

From its inception, ITC has had a unique mandate to support the creation and operations of trade support institutions and the training of their staff.

## Enterprise-oriented programmes

Since the 1970s, ITC has been involved in programmes focusing on specific products and sectors, markets or cross-cutting functions to strengthen the capacity of small and medium-sized enterprises (SMEs) to succeed in international markets.

## Public-private partnerships

One of the primary lessons of trade development in the second half of the twentieth century has been the importance of close coordination between government institutions and businesses. ITC has focused on facilitating this process through a variety of programmes.

## Future trends and implications for Aid for Trade

Chapter 4 discusses developments that will affect global trade in the years to come. Future policy reforms and trade development assistance will need to take into consideration three main trends:

- 'The rise of the rest'. Developing countries, particularly large emerging economies, will expand their stake in the global economy as markets and sources of goods and services.
- Supply chains and international production networks will be the dominant delivery mechanism through which goods and services are produced and supplied to consumers.
- Cheaper and more powerful information and communication technology products and services will increase the global footprint of SMEs and level the 'information playing field' between large and small firms.

Chapter 4 highlights the importance of adequate infrastructure and an efficient and transparent business environment with competitive service providers, particularly in logistics and information and communication technologies, for international competitiveness. The chapter argues that Aid for Trade initiatives should concentrate on reducing real trade costs for SMEs and enhancing their capacity to participate in international production networks and value chains. Three Aid for Trade areas are identified as particularly important: addressing supply chain constraints, focusing on high-growth markets and improving export survival rates. The chapter includes five essays representing international business perspectives on priority areas that could facilitate the expansion of SME trade in the coming years.

## ITC's response – raising the game

ITC's market-led and business-oriented thinking, paired with a pragmatic and responsive culture, have been primary reasons for its many successes. These principles will continue as the cornerstone of the organization's future trade-related technical assistance. Chapter 5 elaborates how dynamics and new trends will influence on ITC's

efforts to strengthen SME competitiveness and to foster inclusive and sustainable growth in developing countries. Four main areas stand out.

### Enhance supply-side capacities

ITC's technical assistance programmes will encompass more integrated solutions to trade development. They will enhance the productive capacity of SMEs while addressing challenges related to sourcing, finance and investments. Complementary support will deal with policy-related bottlenecks and trade costs related to transport, logistics and border issues, and will improve the capacities of and service provision from trade support institutions.

### Activate new market opportunities

ITC will continue to assist developing country exporters in linking up to market opportunities fuelled by the rapid growth of emerging markets. ITC will also support SMEs to diversify their exports into various market segments offered by global value chains and to open international and regional markets.

### Enable long-term growth trajectories

While improving competitiveness in the same product or service area will bring short-term advantages to a country, it seldom fosters the more profound economic and industrial transformation needed for long-term growth and development. ITC will focus on supporting the structural changes needed to enhance longer-term development through trade.

### Foster trade in services

ITC will increasingly be encouraging stakeholders to 'think services trade' and lend support to enterprises, coalitions of services providers and policymakers to unlock the massive potential represented by services trade.

## Doing more and doing better

ITC will evolve beyond the prospects described in this publication. What will remain constant is its focus on using trade as a vehicle for sustainable and inclusive socioeconomic development, in accordance with its mission to deliver 'Trade Impact for Good'.

Our commitment to 'Doing More and Doing Better' will set the tone for the future and will ensure that during the decades to come, ITC remains a leading provider of solutions for SMEs aiming to internationalize.



CHAPTER 1

# Reflecting on five decades of growth

A distinctive feature of the post–World War II period has been the steady and sustained increase in international commerce. Except for a few episodes when the world went into recession (most notably in the early 1980s, following the oil price shocks of 1974 and 1979, and in 2009 as a result of the global financial crisis) international trade has grown more rapidly than world output, year in, year out.

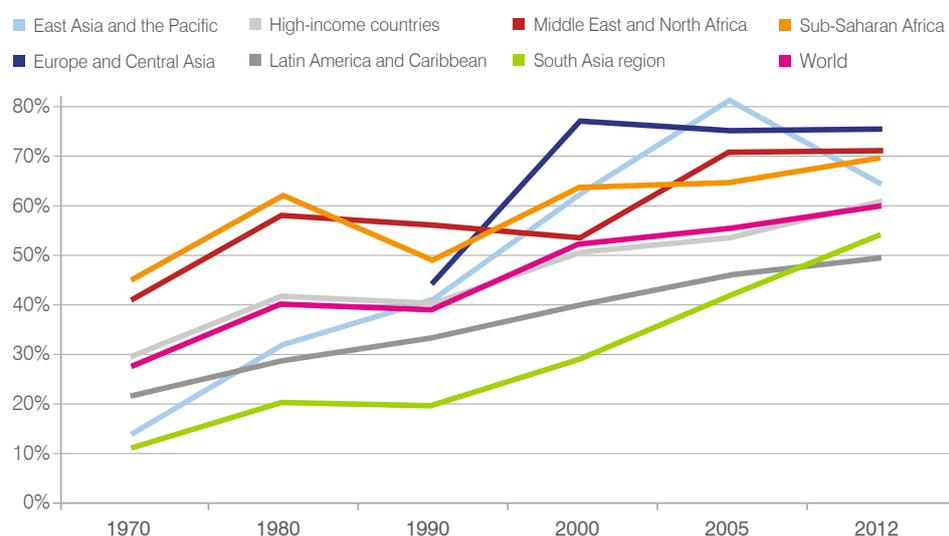
## Global trade expansion, in brief

Global trade increased 27-fold between 1950 and 2008, three times more than the growth in global gross domestic product (GDP). The value of world trade in goods and services passed the US\$22 trillion mark in 2013. The trade to GDP ratio for the world was 60% in 2012, up from some 25% in the 1960s (figure 1).

Countries vary widely in their openness to trade, and this openness is subject to change over time. Today, some developing country regions, including sub-Saharan Africa, are more integrated into the world economy (measured by the sum of exports and imports as a share of GDP) than high-income countries. The least open region is Latin America and the Caribbean. The region most closed in 1970, South Asia, has seen its openness ratio quadruple, to stand at more than 50% today. The region grouping Europe and Central Asia rapidly opened between 1990 and 2000, following the demise of the Soviet Union and the shift from central planning towards a market-based economy.

**Figure 1. The world is more open to trade**

*This graph depicts the evolution of how economies have become more open to trade since 1970. It shows the shift over time in percentage of trade to GDP, by region.*



Source: World Bank, World Development Indicators database.



## The rise of Asia

Trade growth in the past 50 years has been matched by rising real per capita incomes around the globe. Higher per capita growth implies more people with incomes above the poverty line. Trade has helped to reduce poverty especially in East Asia and South Asia, which have many populous countries, such as China, India, Bangladesh, Pakistan, Indonesia, the Philippines and Viet Nam.

East Asian countries have sustained the highest rates of real growth since the mid-1960s. Measured in constant 2005 US dollars, average per capita incomes in this region have been growing at 5% or higher for half a century. In real terms, that reflects a boost of more than 1,500% during this period.

If we look only at the most recent 20 years – to include Eastern Europe and Central Asia – East Asia still outperforms in per capita growth (an increase of some 700%), followed by South Asia (220%) (See table 1).

Although South Asia has tripled per capita incomes in the last 20 years, the average real annual per capita income lags substantially behind East Asia.

By comparison, in the past 50 years, real per capita incomes in sub-Saharan Africa increased only 30%; those of heavily indebted poor countries, just 10%. The explanation for this poor performance is complex. Important contributors include civil conflict, weak institutions and misguided economic policies. Even so, other developing country regions less affected by conflict and erratic policies lagged greatly behind East and South Asia.<sup>1</sup>

**Table 1. A rise in income parallels the rise in trade**

A look at average annual growth rate per capita, by region (in constant 2005 US\$) shows the rise of the East and South Asia since the 1970s, and that of Eastern Europe and Central Asia since the 1990s. Low per capita growth in other areas is due to not sustaining growth trends over time.

	1965–70*	1970–75*	1975–80*	1980–85*	1985–90*	1990–95*	1995–2000*	2000–2005*	2005–12*	1982–2012*	2012 US\$**
<b>DEVELOPING COUNTRY GROUPINGS</b>											
East Asia/Pacific	4.8	4.8	6.6	7.3	7.2	11.1	6.5	9.4	9.9	698	2 856
Europe/Central Asia	na	na	na	3.1	1.7	-4.7	3.1	6.5	3.4	70	4 727
Latin America/Caribbean	4.0	5.2	4.0	-1.3	-0.2	1.5	1.9	1.4	2.8	39	5 642
Middle East/North Africa	6.3	6.5	-0.3	1.7	-2.0	1.3	3.3	2.8	na	44	2 381
Sub-Saharan Africa	2.5	2.0	0.3	-2.3	-1.0	-2.3	0.8	3.2	2.5	12	989
South Asia	2.9	0.2	1.4	3.6	4.2	3.5	4.6	5.8	6.4	223	1 009
Least developed countries	na	na	na	na	0.5	-1.2	2.8	4.7	4.2	60	518
Heavily indebted poor countries	1.0	1.0	-0.5	-1.0	-1.4	-2.2	1.4	2.4	2.7	12	496
Caribbean small States	na	na	7.4	-1.8	0.5	0.4	4.4	4.9	1.3	50	7 550
Pacific island small States	na	na	na	-1.5	1.6	1.8	0.4	1.5	0.2	21	2 563
<b>HIGH-INCOME STATES</b>	5.2	3.0	3.6	2.4	3.7	1.5	3.3	2.1	0.8	74	31 373
<b>WORLD</b>	<b>3.9</b>	<b>2.1</b>	<b>2.6</b>	<b>1.2</b>	<b>2.3</b>	<b>0.8</b>	<b>2.5</b>	<b>2.0</b>	<b>1.3</b>	<b>55</b>	<b>7 732</b>

\* Change (%)

\*\* Average GDP per capita

Source: World Bank. World Development Indicators database.

Low per capita growth reflects an inability to sustain growth over a long period. In the 1960s and 1970s, Latin America, the Middle East and North Africa had growth rates similar to East Asia. But their growth collapsed in the 1980s and early 1990s, the result of macroeconomic mismanagement that led to high inflation and excessive, unsustainable debt burdens.

South Asia and East Asia are the only developing country regions to have sustained absolute per capita income growth in every five-year period in the post-1965 era. Since 2000 – notwithstanding the 2008–2009 financial crisis – all developing country regions realized positive growth. This has been driven by demand from the emerging economies in East Asia and South Asia, as well as by economic policy reforms of the 1990s.

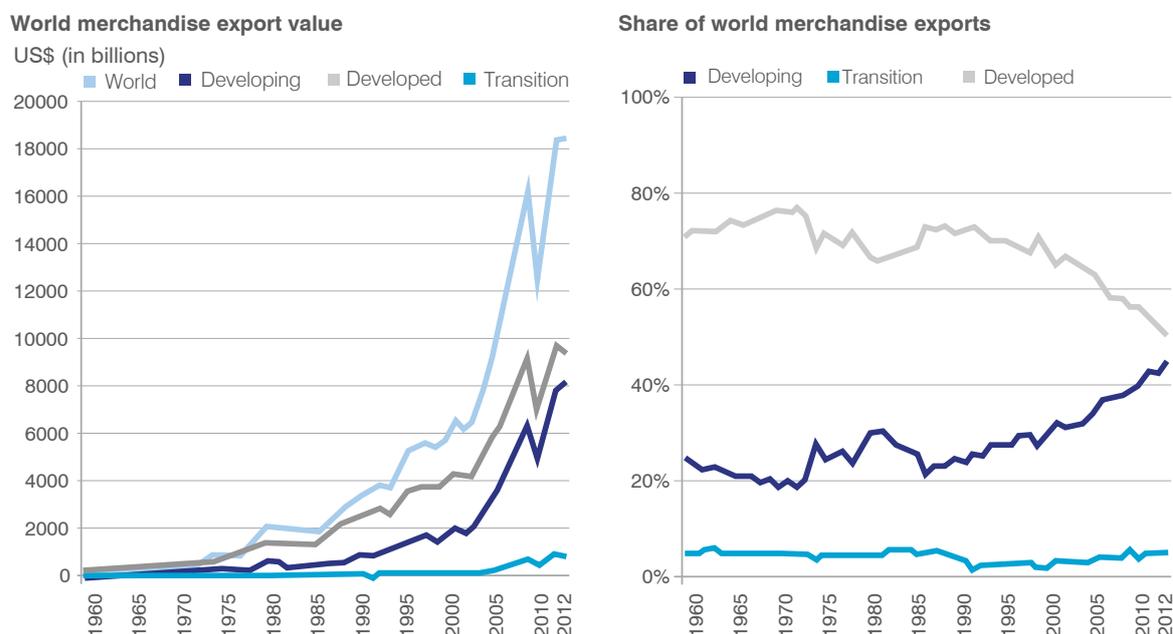
## Rebalancing the world economy

Rising incomes in East and South Asia have rebalanced the world economy. In 1970, developing countries accounted for 16% of global GDP; by 2011 their share nearly doubled, reaching 30%.<sup>2</sup> Similarly, their share of global merchandise exports increased from 22% in 1965 to 42% in 2012 (figure 2).

Developing countries are trading more overall; they also trade more with other developing and transition economies. High-income countries have decreased steadily as export markets, as South-South commerce expands. Nearly half (45% in 2012) of merchandise trade (exports plus imports) is between developing and transition economies.<sup>3</sup>

**Figure 2. Developing countries gain global market share**

World merchandise exports grew steeply in value since the 1970s. The share of developing countries in merchandise exports continues to rise.



Source: UNCTAD-STAT. <http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=101>.

There is also more trade in new markets and new products. The average value of an export consignment from a lower-middle-income country to the BRICs (Brazil, the Russian Federation, India and China) increased by 444% during 1996–2008; that to high-income countries increased ‘only’ by 180% (Haddad and Hoekman, 2010).

In the mid-1960s, global trade was dominated by just a few developed countries. Germany, France, Japan, the United Kingdom of Great Britain and Northern Ireland and the United States accounted for 50% of all merchandise trade flows. China was virtually closed.

## Today’s leading exporters

By 2012, China had become the world’s largest exporter, with a 13% share of global merchandise exports. In 2000, as it entered the World Trade Organization (WTO), China accounted for just 3.7% of global trade. This increased by 6.7 percentage points in the following decade.

But global trade growth is not just a China story – as can be seen in figure 2.

If the 28-member European Union is considered as a bloc (netting out intra-EU trade), the EU is the largest exporter (15%), followed by China (13%) and the United States (11%). These three entities are also the world’s largest importers, accounting for 45% of global merchandise imports.

Brazil and India are much smaller players in merchandise trade, ranking 22nd and 19th, respectively, in terms of merchandise exports. They lag substantially behind the fourth BRIC member, the Russian Federation, the eighth-largest merchandise exporter in the world.<sup>4</sup>



Countries vary greatly in trade growth and diversification. Sub-Saharan Africa remains heavily dependent on natural resources and agricultural products. To a lesser extent, this is true of many countries in Latin America, the Middle East and North Africa, and the (former Soviet) Commonwealth of Independent States (figure 3), where on average, manufacturing accounts for no more than 20—25% of merchandise exports.

Though the sea change in trade policy has been everywhere, the poorest countries tend to have higher barriers and trade costs. This reflects a lack of 'connectivity', regulatory shortcomings, an unfavourable business climate and deficiencies in infrastructure.

Most of Africa has not shifted towards international supply chains, vertical specialization and intra-industry trade; these are driving trade growth in East Asia, Mexico, Turkey, or Central and Eastern Europe. African countries are active traders – the ratio of trade to GDP is often above 60%. What distinguishes trade in Africa are natural resources and agricultural exports, and very limited intra-regional trade (less than 10%).<sup>5</sup> Informal trade is significant, so the actual figure is likely much higher, but much of such trade comprises lower-value items such as foodstuffs. While important from a welfare perspective – this type of trade generates revenue for the small traders involved (who are often women) – it does not constitute the type of specialization that has supported growth in other parts of the world.

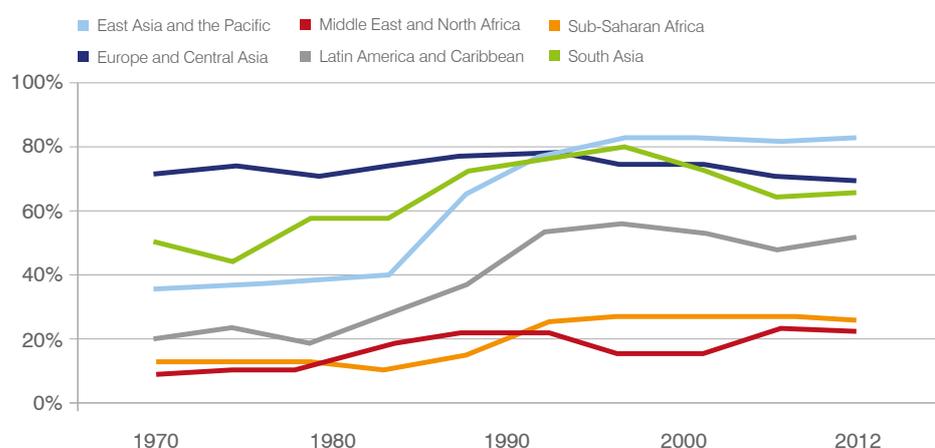
Complementary policy reforms are needed to benefit from opening an economy to greater trade. Many studies (Haltiwanger, 2011, for example) conclude that entry and exit barriers for enterprises hamper the reallocation of resources (capital, labour), so that a nation can benefit from opening up its economy. Policies should not constrain investors and workers from moving to the more productive (profitable) sectors. A good investment climate and business environment will include access to basic public and private services that are needed for firms to be competitive. Such services are a critical element of an enabling environment that provides opportunities for people to find productive employment and to establish and grow businesses. Education, energy and access to finance are examples of areas where complementary policies are of particular importance.

## A shift in what the world trades

Manufactured goods dominate world trade today, accounting for 65–70% of all merchandise trade (figure 3). The shift was marked in most developing country regions in the 1980s and 1990s. However, the regions of sub-Saharan Africa, the Middle East and North Africa tend to be large net importers of manufactured goods, reflecting their specialization in fuels, natural resources and agricultural products (figure 4).

**Figure 3. Manufacturing gains a bigger share of world trade**

*Manufactured goods have risen as a percentage of total merchandise exports since 1970, and agriculture has declined.*



Source: World Bank. World Development Indicators database.

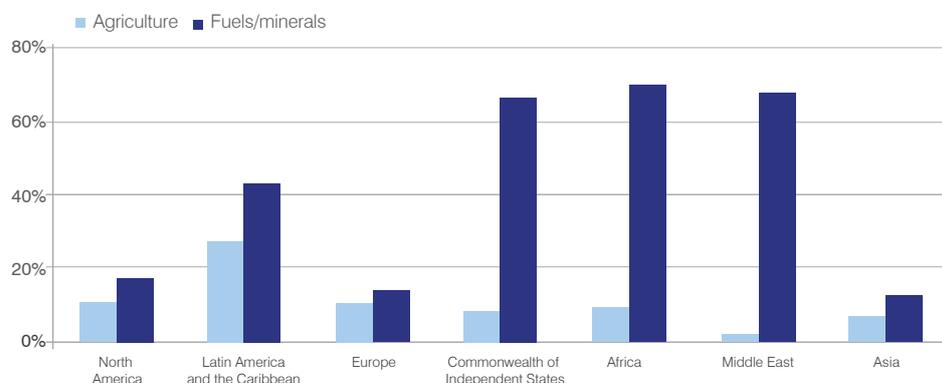
Unprocessed agricultural produce today accounts for less than 2% of global merchandise trade, down from almost 9% in the early 1960s. Food exports, including processed products, declined from 22% of global merchandise trade in the mid-1960s to 8.5% in 2012. However, for developing economies, food and natural resources account for larger shares of exports, and exports of agricultural products remain of great importance for many countries.

Global trade in agricultural products has expanded steadily since the 1960s, and accelerated in the 2000s, reflecting higher incomes in emerging economies and higher prices for food products (see the first panel of figure 5).

There is a major shift in the agricultural products that have been traded over the past 50 years. The share of higher-value processed products has increased, while the share of traditional commodities has declined (second panel of figure 5).

**Figure 4. A snapshot of today’s agriculture and natural resource exports**

*The agri-business sector accounts for only a small part of trade today, though for some countries it remains very important. Natural resources are an important part of merchandise trade for many developing countries.*



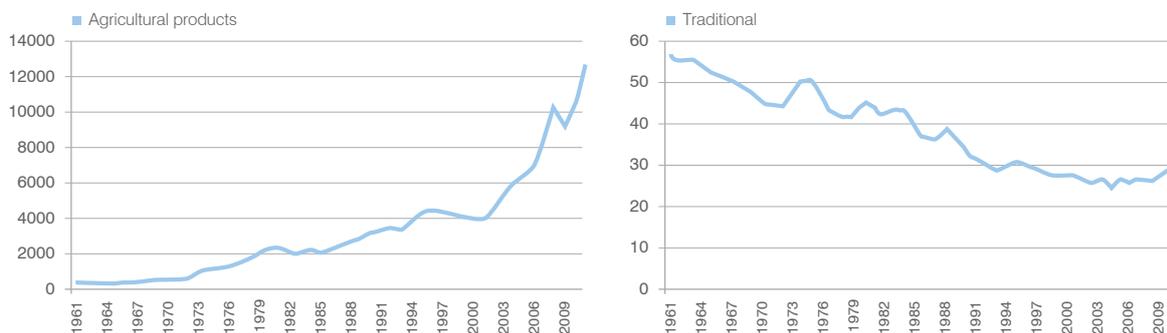
Source: World Bank. World Development Indicators database.

Trade in agricultural products, like manufactured goods, frequently revolves around global value chains, with commodities processed in other countries. In part, this trend reflects trade policies. For example, countries often have higher tariffs on processed products than on raw materials (Michalopoulos and Ng, 2013), which affects where value-added activities are located. Country of origin labelling requirements and traceability regulations also affect the organization of supply chains.

More generally, agri-business value chains are designed around the availability and quality of services ranging from quality control, logistics and storage facilities to packaging, insurance and distribution. Such services are especially important for perishable foods.

**Figure 5. Processed foods dominate agricultural trade**

*Value and composition of global agricultural trade, 1960–2011.*



Source: Author’s own calculations, based on the Food and Agriculture Organization’s FAOSTAT database.



## Changing trends in food and energy

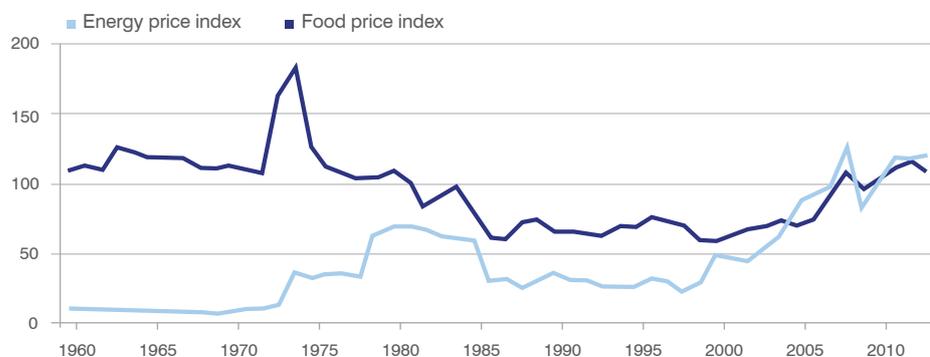
World food and energy prices have been marked by periods of volatility. Both energy and food prices spiked upwards in the 1970s, followed by a gradual decline and relative stability during the 1980s and 1990s. After 2000, global prices for food and energy again increased rapidly (figure 6). This reflected rising incomes and demand in developing countries, as well as climate change and related policies, such as encouraging the production of certain biofuels on land that might otherwise be used for food crops.

In principle, higher food prices benefit farmers and rural communities, although the bonus effect is partly offset by steeper energy costs. OECD member countries suppressed world prices of several commodities by enforcing high rates of protection during much of the last 50 years. This included high tariffs and other measures at the border as well as production subsidies that increased output and export supply.

The recent rise in world food prices partly reflects a gradual reduction in production-distorting policies in rich nations, and helped offset the effects of withdrawing such support to farmers. While a boon to producers in developing countries, higher prices hurt consumers, especially for poor households.

**Figure 6. Volatile food and energy prices**

*Volatile peaks and a recent upward rise mark the trends in the food and fossil fuel price index. (This 1960–2012 index is adjusted in constant 2010 US\$ to allow comparisons over time; 2010 = 100.)*



Source: World Bank. Commodity Price Data pink sheet, March 2014.



## Supply chains are changing trade patterns

Behind the jump in the share of manufactures in world trade is a great increase in trade in intermediate inputs, components and services that contribute to a final product. Falling transport and communications costs permit firms to splinter their 'production lines' geographically (Baldwin, 2014) and design supply chains that allocate different parts of the production process to firms in different countries. Materials and components are processed or services are performed – hence value is being added – in multiple countries that are part of the supply chain. By locating (sourcing) activities and tasks in different countries as a function of their comparative advantages, the total production costs are reduced.

*The shift towards supply chain trade means that trade is less and less a 'ship and forget' affair.*

The shift towards 'supply chain trade' means that trade is less and less a 'ship and forget' affair – involving a sale to a buyer the firm does not know and has no need to interact with after the transaction is completed. Trade is increasingly part of the production process to create a good or service. Instead of most of the steps and processes being performed on one factory floor, it is now possible to conceive and operate a production line with facilities located in different countries.

The supply chain trade is dependent on cross-border movement of capital and knowledge, as the technology and know-how needed to undertake various activities is often firm specific. The global value of the stock of foreign direct investment (FDI) rose more than six-fold over the past decade or so. By no means is all of this FDI associated with supply chains. Local sales by foreign-owned firms (affiliates of companies with headquarters in another country) were some US\$26 trillion in 2012, as compared with US\$18 trillion for world merchandise trade. Thus, much FDI is market seeking. But without the great increase in cross-border FDI flows that have occurred in recent decades, supply chain networks would be far less extensive.

*The share of manufactures in total merchandise exports of developing countries was 30% in 1985, and is some 70% today.*

Supply chain trade and FDI are key factors why the share of manufactures in total merchandise exports of developing countries increased from just 30% in 1985 to some 70% today. Much of this trade is intra-industry and intra-regional. For example, about half of all East Asian exports of manufactures go to other East Asian economies, often as part of a supply chain. Since the 1990s, intra-industry trade ratios for high-growth developing and transitional economies have risen to 50% or higher.



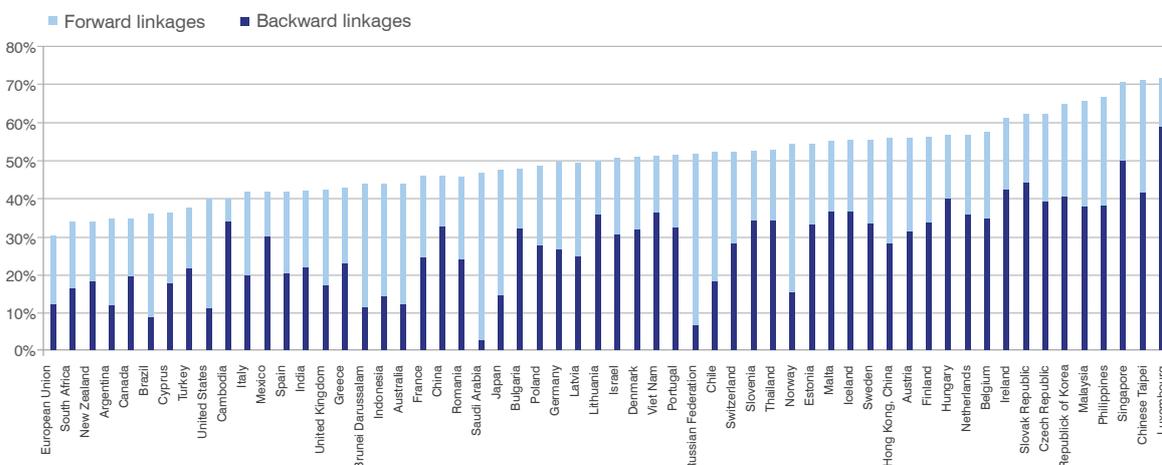
This is a major change from the pattern of trade that prevailed in the 1960s, when trade flows were driven more by the forces of textbook comparative advantage, with countries exchanging final products that intensively used those factors of production with which a country happened to be endowed.

A related change is that imports make up an increasing share of the total value embodied in a given product – ranging from 25%—40% or more, for small open economies that are integrated into supply chains. Figure 7 reflects supply chain trade data for a number of countries, broken down into two types: imported inputs used to produce exports ('backward linkage') and exports of intermediates that are processed in the importing nation and then exported to a third country ('forward linkage').

The magnitude of backward and forward linkages varies across countries (figure 7), as does the share of supply chain networks in total trade. In part, the differences reflect economic size and level of development. The European Union is a giant economic entity (28 countries), so firms can source many of their inputs from other EU countries, which is not counted as cross-border trade. This is why if one looks at the EU as a whole, the share of supply chain trade is lower than if one looks at an individual EU Member State.

**Figure 7. The rise in supply chain trade**

*This 2009 graph shows that supply chain networks have an important share of overall trade. Large economies show less external supply chain trade. The EU, for example, forms its own value chains, which is not counted as cross-border trade.*



Source: Organisation for Economic Co-operation and Development, 2013.

Countries that are far away from centres of economic demand and activity have lower supply chain participation because of transport costs – New Zealand is a prime example. Low ratios for supply chain trade may also be a consequence of deliberate policy. Thus, if a country imposes high trade barriers or pursues industrial policies that make it difficult and more costly to import parts or components, investors may decline to invest there.

Supply chain trade opens up manufacturing to low-income countries by allowing companies to focus on specific tasks to manufacture a product. Supply chains permit enterprises, even those in very poor countries, to furnish services to leading firms in the global market.

*In the 1960s, trade flows were often driven by textbook forces of comparative advantage. Today, they are more driven by supply chains.*

Supply chains are relevant to low-income countries, including those that are not (yet) engaged in industrial production. Many developing countries are suppliers of resources, such as minerals, and agricultural products that are basic inputs into a wide variety of value chains. Much can be done by governments and the business community to take advantage of the infrastructure that is constructed to produce and transport these products – for example, to facilitate the use of rail and road networks by other sectors.

Developing country firms have great potential to profit from international value chains – whether as a supplier of foodstuffs to large global retailers after they enter a country, or as a supplier of specialized intermediate inputs that exploit regional comparative advantages.<sup>6</sup>

The share of the total value of a final product that is added by processing activities in a low-income developing country will generally be small. Yet the employment and income that is created as a result of supply chain participation can be substantial, and generate significant indirect benefits through greater demand for local goods and services.

Over time, as countries deepen their experiences with supply chain trade, the most productive firms will increase the share of total value that is generated locally – as has been done in China and other countries in East Asia that opened their economies in the 1980s such as Chinese Taipei, as well as countries such as Turkey, Poland and the Czech Republic (Timmer et al., 2013).

## Services feed into the supply chain

Output of services has grown from roughly 55% of global GDP in the mid-1970s to some 70% today. Services are also important for employment, industry costs, and overall FDI stocks and flows (Francois and Hoekman, 2010).

The share of services in GDP exceeds the 70% world average in many economies. But only a fraction – 20% or so of all services production – is traded. This is low compared to goods, where openness ratios are 60% or more for many countries.

Fewer services are traded because many services remain non-tradable, despite advances in information and communication technologies. Frequently, provider and consumer must be in the same place at the same time. Selling services to foreign nationals (that is, engaging in trade) will often require production facilities abroad. From this perspective, it is not surprising that more than 60% of the global FDI stock is in services sectors. If sales of services by the affiliates of foreign companies are included in total services trade, the relative importance of services in global trade increases greatly.<sup>7</sup>



Cross-border trade in services stood at around US\$4.3 trillion in 2012, or about 20% of world trade. The share of services in global cross-border trade has been remarkably constant since the 1980s, varying between 20% and 25%. One reason is that the composition of services trade has been changing, with the share of commercial services such as business and information technology-related services growing, and the share of more traditional services such as transport falling. Another reason is that although total services trade has increased rapidly, so has trade in merchandise — driven by the rise in supply chain trade.

### *Services account for 45% of the total value of exported goods.*

Yet a large share of total gross trade in merchandise reflects services. Trade in services often occurs indirectly, embodied in people or embedded in tangible products. Much of the value of goods reflects the value of services that go into producing them. As countries become richer, the share of services in GDP and employment grows. It is matched by a higher share of the value of products constituted by services inputs, such as business, intermediation and knowledge services (R&D, design and engineering); transport and logistics; and financial services. Even for low- or middle-income countries, services account for a large share of output and the value added to traded goods.

Services sectors are responsible for more than half of the value of total exports in the United States, the United Kingdom, France, Germany and Italy, with a significant contribution (typically one-third) across the range of manufactured goods (figure 8). The importance of services in global trade suggests that they should be front and centre in national trade strategy discussions and international negotiations because barriers to trade and investment in services affect the performance and potential of value chains.

### **Services, key to competitiveness**

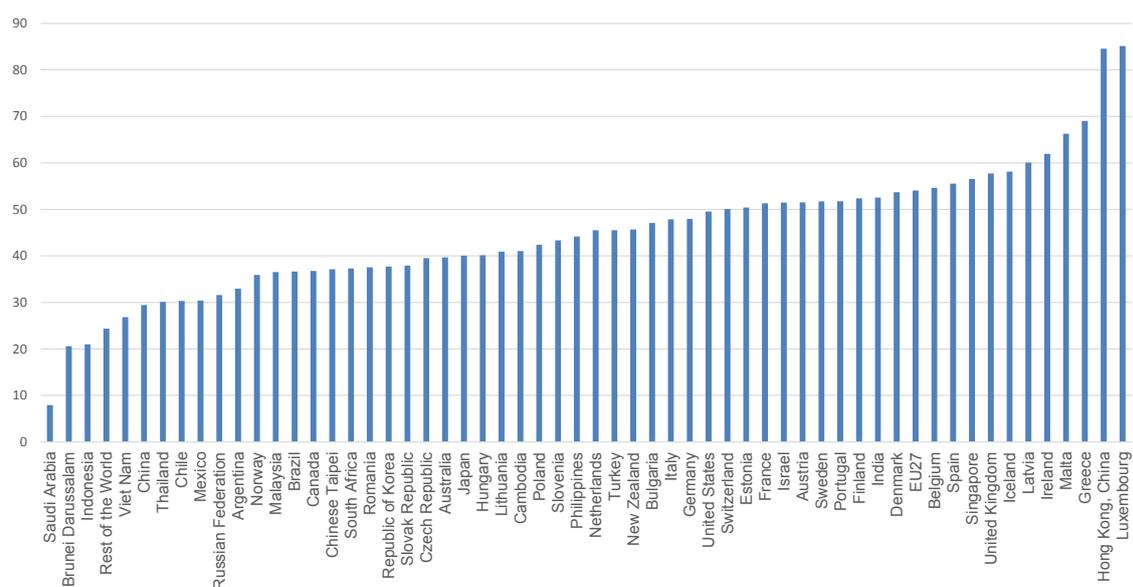
The ability of firms to participate in world trade depends on access to telecommunications, transportation, financial services and other business services such as accounting and legal services. High-cost or low-quality services act as a tax on exporters and ultimately on growth and poverty reduction. If companies do not have access to reliable, competitively priced service inputs, they will be forced to offer their own goods or services at a higher price. As a result, they may find they cannot penetrate export markets.

For many enterprises in developing countries, the costs of domestic and international transportation, associated transaction costs and administrative requirements are higher than the applicable tariff on imports.

High transport costs reduce export prices and increase delivered import prices. Exporting industries with high transport costs must pay lower wages or accept lower returns on capital. Freight rates for sub-Saharan African countries, for example, often

are considerably higher than in other countries, and contribute to the region's poor trade performance and poverty. The causes include weak infrastructure and policy weaknesses. For example, policies that reduce competition and choice, such as cargo reservation schemes (reserving a portion of freight transport to a nation's own fleet) or restrictions on entry into the air transport sector raise costs for shippers. Perhaps even more importantly, they constrain capacity, preventing expansion of production for which there is export demand.

**Figure 8. Services share of total value added embodied in exports, 2009**



Source: OECD/WTO Trade in Value Added database. <http://stats.oecd.org/index.aspx?queryid=47807>

### Services for export success

The success achieved by several countries in expanding fresh fruit, flower and vegetable exports illustrates the enormous possibilities when transport and related services are efficient. Countries in Latin America, East Africa and West Africa have seen exports of flowers, fresh fruit and vegetables to the United States and Europe expand substantially. This is a result of investments in the supply chain that ensure fresh produce can be harvested, packaged and shipped by air to major markets overnight.

*Governments and businesses need to work together to identify which links in a value chain are missing and how they can be provided.*

Investors and companies often know the ingredients for export success. They frequently cannot act on opportunities because one or more pieces of the supply chain are not in place.



Benefiting from agri-business value chains requires more than quality agricultural produce. It also requires efficient domestic logistics services (packaging, distribution, transport and cold storage where needed) and competitively priced, reliable and regular transport services. Governments and businesses need to work together to identify where specific links of a vital chain are missing and to determine how they can be provided.

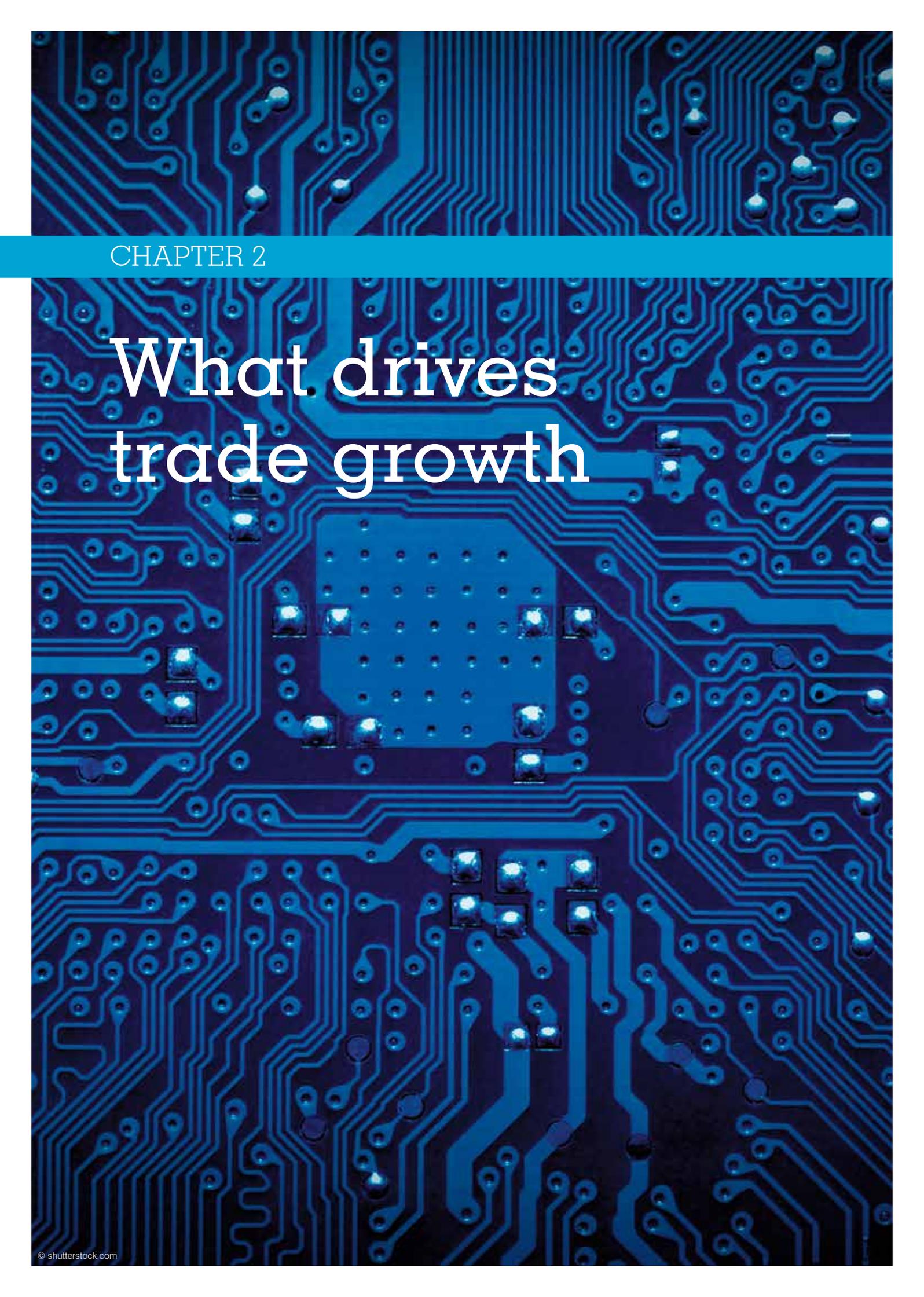
Competition is generally the most effective instrument to lower average costs and increase the quality and variety of services that firms in all sectors need to be able to compete. Governments also need to take action to address specific constraints or provide public services. Small firms require good infrastructure and public services. They are completely dependent on either buying services via the market or using public services. This is because by definition small enterprises do not have the capacity to address gaps the way a large company might.

Services can, of course, also be exported directly. One important example is tourism. Tourist expenditures in a country comprise a mix of goods – such as handicrafts – and services (such as hotels, restaurants, transport); services usually account for the largest share.

Value chains are very important in tourism because a large variety of inputs are required, ranging from hotel workers to transport providers, travel guides and agents. Tourism has great potential for backward linkages (for example, sourcing fresh foodstuffs locally instead of importing them) – and for forward linkages (such as increasing the demand for medical services that tourists might otherwise have obtained at home).

## ENDNOTES

1. Changes in trade intensity include policy reforms and technology, discussed in chapter 2.
2. Developing countries here span five regional groupings as defined by the World Bank: sub-Saharan Africa, the Middle East and North Africa, Latin America and the Caribbean, the South Asia Region and East Asia Pacific.
3. Transitional economies are the former centrally planned economies of the former Soviet Union and former socialist Eastern European countries that transitioned to a market-oriented economy at the end of the 1980s.
4. Mexico is a larger exporter and larger importer than Brazil. India is a much bigger player in trade in services, ranking fifth for both exports and imports (China is third after the European Union and the United States).
5. See Brenton and Izik (2012).
6. There is a large and rapidly expanding literature on global (regional) value chains. See, for instance, Baldwin (2014), Cattaneo, Olivier, Gary Gereffi and Cornelia Staritz, eds. (2010). *Global Value Chains in a Postcrisis World: A Development Perspective*. Washington, D.C.: World Bank., and Lee, Gereffi and Barrientos (2011).
7. Assuming that half of this is made up of services (services account for more than 60% of the stock of global FDI), this suggests that sales of services by affiliates could be on the order of US\$13 trillion. See Francois and Hoekman (2010).



CHAPTER 2

# What drives trade growth

**G**lobal trade growth has been shaped by many trends, but two stand out: technological change and economic policy reform.

## Technology has reshaped trade

Many technology advances since the early 1960s have shaped trade. These advances make it much easier for SMEs to connect to regional and global markets.

### Faster, cheaper communications

Among the many advances relevant to trade are those that led to a sharp drop in telecommunications costs. The cost of a transatlantic three-minute call between the United Kingdom of Great Britain and Northern Ireland and the United States, for example, fell from 3 British pounds in 1965 (the equivalent of 48 pounds sterling today) to essentially zero today for users of Voice over Internet Protocol services. Technological progress has brought more than lower costs. New products and services have dramatically improved the quality of long-distance communication – video conferencing being just one example.





## Radical restructuring in transportation

The capabilities and cost of moving goods and people across long distances has changed, too. Among the changes since the 1960s that have led to a fall in unit transport costs are:

- **Containerization** – Widespread adoption of standard-sized containers and ever-larger container vessels in transportation systems;
- **Combined air, sea and land transport** – This is known as roll-on, roll-off multimodal logistics;
- **Improved air travel** – Development of wide-body aircraft and jet engines;
- **Organizational innovations** – Among them are hub-and-spoke networks for airlines, cargo transport and express delivery services.

As unit costs fell and the quality of transport services improved (e.g. refrigerated containers), fresh vegetables, fruit and fish became tradable over long distances.

Containerization has made managing production systems, logistics and trade radically more efficient. The impact of distance has diminished. As a result, small and medium-sized enterprises (SMEs) have a much greater scope to play an active role in international trade – even as the demands to maintain competitiveness within global value chains have become more complex.

*The big change occurred in air, not sea transport. Air shipping accounts for a small share in volume, but a much larger share in value of manufactured goods.*

The big change in shipping costs occurred not in sea transport but in air transport (Hummels and Schaur, 2013). Lower unit costs of air transport allowed high-value, relatively low-weight products to be shipped by air, ranging from electronics to fresh flowers. Aircraft revenue per ton-kilometre fell by an order of magnitude between 1955 and 2004 from US\$3.87 to US\$0.30 (measured in 2000 US dollars). Revenues fell (i.e. costs declined) the most following the adoption of jet engines for civil aviation (Hummels, 2007).

Air shipping only accounts for a small share of the volume of internationally transported goods; yet it constitutes a much larger share of the value of international trade in manufactured goods. Comprehensive global data are not available, but for major traders such as the United States, about 50% of the total value of exports of goods is shipped by air.

*Landlocked countries need efficient air transport, given that ground transportation costs are higher than in coastal countries.*

Efficient air transport is especially important for many landlocked developing economies, given that they face higher ground transport costs. Rather than encouraging liberal entry into air cargo services, some governments of landlocked countries in Africa maintain restrictive policies that increase the cost of air transport, according to the World Bank (Borchert et al., 2012).

## Electronic business platforms

In recent years, SMEs benefited from connections with buyers and suppliers through several types of platforms:

- Internet-based platforms such as Amazon, eBay and Alibaba, which are widely used by consumers;
- Financial, transaction processing and logistics electronic services;
- Dedicated business-to-business procurement platforms used by leading firms and large retailers.

Electronic portals and platforms offer a huge opportunity to small firms to overcome challenges in connecting to international markets: search costs; information on applicable regulatory requirements in the importing country; as well as shipping, payment and other logistical issues that vary from market to market. The links in the chain between producer and buyer can now be provided at a lower cost, greatly levelling the international playing field. This is explained in the contribution by Wendy Jones of eBay in chapter 4.



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## Towards open trade policies

Outward-oriented economic growth strategies in many developing countries and former centrally planned economies have driven trade growth in a major way.

The shift away from decades of inward-looking import substitution by China, India and other developing countries, starting in the late 1980s, was an important dimension of policy reforms that integrated more countries into the global economy. The policy reversal created new employment opportunities for hundreds of millions of workers in sectors producing tradable goods and services. In doing so, it also led to increasing demand for goods and services by hundreds of millions of new consumers.

### Lower tariffs and trade barriers

Average tariffs in the early 1960s were in the 20%—30% range. Tariffs were complemented by a plethora of non-tariff barriers, often binding (including quantitative restrictions and discretionary import licensing regimes), and often linked to foreign currency and exchange controls.

As of the 1980s, opening up trade became prominent in the trade policy landscape. Trade reforms accelerated in the 1990s and continue to maintain their momentum. Today, the average uniform tariff equivalent (protection provided by tariffs and non-tariff barriers alike) in Organisation for Economic Co-operation and Development (OECD) countries for merchandise trade is only 4%, mostly reflecting agricultural protection. The average level of import protection around the world has dropped to the 5%-10% range (Kee, Nicita and Olarreaga, 2009). Firms often have lower (applied) tariffs than most favoured nation (MFN) rates as a result of free trade agreements.

Tariffs on products that firms import are now often zero. This phenomenon is not limited to high-income economies. For example, China undertook a massive trade and investment opening programme before and following World Trade Organization accession in 2001; applied tariffs are less than 7% today. All its tariffs are bound (a ceiling rate) in the World Trade Organization (WTO) at 9.8% on average, and numerous services industries were opened to foreign competition (Sally and Sen, 2011).

Similarly, the average applied MFN tariff in India is now around 6%. Many other countries have likewise lowered their tariffs and other trade barriers. Applied tariffs for firms from least developed countries (LDCs) are often much lower than MFN rates as a result of duty-free, quota-free programmes and other preferential market access regimes, even if the preference margin generated by such programmes is significantly offset by free trade agreements.

### *Average tariff rates for a sample of 50 developing countries fell from 17% in the 1990s to 9.1% in the late 2000s.*

For a sample of 50 developing countries, the simple average applied tariff rate fell from 17% in the 1990s to 9.1% near 2010. For agriculture, protection is higher than for manufactured products: the average MFN is 13.6% versus 9.5% for all developing countries; 6.2% versus 3.2%, for developed countries. Average tariffs are highest in the least developed countries: 15.3% for agriculture and 11.7% for manufactures (Michalopoulos and Ng, 2013).



Tariff structures in poor countries also show that tariffs on final goods are higher than tariffs on intermediate inputs (parts and components) and unprocessed materials. This is known as escalation. Tariff escalation is significant in sectors such as transport equipment. In low-income countries, the average tariffs on automotive parts and components are half of those that apply to vehicles – some 10%, as compared with around 20% for the finished product.

In OECD countries, the extent of tariff escalation has declined significantly since the 1970s, in parallel with the gradual reduction in tariffs generally.<sup>1</sup>

Other trade policy instruments have also become more open, such as import quotas and other forms of trade restrictions prevalent in the 1970s and 1980s (Nogués, Olechowski and Winters, 1986). Greater use is made of these measures in developing countries than in high-income nations, but there is a trend towards convergence. Over time, countries have come to look more similar in their use of trade policy instruments.

### *Average tariffs are highest in LDCs, and highest for agriculture.*

All countries make extensive use of product standards. These are categorized as Technical Barriers to Trade (TBT) and sanitary and phytosanitary measures (SPS). An increasing number of countries resort to anti-dumping, countervailing duty and safeguard measures if they decide to protect an industry from unfair trade practices.<sup>2</sup> China has become the main target for such actions. The instruments also are used to check imports originating in other developing economies. In Brazil and China, anti-dumping provisions cover around 2% of total imports; in India – now the world's most active user – it is 4% (Bown, 2011; 2013).

## Trade reforms support exporters

Many economic reform programmes in the 1980s and 1990s encouraged export production, export performance and better resource allocation. In many countries, reforms were driven by macroeconomic imperatives, including unsustainable debt burdens and public sector deficits. A common objective was to give firms access to the inputs they needed at world market prices – thereby allowing them to compete internationally on a level playing field.

Another hallmark of reform was to increase competition for domestic industries. Reform programmes reduced the domestic cost of imports, thereby creating pressure for managers to improve productivity and for the least productive firms to close down, releasing resources for sectors in which a country had a comparative advantage. These competition effects have been documented by many studies (see Bernard et al., 2012, for a recent survey). Creating an incentive framework to improve efficiency of the

economy was a precondition for the higher economic growth rates that were sustained in many countries in the 1990s and beyond.

Trade reforms generally:

- Removed quantitative restrictions on imports and exports;
- Reformed tariff structures, moving towards a simpler and more transparent system of a limited number of tariff bands;
- Removed tariff exemptions of various kinds;
- Reduced net taxation of agriculture;
- Lowered the average level of tariffs.

Frequently the adopted tariff structure involved higher tariffs on final products than on inputs (escalation). The idea was to afford industries a sustained rate of protection, while continuing to raise tax revenue from imports.<sup>3</sup>

Reforms generally went beyond narrow trade policy (tariffs, quotas) and focused on macroeconomic management, to help move countries towards more sustainable budgets and to control inflation. Devaluation of the real exchange rate was frequently used. Devaluation created incentives to switch expenditures away from imports, helping to move the balance of payments towards surplus.

Devaluation also played an important political economy role in helping to open trade. By making imports more costly, it offset some of the loss of protection that resulted from lower trade barriers. Conversely, devaluation made it easier for export-oriented firms to expand output and generate employment opportunities that compensated for losses in import-substituting sectors that were negatively affected by trade reforms.

## Non-tariff measures on the rise

The net result of policy reforms is that trade policy today is more open and transparent. There are far fewer quantitative restrictions (a barrier to trade widely used in the 1970s and 1980s), especially for products in which developing countries had a strong comparative advantage, with agricultural products, clothing and footwear being prominent examples. The use of quotas, voluntary export restraints and similar instruments has fallen dramatically. While this reflects some autonomous reforms, it was primarily due to the successful conclusion of the Uruguay Round, which agreed to remove many of the remaining forms of quantitative restrictions on trade.

Yet trade today is not free. Tariffs continue to be a constraint in almost all markets; even low tariffs generate compliance costs. Indeed, the cost for governments to administer a very small tariff may exceed the revenue that is collected. The burden of tariffs on supply chain trade can add up if a value chain involves goods passing through numerous border crossings.

*Today, most barriers to trade take the form of non-tariff measures. Examples include rules of origin, labelling requirements and certification.*

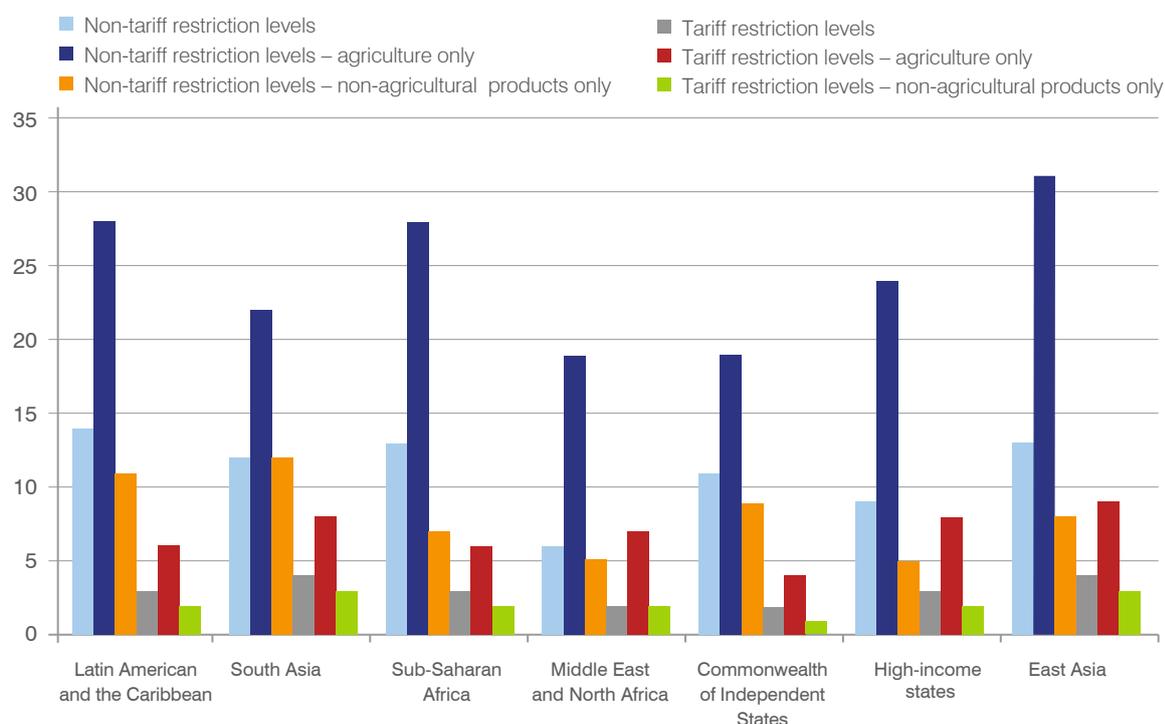
With average tariffs, quotas and related quantitative restrictions on the downswing, non-tariff measures (NTMs) in other guises are often the major source of trade restrictions for companies today. These NTMs involve regulatory, administrative and procedural requirements that must be satisfied before a foreign product can enter a market. Examples are import licensing requirements, local content incentives, product standards, rules of origin, labelling requirements, and testing, certification and conformity assessment procedures (Cadot and Malouche, 2012).

Trade restrictiveness indices show the importance of NTMs for exporters in foreign markets. Figure 9 displays Market Access Trade Restrictiveness Indices. They measure the tariff equivalent of trade policies confronted by firms in their export markets, taking into account both applied import tariffs and whatever information is available on NTMs (Kee, Nicita and Olarreaga, 2009). As NTM coverage and quality of information varies greatly across countries, a tariff-only trade restrictiveness index is also reported. This more robust measure is comparable across regions and countries. The restrictiveness indices are broken down into agricultural and non-agricultural components.

The extent of trade barriers confronting firms varies widely in different countries and regions, according to these indices. Agricultural trade restrictions are generally much higher than those against other products, mostly reflecting NTMs. The data also indicate that agricultural tariffs are on average much higher than tariffs on non-agricultural products.

**Figure 9. How open are regions to trade today?**

*This set of Market Access Trade Restrictiveness Indices by Region (2012) shows that protection levels vary widely across regions, and that agricultural products always face much higher barriers.*



*Source: World Bank, Overall trade restrictiveness indices and import demand elasticities. <http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:22574446~pagePK:64214825~piPK:64214943~theSitePK:469382,00.html>*

Comparing NTMs across countries are challenging, as data are often not current or complete. Even so, the data clearly illustrate that NTMs represent a substantial share of trade barriers. In sub-Saharan Africa, for example, tariffs in export markets are low, due in part to preferential access programmes. Yet trade restrictiveness levels are similar to those confronting companies in Latin America or East Asia, and higher than that for firms in developed countries. This level of restrictiveness points to the importance of reducing NTMs, and improving the understanding and transparency of the various types of NTMs in different markets.

Product standards, rules of origin and other certification requirements often account for most of the impact measured by the trade restrictiveness indices. ITC surveys of importers and exporters confirm that a large proportion of companies are affected by NTMs, especially companies exporting from landlocked least developing countries (LLDCs). The survey results reveal that domestic NTMs may be as important as foreign NTMs in constraining exports or raising costs.

*An exporter may be compliant with the tolerance limit for pesticides, but unable to prove it because the accredited testing laboratory is expensive or far away.*

Agricultural exporters are more affected by burdensome NTMs than exporters of manufactured products. The process associated with documenting compliance with specific requirements can be problematic. For example, an exporter may be compliant with the required tolerance limit for pesticides but find this difficult to prove because the accredited testing laboratory is expensive or located far away.

## Trade policies favour farmers

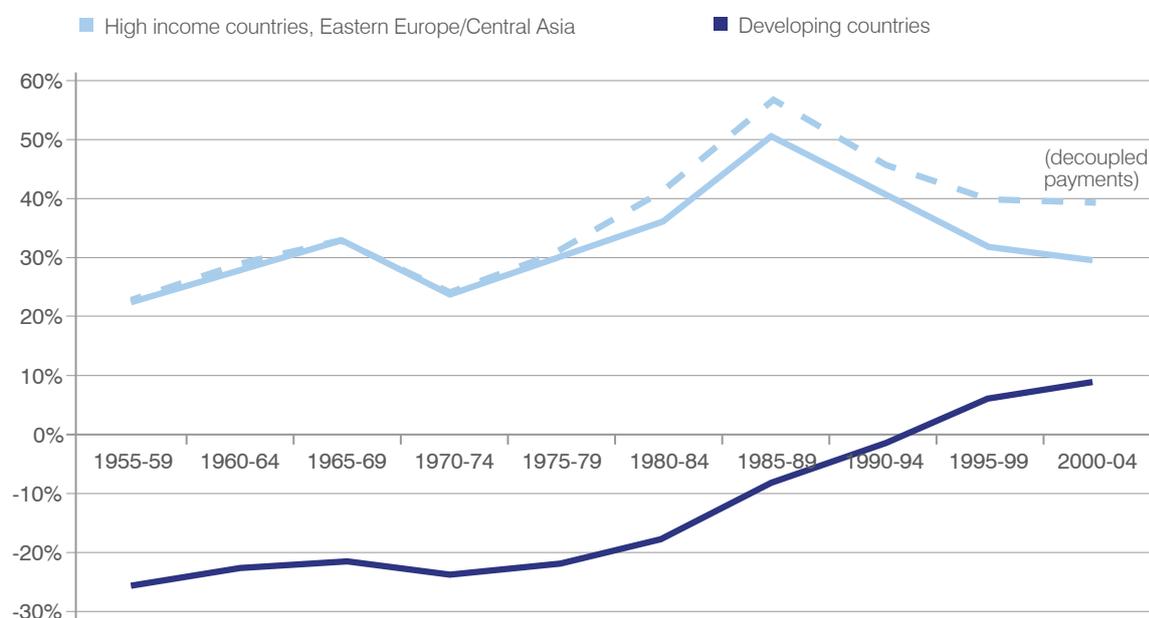
Many agricultural commodities are heavily protected in industrial countries. Agricultural distortions in industrial countries began to decline in the mid-1980s (Anderson, 2009). In developing countries, agricultural products have historically been taxed more than industrial production. Recently, average tax rates on agriculture have dropped sharply (figure 10).

Africa is the only region that still taxes farming more than other sectors (Anderson and Masters, 2009). However, globally the trend is towards greater neutrality. As illustrated in figure 9, agriculture continues to be a sector in which levels of market access restrictions are substantially higher than for non-agricultural goods.



**Figure 10. Less domestic agriculture protection over time**

Developed and middle-income countries reduced domestic agriculture protection over the past 30 years. Developing countries have moved away from export taxes on primary cultivated products. This figure shows the average rate of assistance to agriculture, 1955–2004.



Source: Anderson (2009); World Bank, *Development Research, Distortions to agricultural incentives*, [www.worldbank.org/agdistortions](http://www.worldbank.org/agdistortions)

## Increasing use of standards

In recent years, large buyers (such as retailers), as well as consumer and development organizations, have increased the use of private standards. The standards are meant to ensure that products satisfy quality criteria and conform with specific norms, including environmental sustainability, organic food labelling practices, labour standards and fair trade programmes. These private standards complement public health and safety requirements, such as SPS measures that regulate permitted maximum levels of pesticides and other residue levels for dangerous substances.

The use of both public and private standards is increasing. An indication of this trend is the number of notifications of new sanitary and phytosanitary measures submitted to the WTO, which have skyrocketed from just a few hundred in the mid-1990s to more than 13,000 today. An indicator of the spread of private standards is the number of producers that are GlobalGAP certified,<sup>4</sup> which rose from some 20,000 in the mid-1990s to around 120,000 in 2011 (Swinnen, 2014).

***SPS measures notified to the WTO have skyrocketed from a few hundred in the mid-1990s to more than 13,000 today.***

Private standards typically cover higher-value products such as fresh fruits, vegetables, seafood, fish, meat and dairy products. For many developing countries, these exports have jumped over the past 20 years. This is a result of businesses integrating into supply chains, foreign direct investment (FDI) in the agri-business sector and retail distribution in developing countries via supermarket chains.



The impact of these trends on smallholder producers in developing countries that supply global value chains has been analysed.<sup>5</sup> High-value, agro-industrial supply chains can generate substantial employment and income for poor households in LDCs. Examples include the vegetable export sector in Senegal (Maertens, Colen and Swinnen, 2011) and the cut flower industry in Ethiopia (Mano et al., 2011).

An important policy question is how to distribute the gains from high-value agricultural trade. Although large food companies and retailers have substantial bargaining power vis-à-vis smallholder suppliers in their value chains, food quality and safety standards can benefit smallholders and workers. For example, standards increase the need for companies to invest in training, which results in higher wages; standards also help improve employment conditions (Barrientos, Dolan and Tallontire, 2003). Much depends on the coordination and linkages within a value chain (see chapter 4).

## Foreign services providers face barriers

Much less is known about barriers to trade and investment in services. Unlike goods, services cannot be taxed as they cross the border. As a result, data on trade in services are much less detailed and accurate than data on trade in goods. Nor is it possible to compare taxing services to a tariff levied by customs authorities.

Trade and investment in services have grown greatly over the past 50 years partly due to the opening up of FDI as of the 1980s. Examples include deregulating air and road transport; abolishing the antitrust exemption for maritime freight transport; privatizing ports and port services; and the breaking up of state-owned telecommunications monopolies.

Foreign suppliers of services may face severe discrimination, according to databases of policies compiled by the World Bank and OECD. This is true especially in sectors that require the movement of people across borders to deliver services.

The World Bank has compiled a database that assesses the extent to which the regulatory policies of a country discriminate against foreign services providers (Borchert, Gootiiz and Mattoo, 2014). Significant barriers to trade in services exist in both high-income and developing countries. However, barriers are on average substantially higher in emerging economies than those in OECD countries. Research using widely accepted economic models to analyse the value of international trade and contrast the results with what could be expected if barriers were removed also concludes that barriers to trade in services are much higher than those that affect trade in goods. It is unclear how much of the 'missing' trade is attributable to policy and how much reflects the fact that natural barriers to trade are higher for services.

Cross-border services via the Internet are growing, and in most countries, these are not subject to restrictive trade policies. The Internet has flourished because of a combination

of services policy reforms and advances in information and communications technology. The market access policy agenda in this sector concerns regulation requirements pertaining to privacy and cross-border transfers of data, which are issues not covered by WTO.

## Investment drives trade growth

The expansion of supply chain networks has increased global trade, which is partially driven by the cross-border movement of capital and know-how. The global value of FDI rose more than six-fold between 1990 and 2012, to reach US\$22.8 trillion (figure 11). The rate of FDI growth was substantially higher than the growth in trade, which increased 3.5 times over the same period. This growth was facilitated by some 3,000 bilateral investment agreements (UNCTAD, 2013).

*The global value of FDI rose more than six times between 1990 and 2012, to reach US\$22.8 trillion.*

Developing economies have been receiving an increasing share of global FDI flows. Until the late 1990s, developed OECD countries claimed the lion's share of FDI flows. This is changing. In the space of just 15 years, the share of global inward FDI accounted for by developed countries fell from 78% to 62% in 2012 (figure 11), reflecting an increase in flows to developing countries.

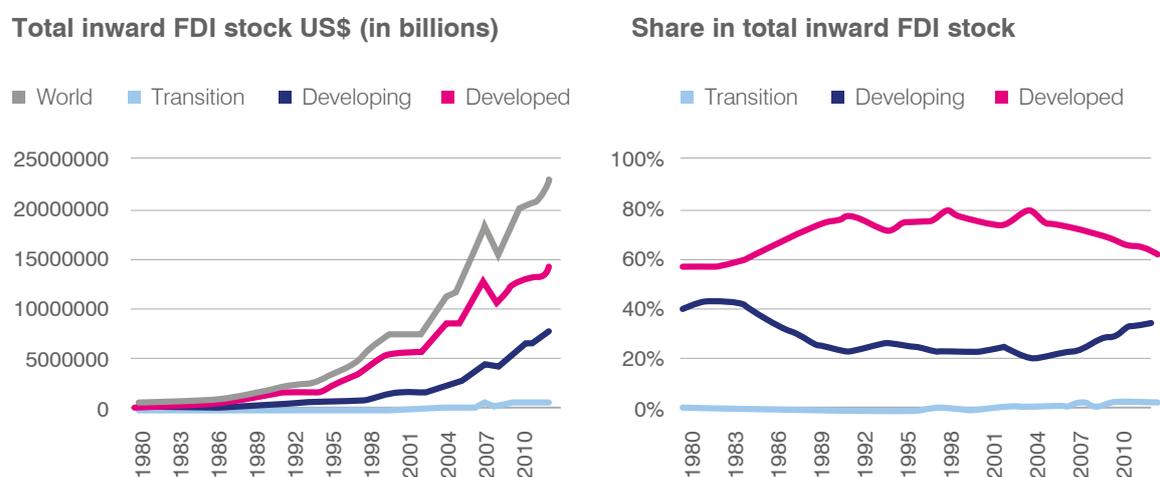
At the same time, a number of emerging economies have become sources of capital and know-how for the rest of the world. The share of global outward FDI attributed to emerging nations rose from 1% to more than 13% in 2010. These economies are also responsible for a significant share of FDI inflows to low-income countries. In recent years China has supplied more than 15% of total FDI in Africa, according to the International Monetary Fund. Previously, investment policy issues concerned multinationals headquartered in OECD nations. Today, decision makers from all economies are concerned about investment policies.



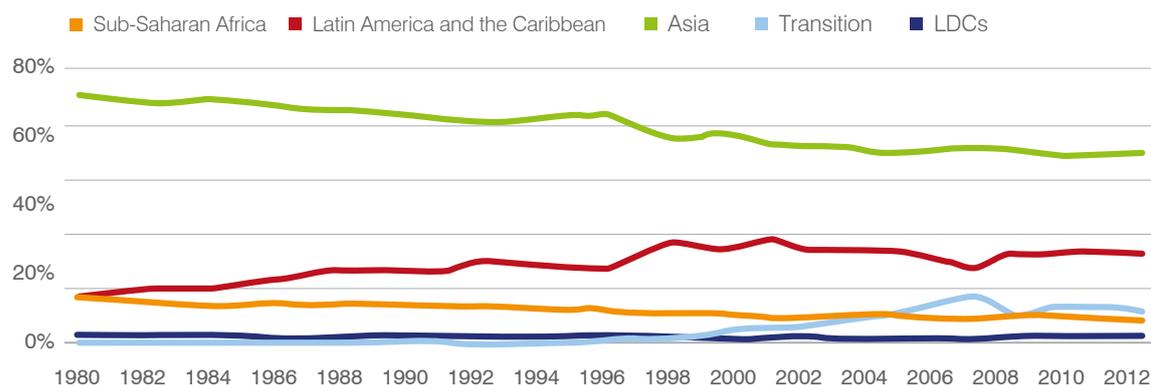
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**Figure 11. Foreign direct investment grows**

Growth in inward foreign direct investment in developing economies has outpaced developed economies in recent years. This figure shows growth from 1980 to 2012.



#### Share in total FDI stock in developing/transition countries



Transition economies include South-East Europe and the Commonwealth of Independent States

Source: UNCTAD-STAT, *Inward and outward foreign direct investment stock, annual, 1980–2012*, <http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=89>

Within any given sector, entry by foreign-owned companies through FDI has the same effect on domestic firms as increased imports – stronger competition may reduce sales and drive up the average costs of production. But FDI and entry by foreign firms may also lead to knowledge transfer, which potentially facilitates productivity in indigenous firms. The positive effects depend on the capacities of local firms and the freedom of workers to move from foreign-owned to domestic companies or to start up their own operations. This also depends on the domestic investment climate, for example, access to credit.

*New export superstars that drive trade growth do not take their cue from domestic production, or start from a low export base and learn by doing.*

Multinationals may want to prevent knowledge leakage to local competitors. However, they may decide to work with local suppliers to enhance their productivity and performance. Improving the performance of suppliers could involve transferring

information about business practices, such as quality control or inventory management methods, as well as transferring proprietary technologies. For example, such ‘vertical’ positive spillovers from multinationals to local suppliers have occurred in Indonesia (Blalock and Gertler, 2004) and in Lithuania (Javorcik, 2004).

Recent research shows that FDI is often an engine of export growth in developing countries. Most exports of high-value manufactured products from developing countries are produced by a very small number of companies, which are ‘export superstars’. Research shows that the majority of these export superstars are foreign affiliates or have partnerships with foreign companies and launched their operations as exporters (Freund and Pierola, 2012b).

The export superstars that drive trade growth in most countries did not start with domestic production with a low export base and did not learn by doing. In many countries there is a close link between new export dynamism and FDI.

## The road to trade policy reforms

Trade-related policies have economic effects at home and abroad. For an exporting company, trade restrictions have a double negative effect. Tariffs and other restrictive policies at home raise the costs of the inputs. Tariffs and NTMs imposed in foreign countries increase the price of products for potential buyers abroad.

During the 1960s, 1970s and much of the 1980s, many developing country governments dealt with barriers in major export markets – primarily developed countries – by calling for preferential access on a non-reciprocal basis. These preferences were prized, given that tariffs were much higher than they are today. They were particularly valuable if entry to a major market was constrained by quotas and other quantitative restrictions. The tighter the limit imposed on imports, the greater the profits that could be made by obtaining access to the market.

In the 1960s and 1970s, the Generalized System of Preferences and preferential access were implemented for developing countries. This helped some of them to expand and increase the price of their exports. But for many, the preferences had limited positive economic effects. This was due to restrictive rules of origin, uncertainty over whether preferences would continue to be applied and the disincentives they created for firms in recipient countries to diversify away from traditional products that were highly protected in the preference-granting market. Examples include bananas and sugar exported to the European Union.

The most important drawback of preferences was that they did not lower the domestic cost structure for companies that could seize opportunities to diversify into other products. The non-reciprocal nature of preferences meant there was no pressure from the preference-granting countries for developing countries to lower their tariffs and open trade.

Developing countries began to pursue unilateral trade and other economic reforms in the 1980s, often in the context of painful and costly macroeconomic crises. Many of the disincentives to invest in export production were reduced, and exports of non-traditional products began to expand. As growth picked up, exporters in developed countries became more interested in developing country markets.

These dynamics led developing countries to participate more actively in the General Agreement on Tariffs and Trade (GATT) and in its successor, the WTO, in 1995. Developing countries also started negotiating reciprocal trade-opening agreements with neighbouring countries and major trading powers. These trade agreements led to better market access conditions for exporters and played a significant role in improving and strengthening trade-related institutions.

## WTO engagement is stepping up

Developing countries have become active players in the WTO. Thirty-five developing and emerging economies have joined the WTO since 1995, and another 20 are in various stages of accession. Accession to the WTO is a lengthy and demanding process that involves policy reforms to ensure a country's trade regime complies with WTO's rules and disciplines, as well as trade-opening commitments and institutional reform.

As a result of the rigorous accession process, new members are well prepared to engage in the WTO.

Developing countries are stepping up their participation in the WTO. Numerous submissions were made during the Doha Development Round of trade negotiations. Coalitions have been created, including the G20 group of developing countries that came together to focus on agriculture in the lead-up to the 2003 WTO Ministerial meeting in Cancún, Mexico, the African Group comprised of 42 nations, and the LDC group composed of the G33 countries.

*Accession is demanding. It involves national reforms to bring a country's trade regime in compliance with WTO. It requires commitments to opening trade and building stronger institutions.*

Developing countries are also increasingly using the WTO's dispute settlement mechanisms. Brazil, China and India account for more than one-third of all cases brought by developing countries, while other developing countries such as Argentina, Chile, Mexico and Thailand have also been active.<sup>6</sup>

## Trade agreements – new trends

At the same time that developing countries intensify their engagement with the WTO, they pursue bilateral and regional trade agreements. There are many reasons, including:

- A desire to increase the size of their markets to attract investment and realize economies of scale;
- The opportunity to use trade agreements as a mechanism to reduce trade costs and strengthen trade institutions.

Trade agreements include North-South and preferential trade agreements between developing nations. The European Union has signed dozens of agreements with developing countries and has been negotiating Economic Partnership Agreements with African, Caribbean and Pacific (ACP) countries that previously had preferential market access on a non-reciprocal basis. (LDCs are not included in the negotiations.)

The United States also has agreements with developing countries, some of which are 'deeper' than those negotiated by the European Union because they include more legally binding provisions (Horn, Mavroidis and Sapir, 2010). Other OECD countries have also signed agreements with developing countries.

*Developing countries pursue bilateral and regional trade agreements with equal fervour.*

Developing countries have pursued regional integration with their neighbours. Examples include the Association of Southeast Asian Nations, the Mercado Común del Sur (Mercosur) and the Andean Community in Latin America, the East African Community,

the Southern African Development Community, the Common Market for Eastern and Southern Africa, the Economic Community of West African States, the Southern African Customs Union, the Greater Arab Free Trade Area, the Gulf Cooperation Council, and the South Asian Association for Regional Cooperation. These regional agreements are often modelled on the European Union, as they aim to create a customs union or a common market.

Some countries have negotiated as many bilateral free trade agreements as possible. For example, Chile and Mexico each have agreements with dozens of countries.



Trade agreements can improve market access if duties on intra-regional trade are removed. In practice, many of the 1970s arrangements among developing countries did not result in regional free trade. Nor did they create an integrated market governed by common economic policies. Agreements that removed internal trade barriers often did not benefit the private sector or consumers. This is because external trade barriers remained high, which prevented companies from accessing technology and innovation.

Even when trade agreements result in free trade among signatories, the rules of origin that enable goods to benefit from zero-duty treatment or tariff preferences may be too restrictive. This affects small companies that do not have the administrative capacity to manage the associated red tape. If a country has overlapping memberships in different trade agreements, compliance becomes even more difficult.

If tariffs are reasonable, it could be more cost-effective for importers to pay the tariff rather than prove that their products satisfy the rules of origin. The uniform tariff equivalent of many rules of origin is in the 3%-4% range, implying that firms could benefit by paying tariffs equal to or below that threshold.

### *Recent agreements often focus on investment, trade in services and public procurement.*

Many trade agreements negotiated since the late 1990s differ from earlier agreements, in that they do not seek to move towards a common external tariff or a common market. Instead, the agreements focus on removing barriers to bilateral or regional trade. Recent agreements have often included provisions on foreign investment, trade in services and public procurement.

North-South agreements that involve the European Union and the United States tend to go beyond simply reducing or eliminating tariffs. These agreements seek to provide an anchor for domestic policy reforms and market openness, as well as to strengthen trade policy-related institutions.

The trade agenda is increasingly focusing on non-tariff policies that affect market access conditions for companies. In this new environment, governments must communicate and collaborate with the business community to identify obstacles to export opportunities.

## Trade openness brings higher growth

The economic policy reform programmes that helped to drive the boom in world trade did not always increase growth rates by generating additional investment in the goods and services sectors. But at least reform brought neutrality in terms of the effects of policies, where previously there had been an anti-export bias. Reduced taxes on agriculture and improved access by companies and consumers to the global market for goods and services were important achievements in many countries.

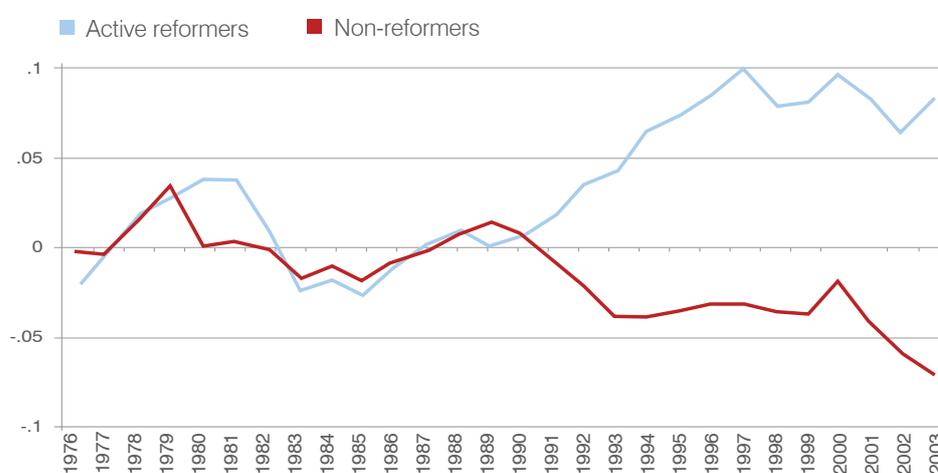
Trade openness results in higher growth. Countries that pursued trade opening policies since the 1980s have seen a significant increase in their gross domestic product. Economic growth rates in nations opening up to trade increased by about 1.5% compared to before they opened up (Wacziarg and Horn Welch, 2008). Greater trade openness also accelerated growth rates in Africa (Bruckner and Lederman, 2012). This growth is associated with higher rates of investment, including FDI.

When comparing the performance of nations that lowered tariffs on inputs and capital equipment with similar nations that did not do so, annual growth rose by 1% (Estevadeordal and Taylor, 2013) (figure 12).

Trade opening has a temporary direct effect on a country's growth rate, but the indirect productivity gains associated with opening markets to new imported varieties of goods account for 10%–25% of a country's per capita income growth (Broda, Greenfield and Weinstein, 2010).

**Figure 12. Workers benefit from opening up trade**

*Income bounded ahead in countries that opened up their trade regimes. This figure compares the growth in income per worker in countries that opened up trade policy. (The vertical axis refers to the logarithmic transformation of worker income levels relative to the 1975-1989 trend.)*



Source: Estevadeordal and Taylor (2013).

Countries have prospered from global integration, using trade and FDI to drive growth. Many of the most dynamic developing countries' businesses have integrated into global value chains, often associated with inward FDI. These businesses have become exporters of parts and components or have assembled finished goods. Other nations, especially LDCs, have benefited less.

## Challenges to diversify and sustain exports

LDCs account for around 1% of global trade, and have been unable to diversify away from their traditional export base of agriculture and primary commodities. Most LDCs, as well as other countries in Africa, the Middle East and Latin America, continue to rely on a highly concentrated export bundle. This consists primarily of natural resources and agricultural products exported to a few markets. The share of minerals and fuels in total LDC exports is about 67%, up from 43% in 2000.

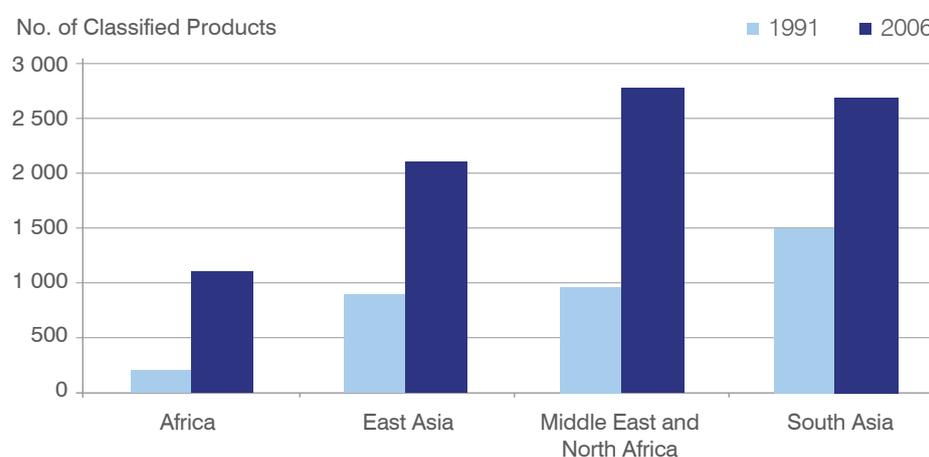
### *Most exports are generated by a small number of large companies.*

Most countries have diversified their economies (figure 13), but many developing countries still have a narrow export base, whether measured by the number of products that earn most revenue, the number of export markets, or the number of exporters (Cadot, Carrère and Strauss-Kahn, 2011; Freund and Pierola, 2012b). New products often comprise a very small share of total exports.

Exporter 'survival rates' vary tremendously across countries, but in general are low. Most companies in LDCs export for just one year. In a sample of 17 LDCs, the export failure rate averages 41%, with a high of 67% in the Gambia and a low of 29% in Bangladesh. Failure is risky, as companies cannot recoup the resources they use to enter an export market. Low survival rates also increase income volatility for workers in such companies.

**Figure 13. Developing countries are diversifying their exports**

*Developing countries improved export diversification, as shown in the comparison between 1991 and 2006. (The analysis covers 5,000 products classified under the six-digit Harmonized System product lines for exports, as defined by the World Customs Organization.)*



Source: COMTRADE (World Bank, 2011).



This research complements similar results for developed economies where most exports are generated by a small number of large companies. Particularly important from a policy perspective is that many of these firms are multinational companies or their affiliates, which confirms that trade success is often associated with inward FDI.

This does not mean that policy should focus solely on helping large companies to export more. Governments can assist small companies to become suppliers to large companies and to boost their supply capacity.

In 32 of 37 developing countries, the top exporting firm produces almost 15% of total non-oil exports, according to a study between 2006 and 2008 (Freund and Pierola, 2012b). On average, the top 1% of exporters are responsible for 53% of total exports in these countries. The top 5% of firms account for almost 80% of exports.

## Targeted agricultural export strategies pay off

Successful exporting for non-traditional agricultural products depends on a combination of conditions:

- Natural endowments, such as land and climate;<sup>7</sup>
- Supportive trade policy, such as low barriers to imports of vital inputs;
- Access to technologies and know-how that come with FDI;
- A favourable investment climate.

Government policies and donor assistance can also correct market failures. Two success stories – asparagus in Peru and mangoes in Mali – are showcased in a World Bank trade strategy report (World Bank, 2011).

Peru launched its development of the non-traditional agricultural sector with fresh asparagus and then spread to other crops. A mix of private sector initiatives and assistance from the U.S. Agency for International Development (USAID) boosted productive capacity. A Peruvian producers' association had been exploring options to replace established crops with export crops. Studies revealed that asparagus appeared to be the most profitable. A new variety of asparagus seed for export was successfully introduced and exports took off. Fresh asparagus exports increased from virtually nothing in the early 1990s to 120 metric tons in 2013.

A dynamic class of Peruvian entrepreneurs emerged and started exporting other crops. Today, the agriculture sector has high, sustained export growth rates, and exporters are

exploring further opportunities. Exports of non-traditional crops had increased to some US\$1.5 billion in 2007, up more than ten-fold from the early 1990s.

Exports of fresh mangoes from Mali increased six-fold in the period 1993–2008. Close partnership among the government, the international donor community and the private sector was the driver of this success story. In the 1990s, the government implemented an export diversification strategy, targeting high-value, non-traditional agricultural products. It focused on mangoes because of the favourable natural conditions for the crop in certain regions and the fruit's growing popularity in Europe.

Given the size of the European demand and the transport limitations in landlocked Mali, the World Bank and USAID implemented a multimodal transportation system involving a combination of road, rail and sea freight. The system was tested in partnership with private operators (Sangho, Labaste and Ravry, 2010). A cold-chain refrigeration system was developed, phytosanitary improvements were made, certification and traceability programmes were implemented, and training in orchard management practices and post-harvest handling was offered to agricultural workers. Mango exports now reach the European market more efficiently, and Mali has higher income and more employment opportunities in mango production areas.

These examples demonstrate that to sell in global markets, domestic companies need to boost competitiveness. This includes increasing access to higher-quality, lower-cost inputs of goods and services, as well as contending with weaknesses in the value chains that constrain export growth, such as lack of cold storage facilities and air cargo service restrictions. Countries also need proactive policies to compensate for information asymmetries and measures to connect producers with global value chains, so that they become suppliers to foreign firms that have invested in the country.

## Boosting competitiveness

Economists view competitiveness as a concept that applies at enterprise level. Others apply the concept to territories – cities, provinces, nations, regions and continents.

Some companies are more productive and expand their market share at the expense of others, but this benefits all countries in that consumers gain from more choice, greater variety and lower prices. Trade is not a 'zero-sum game' (Krugman, 1994). At company level there are winners and losers, but for countries as a whole the competitive process is positive.

Policymakers should have a national-level perspective on the factors that enable enterprises to compete, independent of managerial decisions and strategy. Competitive companies exploit the sources of comparative advantage that prevail in a given location, including the availability and relative price of production inputs, operating costs and transactions costs. Many of these conditions are created over time by economic policy decisions and implemented by institutions.



## A business-friendly policy environment

Macroeconomic policies and the microeconomic environment shape competitiveness. Macroeconomic policies affect incentives for all companies located in a country. Sectoral and microeconomic policies affect companies differently depending on their capabilities, size and sector of activity. Both types of policies can have major impacts on export performance and economic growth of low-income countries. Neither is sufficient to ensure that companies can compete internationally.

Most countries have greatly improved macroeconomic management in the past two decades. With macroeconomic stability, the microeconomic incentive framework becomes critical to productivity growth and the potential to seize the opportunities offered by the global trading system.

## Managing exchange rates

To sustain export growth over time, the real exchange rate should not be overvalued. Developing countries often pursue real exchange rate undervaluation to boost their exports. Numerous studies point to the success of this strategy to achieve consistently higher rates of GDP expansion (Hausmann, Pritchett and Rodrik, 2005; Easterly, 2005; Johnson, Ostry and Subramanian, 2007; Freund and Pierola, 2012a).

An exchange rate depreciation can be equivalent to raising import tariffs for all traded goods and providing local firms with an across-the-board export subsidy. The extent to which undervaluation will work in expanding net exports will depend on several factors:

- If wages increase, the competitive impact will be undone.
- The ability of the monetary authorities to control inflationary effects can generate macroeconomic instability, with associated costs that far outweigh the temporary advantages given to exports.
- The extent to which firms rely on imported inputs is important in an increasingly supply-chain-driven world.
- A tax on imports is a direct tax on exports that embody the imports. In this case, the competitiveness effects of exchange rate depreciation will be offset by the higher degree of integration into global value chains or the import dependence of firms.
- The degree to which exporters hedge against foreign exchange risk and the currency in which they invoice their products is also important.

A rationale to pursue real undervaluation is that the policy and operating environment in developing countries often increases production costs, compared with the costs in countries with stronger institutions and governance. Undervaluation may help to offset such higher costs for exporters, which could lead to greater export production, as well as increased investment and employment.

Avoiding overvaluation is important for the competitiveness of firms in the export sector. A stable, predictable exchange rate is essential (Rodrik, 2008).



## Reducing trade costs

The prevailing pattern in low-income countries, particularly LDCs, is failure to export new products or to reach new export markets. In part, this is due to a high-cost operating environment, particularly for trade and transport. It takes three times as many days, nearly twice as many documents and six times as many signatures to trade with African countries as with high-income economies (on average), according to the World Bank's *Doing Business* report (Djankov, Freund and Pham, 2010; Freund and Rocha, 2011; Hoekman and Nicita, 2011). This undercuts the continent's appeal to companies seeking unskilled, labour-intensive production, even though Africa's wage rates are among the world's lowest.

Without lower transport costs from remote areas, increased connectivity, and the movement of goods, services and people across borders, potential trade gains will not be maximized. Poor roads and ports, ineffective customs, other weaknesses in border management processes, inadequate regulatory capacity, limited access to finance, and sub-standard business services are areas where development assistance can help to improve matters.

Tariffs and the rules of origin among countries with free trade agreements are one source of trade costs, as are inefficient border management practices and restrictive regulations affecting the cross-border movement of trucks, traders and products such as food.<sup>8</sup> Transport costs are high for many LDCs simply because of geography. If a country is landlocked, costs will be higher for companies that need to access a distant seaport.

The efficiency of transport corridors and border crossings is paramount for company-level competitiveness. Lowering trade costs involves removing border obstacles. But equally important are internal trade costs, including the costs associated with frequent controls and stopping of trucks (Arvis, Raballand and Marteau, 2010; Arvis, 2011).

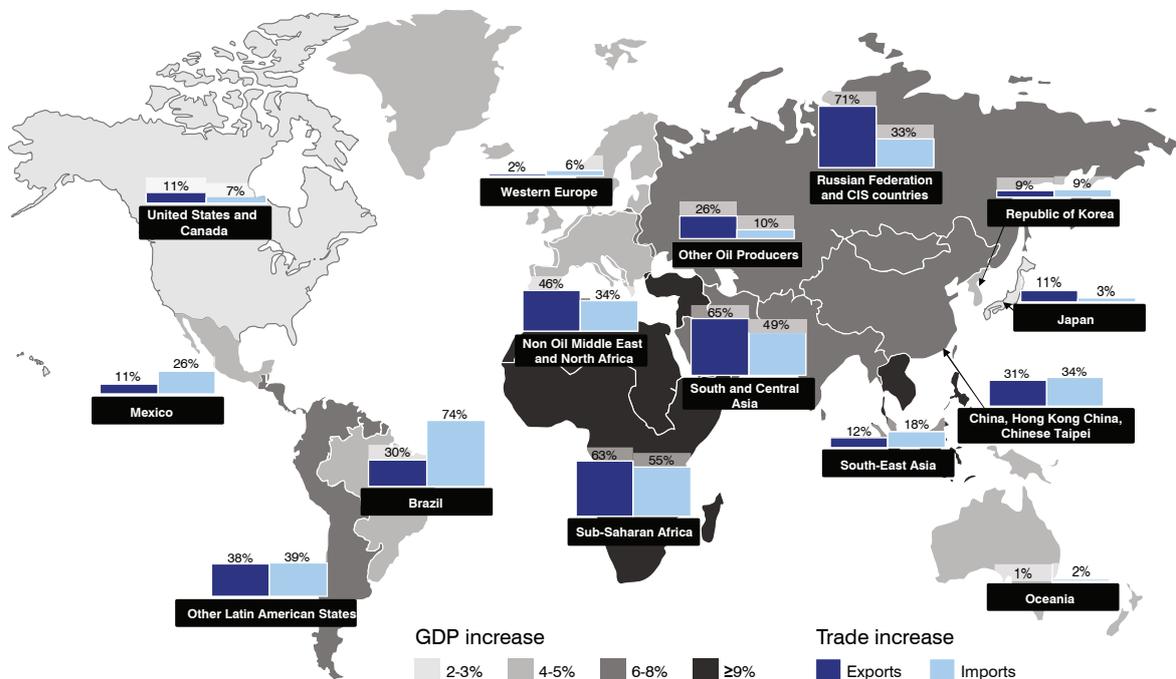
Reducing trade costs is a complex, multidimensional challenge. Trade opening plays an important role, but equally important are administrative practices and procedures, which need to be streamlined and efficiently enforced. Regional integration can create larger markets and lower transit costs, critical for landlocked countries. Reducing costs to transit neighbouring nations and access markets is important. Converging administrative procedures and trade-related regulatory regimes as a part of regional integration also reduces trade costs.

A concerted effort to reduce trade costs could yield huge benefits. Reducing trade costs to 50% of those incurred by most efficient countries could increase world GDP six times more than if all remaining import tariffs were removed (World Economic Forum, Bain & Company and World Bank, 2013).

The projected gains for African countries are among the highest, in the range of 10% of GDP or more, reflecting the high trade costs in Africa due to poor trade facilitation (figure 14). Making progress requires cooperation and coordination across a range of institutions and stakeholders in a country, in part because there are investment costs associated with realizing these gains.

**Figure 14. The global impact of reducing trade costs**

*African and South Asian exporters, as well as those in transition economies, stand to benefit from reducing trade costs.*



Source: World Economic Forum, Bain and the World Bank, 2013.

## Getting logistics right

Companies face costs when borders are not managed efficiently, or when transport and logistics services are weak. Those with high, unpredictable border costs and inefficient providers cannot compete with companies in a more efficient economic environment. SMEs suffer disproportionately from supply chain barriers to trade because of the magnitude of fixed costs, independent of volumes shipped (Lendle et al., 2012). What is more, small firms often cannot spend the staff time to understand disparate policies and procedures of potential trading partners.

Merchants using the eBay platform to sell goods internationally operate in countries where regulations are easiest to navigate, according to a case study in chapter 4. An eBay pilot project shows that helping SMEs navigate the regulatory regimes of importing countries could expand international sales volume by 60%–80%. Given that SMEs account for a large share of total economic activity, this type of targeted trade facilitation could significantly boost employment (World Economic Forum, Bain & Company and World Bank, 2013).

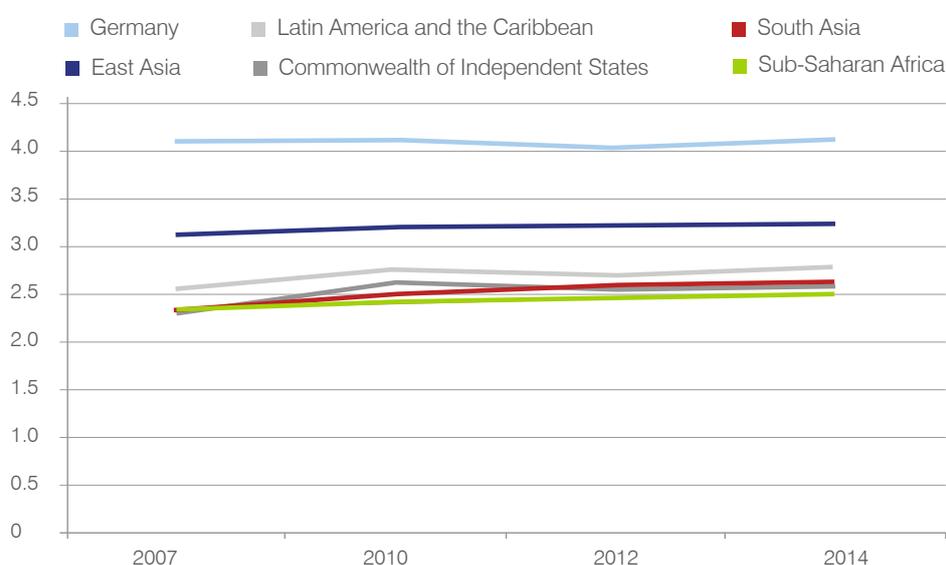
Logistics have a big impact on performance. In Africa, every extra day it takes to get a consignment to its destination is equivalent to a 1.5% tax on the value of the goods (Freund and Rocha, 2011).

### *Full implementation of the WTO Agreement on Trade Facilitation could lower developing country trade costs by 14%.*

The World Bank's Logistics Performance Index measures the quality of logistics services across 160 countries (Arvis et al., 2014). It reveals large differences in logistics performance and quality across regions. Figure 15 plots the most recent data for 2007 through 2014 by region and country group. The best-performing country in 2014 is Germany, with a score of 4.12 out of 5.

**Figure 15. Logistics: room for improvement**

*Developing countries, particularly those outside of East Asia, have much work to do to improve their performance. This logistics performance index covers selected regions, 2007–2014.*



Source: Arvis et al., 2014

Performance varies among the regions covered by the index. East Asia stands out from other developing regions because of superior logistics, helping to explain why trade has grown so much faster than elsewhere. Logistics account for an important share of trade costs that exist between countries. Improving logistics performance would reduce average bilateral trade costs 10 times more than an equivalent percentage reduction in average tariffs (Arvis et al., 2013).

There has been gradual improvement in many countries. Numerous poor countries have improved their Logistics Performance Index indicators since data began to be collected in 2007 (table 2). This trend indicates that governments can improve the trade facilitation environment in a short period of time. Targeted technical and financial assistance can yield a rapid and high return.

While reducing trade costs is mostly a matter for domestic policy, international agreements and Aid for Trade can help countries progress. The December 2013 WTO Agreement on Trade Facilitation is an example. Support for trade facilitation strongly promotes trade (Cali and te Velde, 2011; Helble, Mann and Wilson, 2012). An analysis of the potential impact of the WTO Agreement on Trade Facilitation (Moisé and Sorescu, 2013) estimates it could lower developing country trade costs by around 14%.

**Table 2. Where logistics performance is on the rise**

*These countries have performed well in improving logistics, according to the Logistics Performance Index.*

	2007	2010	2012	2014	2007–2014 % improvement
Sierra Leone	1.95	1.97	2.08	3.25	66.5
Rwanda	1.77	2.04	2.27	2.76	55.5
Ethiopia	2.33	2.41	2.24	3.35	43.8
Colombia	2.50	2.77	3.52	3.53	41.4
Jamaica	2.25	2.53	2.42	2.84	26.5
Egypt	2.37	2.61	2.98	2.97	25.1
Namibia	2.16	2.02	2.65	2.66	23.1
Nepal	2.14	2.20	2.04	2.59	21.1
Qatar	2.98	2.95	3.32	3.52	18.2
Burkina Faso	2.24	2.23	2.32	2.64	17.7

Source: Arvis et al., 2014

A question is whether large multinationals or small companies benefit most from better trade facilitation. Global value chains are often centred on a lead company that may be downstream in the chain, such as a large retailer or supermarket. Some are located at the upstream end of the chain, such as a company that produces high-tech aircraft or smartphones. Lead firms are generally larger than their suppliers and have price-setting power vis-à-vis suppliers and partners. This tends to keep costs in check.

Yet the gains from trade facilitation spread well beyond the lead firms. In a sample of African countries, greater competition among processors and export crops benefit farmers by increasing farm gate prices (Porto et al., 2011). Similarly, improvements in rural infrastructure – a type of trade facilitation – lift the incomes of agricultural smallholders, while reducing consumer prices. Firms of all sizes benefit from improved trade facilitation by exporting more in response to improvements, such as reducing the time to export goods (Hoekman and Shepherd, 2013).

## Supporting businesses to benefit from trade opportunities

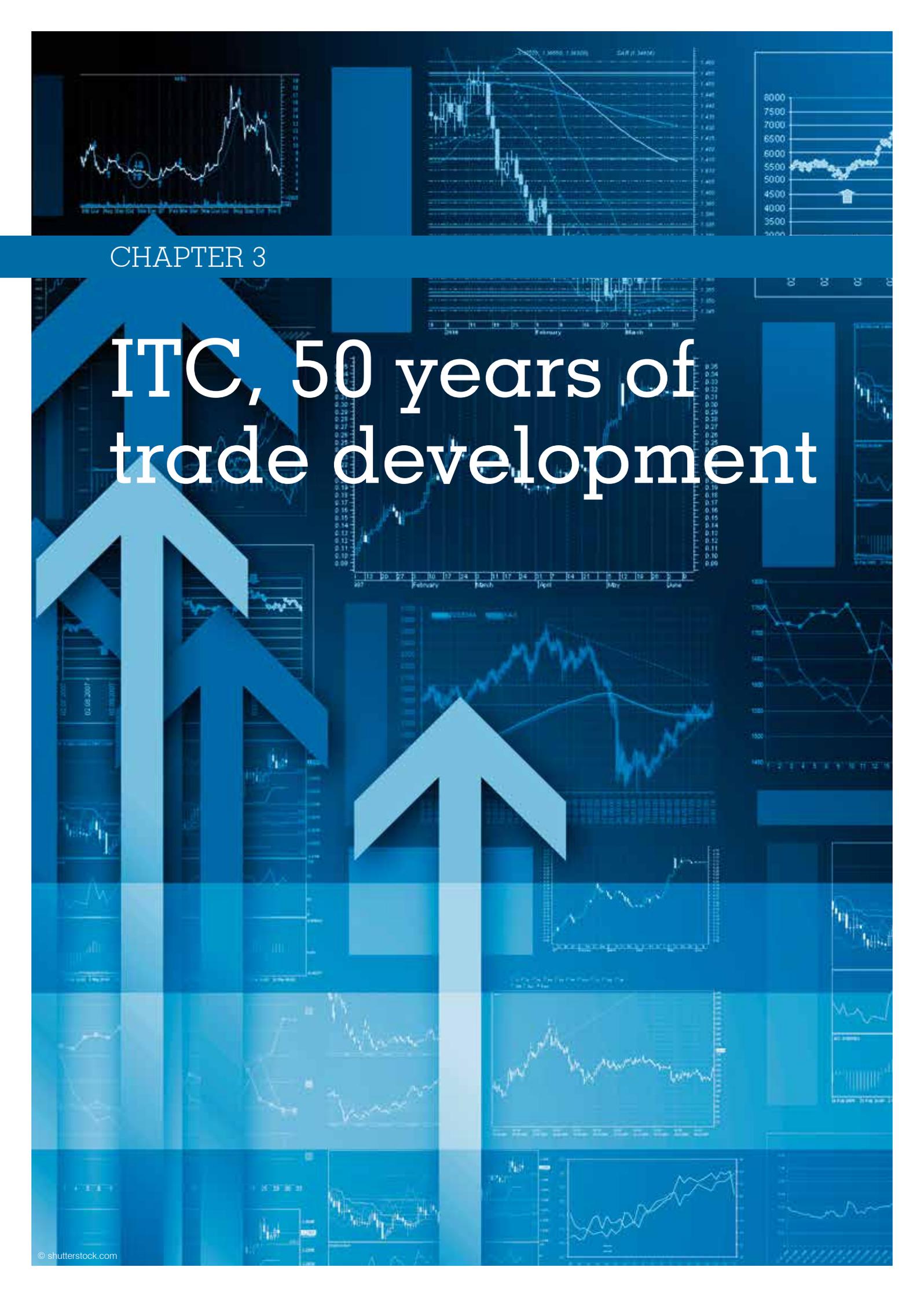
The world economy is very different for companies than it was 50 years ago. Policy reforms and innovations in transport, telecommunications and information technologies enabled large and small companies to exploit trade and investment opportunities and increase productivity. Consumers benefit greatly from better, cheaper goods and services. Companies produce more goods and services with higher quality, due to trade opening and new technologies.

But trade benefits are conditional. To take advantage of the rise of global value chains and greater purchasing power, companies need a supportive business environment. They must also be able to navigate increasingly complex regulatory regimes. This requires investments in training and staffing. It also requires new approaches by governments and international institutions to work with businesses to address the NTMs and regulatory policies that create obstacles to trade (Cadot, Malouche and Saéz, 2012);

ITC has assisted companies and governments in export promotion and trade development, and has a long track record. ITC has been effective in adapting its assistance to the changing trade environment, as lessons are learned about what works and what does not. Looking forward, it is clear that the organization's agenda increasingly will concentrate on the issues addressed in this chapter.

## ENDNOTES

1. Data are from Michalopoulos and Ng (2013).
2. Product standards, in principle, are not designed to protect domestic industries; they are motivated by health and safety concerns. Instruments of contingent protection – so-called trade remedies, such as anti-dumping and safeguards – are restrictive, even if they aim at unfair trade practices, and are governed by WTO disciplines.
3. The experience of many countries that implemented trade reforms, including in Africa (e.g. Benin, Côte d'Ivoire, the Gambia, Malawi, Zambia), was that tariff revenue declines, a major concern for many governments, were partially if not completely offset by the removal of tariff exemptions and quotas and the mobilization of other tax bases. Over time, as the pace of economic activity picked up, tariff revenues might even increase as a result of import growth.
4. GlobalGAP is a set of voluntary standards for good agricultural practice (GAP) that can be used by farmers, processors and food retailers. See [www.globalgap.org/uk\\_en/](http://www.globalgap.org/uk_en/).
5. Swinnen (2014) provides a summary of much of the recent literature. What follows draws on this paper.
6. See Horn, Henrik, Louise Johannesson and Petros C. Mavroidis (2011). The WTO dispute settlement system 1995–2010: some descriptive statistics. *Journal of World Trade*, vol. 45, No. 6, pp. 1107–38.
7. World Bank (2011).
8. Policies in the rest of the world also affect export structure and trade volumes. Tariff peaks and tariff escalation in major export markets have had a negative effect on incentives to do more processing in developing countries. Support given to agricultural production in many OECD countries has had the same effect.



CHAPTER 3

# ITC, 50 years of trade development

**A**s trade and investment have grown over the past 50 years, ITC has been in the forefront of the emergence of the promotion of trade competitiveness as a separate discipline within the field of economic development. In the early 1960s, almost no developing country had its own trade promotion infrastructure. Many had not yet attained national independence. Trade was not part of the development agenda, and there were no trade-related technical cooperation programmes.

Today, trade is recognized as an important lever to overcome poverty. Most countries have national trade development programmes and institutions. The Aid for Trade initiative to support developing countries to overcome trade restraints, led by the World Trade Organization (WTO), has become the world's largest single development initiative. The initiative has an annual volume of US\$40 billion and an increasingly sophisticated governance and review structure.

ITC has not been the driver of this change. Yet the fundamental transformation of the business of trade promotion and development has offered ITC unique opportunities to facilitate, support and lead the discipline's professionalization. ITC has made its mark by supporting developing countries in moving from the export of production capacity to the export of products and of services.

ITC had to continually adjust with the evolving trading environment. In its recent report on the future of world trade, the WTO concluded, 'institutions shape and are shaped by international commerce'.<sup>1</sup> This applies nationally as well as internationally. ITC is no exception.





## A business-oriented culture

Throughout its history, ITC has maintained a business-oriented culture. It worked from two principles: post-war trade development needed to be market-led; and successful trade promotion was anchored in international demand, rather than domestic supply capacities. Strengthening the capability of enterprises to meet international demand requirements has remained a common denominator of ITC programmes.

Trade promotion rose on national and international development agendas. This was fuelled by efforts to level the playing field to harness trade's full development potential. These efforts sought to improve the business environment from the small and medium-sized enterprise (SME) perspective. Trade promotion endeavoured to overcome information asymmetries, strengthen the institutional framework and address market imperfections.

ITC's contribution can be grouped into five themes.

### Setting the trade development agenda

As trade promotion developed as a discipline, questions emerged about its relationship with traditional trade policy, economic growth objectives and the larger development agenda. Since its founding, ITC has provided a platform to discuss and refine the trade agenda from a development perspective.

ITC works as an ideas laboratory. It is the major forum for discussion and exchange on the rapidly changing role of trade promotion and development. ITC's projects, its publications and its major events, such as the TPO Network World Conference and Awards, have all contributed to establishing priorities, exchanging best practices and identifying new challenges for the trade promotion and development profession. In this area, ITC has provided thought leadership and set the trade development agenda.

### Providing trade and market intelligence<sup>2</sup>

Providing developing country exporters with useful trade and market intelligence was ITC's defining objective at its inception. It has remained a major mission for the organization over the past five decades.

By gathering and disseminating trade intelligence, ITC can claim to have made significant progress in reducing information asymmetries. Throughout its history, it has been able to harness new information technologies to gather, analyse and disseminate practical trade intelligence for enterprises, institutions and ministries.

ITC has continuously implemented capacity-building programmes in the area of trade information. Trade intelligence is the area where ITC has had the largest reach and visibility, with hundreds of thousands of users.

### Building trade institutions

The emergence of trade support institutions (TSIs)<sup>3</sup> in all developing countries has been the most visible sign of the coming of age of trade competitiveness as a development discipline. ITC has always had a unique mandate to support the creation and operations of TSIs and the training of their staff.

In line with its original 1964 mandate, ITC has been a catalyst in institution building for trade promotion. It has accompanied the profession through the full cycle of setting up more than 100 trade promotion institutions and information centres during its first two decades.

It then shifted focus from public sector trade promotion organizations (TPOs) with mixed results to a broader range of private sector and specialized TSIs during the 1980s and 1990s.

In recent years, ITC has progressed to specific capacity-building programmes for TPOs and to the support of national and international networks of TSIs, focusing on measuring and improving the effectiveness of trade promotion. ITC has remained the hub of the global network of trade promotion institutions, although it has been unable to respond fully to the massive demand from TSIs for support.

### Focusing on enterprises

Trade development ultimately succeeds or fails at the enterprise level. Since the 1970s, ITC has focused on specific products and sectors, as well as on key markets and cross-cutting functions, such as supply chain management, quality control and packaging, to strengthen the capacity of SMEs to succeed in international markets.

ITC's enterprise-oriented approach to technical cooperation generated strong pilot programmes. These programmes illustrated the potential of trade-related technical assistance to yield concrete results – additional exports, income and employment. They represented an indispensable element in ITC's integrated approach to trade promotion and development, based on coordinated interventions at the enterprise, institutional and policy levels.

### Facilitating public-private partnerships

A primary lesson of trade development in the second half of the twentieth century has been the importance of close coordination between government institutions and businesses. ITC has facilitated this process.

Thanks to its mandate as an international organization with a business support focus, facilitating public-private partnerships has come easily to ITC. Throughout its history, ITC has been able to forge trade-related partnerships to support specific programmes, strategies and policies.

## Assessing impact

At a time when both countries and businesses look to trade as a path to faster growth, assessing the effectiveness of trade promotion is a preoccupation for all stakeholders. The chains that link activities (for example, a market information newsletter, a trade fair or creation of a TSI) with desired outcomes (export-generated income and employment) are long and indirect. This makes it impossible to match results clearly with specific measures.

As the body of impact assessments grows, there is some consensus on which activities produce tangible results. As trade development is an experience-based discipline, good assessments factor in all available direct and indirect evidence for what has worked. Both measurable results and perceptions are important.

This review is based on ITC-wide and programme-specific evaluations,<sup>4</sup> on ITC client surveys,<sup>5</sup> and on feedback from beneficiaries, partners and development professionals.



# Setting the trade development agenda

## A changing context

Trade promotion must respond to the dynamic nature of commerce. Rapid change in the trade landscape demands both enterprises and TSIs to be adroit. The pace and depth of change has called for constant repositioning of the roles of the growing number of stakeholders involved in trade development.

As a community of trade development professionals emerged over time, it has looked to ITC to set the agenda, identify emerging trends and provide thought leadership. ITC grew into its role to position the discipline within the larger development debate, particularly as the debate shifted over time.

The rationale for trade promotion evolved from providing export earnings to finance imports to a broader development mandate:

- Strengthen SME competitiveness;
- Advance job creation;
- Harness trade development for social objectives such as combating rural poverty, youth unemployment and gender inequality.

Priorities and techniques were constantly re-examined and adapted to changes in the business of trade. Among these were:

- Rapid improvements in trade logistics and communications;
- A shift from commodities to manufactures and services;
- The rise of regional and South-South trade.

Changes in the business of trade created the need for a platform for thought leadership, the exchange of innovative practices and a clearinghouse of new ideas.





## Charting new directions

Over the years, ITC has grown into the role of leading the way on trade promotion. Responsibility for the trade promotion and development agenda has not come easily to the organization. From a political perspective, it has been in the shadow of its parents (the United Nations and WTO) and the Bretton Woods institutions (the World Bank and the International Monetary Fund). Annual meetings of ITC's governing body, the Joint Advisory Group, focused on governance rather than on providing a forum for substantive discussion.

The organizational culture focused on 'nuts and bolts' – the pragmatic aspects of trade promotion. In the absence of other institutions that could have offered guidance, ITC has served as the primary forum to chart new directions for trade promotion that feed into improved competitiveness and contribute to development.

Emerging themes were taken up by ITC at an early stage and integrated into its technical cooperation programmes over the past five decades.

- South-South trade promotion has been an ITC objective since the 1970s. Facilitating intra-regional trade has been a priority for ITC's programme in all regions and in particular in Africa.
- Trade in services was quickly recognized as a growth area and integrated into country programmes.<sup>6</sup>
- Gender has received attention since the 1980s and is an area in which ITC has provided thought leadership, innovative programmes and practical advice.<sup>7</sup>
- Export-led poverty reduction programmes sought ways to use trade to generate income and employment for the poor. The focus on the poor led to an increase of the share of least developed countries (LDCs) in ITC's total programme from 20% in 1979<sup>8</sup> to more than 50% in recent years.
- For both enterprises and trade agencies, it has been challenging to link environmental issues to trade. ITC has brought the issue to an operational level by developing the business case for environmentally friendly trade from the perspective of SMEs.
- Value chains have long been acknowledged. ITC's first supply chain management programme began in 1979, focusing on import operations as a precondition for competitiveness.

- ITC's results-based management and reporting have grown over the past decade, introduced well ahead of other institutions. This early adoption has allowed ITC to share its own experience and support others.

## Policies and partnerships

At the policy level, ITC has helped bring trade to the forefront.<sup>9</sup> ITC publications have played a major role in shaping trade development discussions (see box 1). The 13 annual Executive Forums and World Export Development Forums (see box 2), together with the TPO Network World Conference and Awards, have provided a much-appreciated platform to exchange experiences and set priorities.

Innovative ITC programmes have influenced the larger trade-related technical assistance agenda, bringing together policy, institutional and enterprise agents. The Joint Technical Assistance Programme is an example. Conducted from 1998 to 2008 by ITC, the United Nations Conference on Trade and Development (UNCTAD) and WTO, it was the first tripartite, multi-donor, multi-country project dedicated to building African trade capacity. It set the stage for larger integrated programmes under the Aid for Trade initiative.

Building effective partnerships with other institutions has magnified ITC's influence on the trade development agenda. Recruitment of trade promotion specialists from around the world – the ITC roster included more than 1,000 experts as early as 1975<sup>10</sup> – fostered the emergence of a community of practice and shared perspective.

### BOX 1: Trade Forum: Shaping a cadre of trade professionals

On 15 December 1964, seven months after ITC was born, it published the first trilingual (English, French and Spanish) issue of the quarterly *International Trade Forum*, with a print run of 10,000 copies.

*The magazine was presented as a 'meeting place for people interested in promoting trade, in particular the exports of developing countries, and a medium for the exchange of ideas and information between buyers and sellers'.*

While its strategic focus and branding has evolved over time, the journal's mission has remained consistent for five decades. As the only international professional journal on trade development, it has:

- Featured trade development topics with contributions by public and private sector thought leaders;
- Provided 'how-to' information, documenting best practices;
- Presented practical advice and attractive market opportunities for export-oriented SMEs in developing countries;
- Showcased major ITC programmes, events and publications.



Within five years, the mailing list grew to 20,000, reflecting ITC's network of liaison offices, SMEs and interested individuals. The online version was launched in 2000 at [www.tradeforum.org](http://www.tradeforum.org), where it currently has about 25,000 unique site visits per month. The number of print subscriptions has risen to 8,000.

As ITC's flagship publication, the magazine is available in the documentation centres of TSIs worldwide. The virtue of the 200 issues of ITC's *International Trade Forum*, published between 1964 and 2014, is that they have been the singular, readily available resource and reference on trade development. The journal, together with ITC's other publications, has shaped the views and orientation of a cadre of trade development professionals, especially in developing countries.

**BOX 2: Exchanging experiences of export strategies and practices**

The 10 Executive Forums on National Export Strategy organized between 1999 and 2008 and the three World Export Development Forums in Chongqing, Istanbul and Jakarta in 2010, 2011 and 2012 have been ITC's flagship events. They have made a major contribution to setting the trade development agenda.

**‘No other international forum deals with the issues we discuss here in such depth and with such a practical focus.’**

*Wang Jinzhen, Vice Chair, China Council for the Promotion of International Trade*

The Executive Forum was conceived as a place to exchange experiences on export strategies and practices by bringing together private and public sector decision makers and representatives of the international development community. The number of participants increased gradually. At the sixth forum in Montreux in 2004, 43 national country teams participated, and there were more than 900 participants at the Jakarta forum in 2012.

**‘The Executive Forum was more than an exchange of ideas – it was a transformational experience. It is perhaps a blessing in disguise that we have not yet completed the drafting of our national export strategy.’**

*Chancellor L. Kaferapanjira, Chief Executive, Malawi Confederation of Chambers of Commerce and Industry*

The focus on specific trade development themes reinforced ITC's thought leadership role. The range of themes brings out the preoccupations of the trade development community over the past 15 years. They encompass topics such as redefining trade promotion (Annecy 1999), the digital economy (Montreux 2000), services (Montreux 2005), trade and poverty reduction (Berlin 2006), consumer conscience (Montreux 2008), post-crisis

world trade patterns (Chongqing 2010), tourism-led growth (Istanbul 2011), and shifting dynamics in global trade (Jakarta 2012).

There has always been intense, and at times controversial, discussion on how to capture the full potential of these events. For example, how best to make them practical for participants without forgoing the political visibility they generate? How can they be linked to ITC's technical cooperation programme? How best to ensure follow-up? How best to manage costs? Many lessons have been captured on how to bring even greater impact. (See for example ITC's 2013 evaluation of the WEDFs in 2010, 2011 and 2012.)

**‘We first attended as a young institution, only two years old, and we were learning from scratch what a trade promotion organization must do to be effective. Every year we learn new things that help us to continuously evaluate what we're doing. We try to keep up with developments in our business, and attending this forum is the best way of doing it. Above all, where else do you have the opportunity to share experiences with so many top-level executives from private and public sector bodies in the trade area from around the world?’**

*Ricardo Estrada Estrada, Executive President, Corporation for the Promotion of Exports and Investment, Ecuador*

The value of these events for partners has consisted in providing strategic orientation, facilitating the exchange of best practices and offering unique networking opportunities. This is evident from survey results<sup>11</sup> and from the reactions of those who attend.

*Sources: ITC Annual Report, 2005; ITC Presents: Portraits of Trade Development, 2004.*



## Providing trade and market intelligence

Over the past five decades, trade intelligence has been central to ITC's mission. Positioning these services as public goods has allowed ITC to be present worldwide, despite the absence of field offices in partner countries.

From the perspective of small exporters in developing countries, ITC has been most visible as a source of trade intelligence. For trade support institutions, especially in low-income countries, ITC has been the major external provider of trade intelligence data, along with capacity building to use that data effectively.

Policymakers around the world have relied on ITC's trade and market intelligence. ITC's acknowledged expertise has been at the core of joint initiatives with other organizations, including UNCTAD, WTO, the World Bank and the World Economic Forum.

Client surveys confirm their appreciation. For example, in the ITC 2009 client survey the 2,472 respondents rated ITC's market analysis tools, trade and market analysis, and capacity building for market analysis or trade information as the three services most relevant to their needs.<sup>12</sup>

### Timely information – a challenge over time

Access to trade information has been singled out as key to trade development. A critical lesson of the 1950s was that opening up trade did not automatically lead to a higher share of trade for countries; in fact, their share actually declined.<sup>13</sup> In transitioning from production to market-led trade development, knowledge of market trends and opportunities is critical to success. This was an area where developing country exporters and institutions lagged.

While technology radically changed the way trade information has been gathered, analysed, disseminated and used over the past 50 years, trade and market intelligence has remained critical for competitiveness. Surveys consistently show that a lack of trade intelligence remains a major challenge to increasing exports.<sup>14</sup>



## More than a clearinghouse

Providing trade information and market intelligence to SMEs was ITC's original *raison d'être* and has been part of its DNA ever since. The initial 1962 proposal to create the new institution suggested naming it the International Trade Information Centre. An international institution to provide this information was seen as an attractive and cost-efficient solution. The proposal argued:

***‘[A]n international centre which could collect, collate, publish and disseminate trade information would serve to meet a real need of the less-developed countries in the field of export promotion, without imposing a financial burden on these countries beyond their means.’<sup>15</sup>***

Throughout the past five decades, ITC has pursued three objectives:

- Providing content;
- Building the capacity of TSIs to run effective trade information services;
- Training partners how to make best use of trade intelligence for their SMEs.

As ITC provided trade intelligence to SMEs, TSIs and policymakers, a common denominator has been to make the most of technology to gather, analyse and distribute information.

Formats evolved from direct inquiry reply services, one-off market studies and monographs to include serial publications and fax- and e-mail-based information services, such as the Market News Service, and web portals dedicated to specific topics.

In keeping with its role as a collective trade information centre for developing countries, ITC offered an extensive inquiry reply service, responding to more than 1,000 inquiries per year in earlier years.<sup>16</sup>

The focus shifted to in-depth market studies and surveys in response to the emergence of national trade promotion organizations and the high cost of providing actionable intelligence to SMEs across countries, products and markets. ITC has published several hundred market surveys. They covered products such as vegetable oils and oilseeds, fruit juices, leather goods, copper and copper products, and power generating and transforming equipment. See box 5 on ITC's coffee guide for an example.



A special series looked at Eastern European countries as trading partners for developing countries. Short market surveys were prepared for specific sectors, such as knitwear in the United Kingdom of Great Britain and Northern Ireland, France and Italy; architectural granite and marble stone in Japan; and fish and fishery products in Saudi Arabia. ITC's publications were regularly featured on the back page of its magazine, and its articles drew upon this rich information. Today, the publications are available on the ITC website for free download in PDF.

One of the inherent challenges was how to keep market studies up to date. In response, in the late 1970s, ITC developed an innovative approach to disseminate current market prices and conditions via telex to producers. This Market News Service began in East Africa, focusing initially on fresh horticultural products and expanding rapidly to cover more than 50 products.<sup>17</sup> By the mid-1980s, it served more than 90 countries. The service, which continues today, later switched to dissemination via fax, e-mail and the web.

As with other ITC success stories, the widespread recognition and impact of the Market News Service was based on a thorough understanding of the practical needs of exporters in developing countries, the use of state-of-the-art technology for its time, and a small, highly professional, entrepreneurial team in Geneva.

Technology advances permitted ITC to upgrade the quality of trade statistics and make them widely available. At a time when many developing countries did not yet produce their own trade data, ITC managed to derive national export profiles of developing countries based on import statistics of their major trading partners. These mirror statistics were made available on microfiche, then CD-ROMs, and now via the Internet. They became a sought-after resource for market research.

Training has been a pillar of ITC's Trade Intelligence Programme. Most national projects included a component on trade information capacity building for TSIs. An evaluation in 1999 concluded:

*“Survey results and interviews show that ITC services are very well regarded among the users and partner institutions. It is considered the expert and the pioneer on trade information management... Its Trade Documentation Centre has been the model on which national centres are based, and it has long defined the minimum content of any trade information system.”*<sup>18</sup>

### BOX 3: Broadening outreach with trade portals

The advent of web portals ushered in a new chapter for ITC. Within a few years, a range of new portals enabled ITC to broaden the reach of its work.

*Leatherline*, launched in 2003, offered online business directories for the entire supply chain of the industry, as well as trade fairs, market surveys and latest business news. Within a year, there were more than 10,000 monthly site visits. (ITC [2004], *ITC Presents: Portraits of Trade Development*.)

*The coffee guide* offered trilingual information about the coffee supply chain, and had experts on call for online advice.

*LegaCarta* gathered relevant multilateral trade treaties and instruments, and provided model contracts for small exporters in several languages.

*TradeForum* served as a monthly outreach tool, tied to the quarterly magazine, featuring analysis of cutting-edge trade development themes and shared visibility and outreach with trade partners.

A suite of market analysis tools was launched in 2000, beginning with *Trade Map*. *Market Access Map*, *Investment Map* and *Standards Map* followed. They became the reference for detailed, up-to-date export and import statistics, tariffs and non-tariff measures, as well as information on foreign direct investment, and the growing number of voluntary standards.

The strength of the tools has been based on ITC's ability to collect information from more than 1,000 national and international data providers using state-of-the-art methodology and technology, to harmonize data and to develop applications that

provide business-oriented answers to queries from SMEs, TSIs and the international development community.

The impact of ITC Market Analysis Tools was analysed in a December 2013 survey to which 4,661 users responded: 92% replied that the tools help policymakers make better-informed decisions and help companies better understand trade; and 72% of the exporters surveyed said the tools help secure additional exports.

In this survey, 317 companies replied to the question, 'What is the size of your import/export value in the last 12 months for which the ITC Market Analysis Tools have helped you to make your decision?' A conservative interpretation of the answers suggests that these 317 firms out of 350,000 users of the Market Analysis Tools realized additional trade transactions of US\$105 million in 2013. (See ITC [2013], *ITC Market Analysis Tools: Survey Results*, Geneva, December, available from [http://mas-admintools.intracen.org/surveys/MAT\\_survey\\_2013.pdf](http://mas-admintools.intracen.org/surveys/MAT_survey_2013.pdf).)





## Building trade institutions

Strengthening trade support infrastructure in partner countries has distinguished ITC from other trade-related technical cooperation providers. In no other area has the organization's mandate been as unequivocal and universally recognized. This has put ITC at the heart of the transformation process of TSIs over the past 50 years.

Established as a 'super-TPO' for developing countries, ITC underwent continuous specialization and innovation in its relationship with TSIs. Sponsoring the establishment of national trade promotion organizations in the 1970s was followed by a reassessment in the early 1990s of what made them effective. This reassessment led to an opening up to a wider range of TSIs, followed by the cultivation of networks, and finally a focus on benchmarking.

Although ITC's expenditure on institutional capacity building has remained well under 1% of the combined budgets of export promotion agencies,<sup>19</sup> ITC has been widely appreciated by TPOs as a source of advice on best practices, a partner for innovative programmes and a platform for exchanges with other TPOs. The arrival of many more players in the field of trade-related technical assistance and the Aid for Trade initiative has reduced ITC's market share, but it has not undermined its privileged relationship with TSIs.

Developing countries in recent decades have become more aware of the need to build trade promotion institutions. This conviction gained momentum as countries shifted from an import-substituting development strategy to a more outward-looking approach. Policymakers began to realize the disadvantages exporters faced vis-à-vis their competitors from industrialized countries, who had access to effective trade support services. This shift reflected the growing importance of differentiated and marketing-intensive products. In parallel, trade officials recognized that international competitiveness was determined at the macroeconomic level as well as at the institutional and microeconomic (enterprise) levels.<sup>20</sup>

Trade promotion efficacy was at first taken on faith, not on the results of detailed assessments. Until the late 1980s, there was almost no empirical evidence on the contribution of trade promotion to export growth. The interest in a more effective infrastructure in developing countries was reinforced by the role of trade commissioner services (national officials, normally working in the embassies, facilitating international trade and investment) and TPOs in the developed and newly industrializing economies.



The first cross-national reviews of trade promotion organizations in developing countries were undertaken by the World Bank in the late 1980s. The results were mixed, especially for public TPOs in low-income countries with inherent anti-export biases.<sup>21</sup> One of the papers concluded: 'The reliance on public trade promotion organizations to provide trade information and support services has, in our judgment, proved a misguided means of expanding exports.'<sup>22</sup> The lesson was clear: establishing a public sector TPO could not be a substitute for policy reform.

Only since the turn of the century have researchers reached consensus that TSIs can make a major difference. This conclusion is based on empirical work undertaken by Daniel Lederman and Christian Volpe Martincus (2006).<sup>23</sup> In 2006, Lederman and his colleagues concluded that export promotion agencies 'have a strong and statistically significant impact on exports' and estimated that US\$1 invested into export promotion resulted in US\$40 of additional exports.<sup>24</sup>

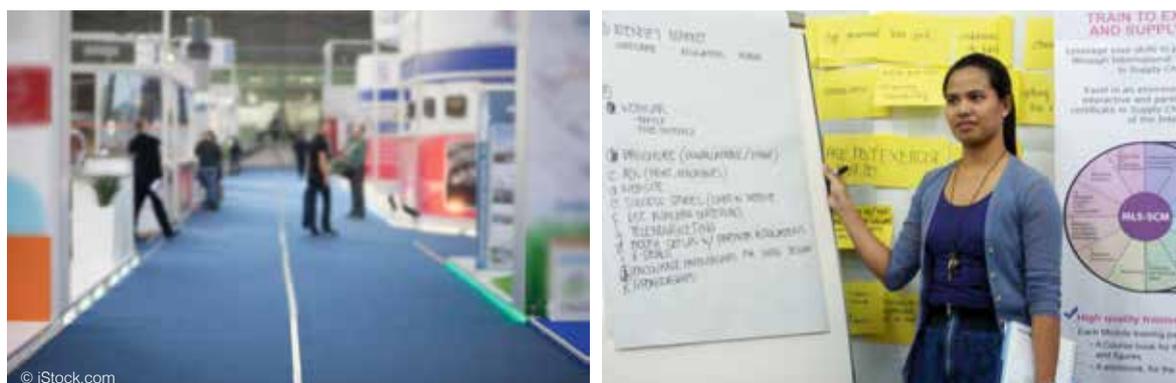
The average budget of the 88 export promotion agencies surveyed amounted to 0.11% of national exports of goods and services, and the median, 0.04%. A conservative extrapolation from these figures suggests that global expenditure for export promotion agencies (in the narrow sense) is currently above US\$5 billion per year, without taking into account other trade support budgets.<sup>25</sup> This underlines the importance of trade promotion and points to these institutions' pressing need for specialized services and support.

## Moving with the times

ITC has long pursued a mandate to strengthen the institutional infrastructure for developing country exporters. Eric Wyndham White, Director General of the General Agreement on Tariffs and Trade when ITC was established, captured it as follows:

*‘In essence, the function of the International Trade Centre is to act as a catalyst, designed to help exporters in the less-developed countries have the same ready access to trade and market data, export know-how and techniques as are presently available to their colleagues in the developed countries through their respective national trade information and trade promotion services.’*<sup>26</sup>

This role of catalyst evolved through different phases. During the 1960s, ITC functioned primarily as a collective trade information centre for developing countries. It created public goods, notably the *International Trade Forum*, complemented by other publications such as Trade Opportunity Notes. ITC also offered Geneva-based training programmes, including courses for trade representatives of developing countries posted in Europe and seminars dealing with institutional matters of trade promotion.



During the 1970s, it became clear that serving as a Geneva-based information clearinghouse was not enough. ITC became involved in establishing national export promotion organizations that were being created throughout the developing world. This was ITC's growth phase. Within eight years, resources jumped from US\$2.6 million in 1970 to US\$20.7 million in 1978; headquarters-based staff increased from 93 to 145 and consultants from 92 to 556.<sup>27</sup> In this period, ITC helped set up export promotion organizations in more than 40 countries and contributed to creating a large number of national trade information centres.

During the first two decades of ITC's institutional life, more than 18,000 individuals were trained, with an emphasis on trade promotion institutions.<sup>28</sup> At ITC's 25th anniversary in 1989, Executive Director Göran Engblom reported that it had been instrumental in founding 100 export promotion institutions.<sup>29</sup> He commented: 'We have come to the conclusion that there has to be much closer cooperation in the developing countries between the trade promotion organization and the business community.'<sup>30</sup> This became the theme of ITC's institution-building programme from the late 1980s onwards.

Meanwhile, the focus was already shifting from establishing new national TPOs to support for existing private sector organizations and other TSIs, which were increasingly affected by international capital flows and globalization.

A programme for chambers of commerce was designed with the Paris-based International Chamber of Commerce; 90 local chambers expressed interest in participating. The programme, launched in 1979, continued for nearly 20 years. It trained chamber staff to provide trade promotion services in areas such as trade information, trade fairs and legal aspects of trade. The programme also initiated and facilitated cooperation among chambers around the world. Regional chamber federations were set up for the Association of Southeast Asian Nations, the South Asian Association for Regional Cooperation and the Southern African Development Community, among other forums.

There was a major shift from Geneva-based and direct training towards strengthening local training institutions in partner countries and the training of trainers. ITC's Modular Learning System in Supply Chain Management has been a successful model of creating self-sustainable training capacity in partner countries.

Within a decade after its launch in 2000, the programme comprised a network of more than 120 licensed training institutions with 1,500 trainers in 60-plus countries. More than 30,000 participants benefited, and every year about 5,000 exams were taken. Reported savings at the enterprise level exceeded US\$50 million.<sup>31</sup> This was ITC's first programme to earn the International Organization for Standardization's ISO 9001:2008 quality management standard certification in 2012.<sup>32</sup>



Programmes were launched to build up local packaging and quality control institutions to support export-oriented SMEs. An example was ITC's assistance to create the Sri Lanka Institute of Packaging in 1975 and the aid given more broadly to the Asian Packaging Federation, of which the Sri Lanka Institute is a member. This programme has been widely acclaimed.<sup>33</sup>

ITC also led a major initiative to introduce and strengthen local arbitration centres to provide alternatives to often cumbersome and lengthy conflict resolution in courts.

In response to the growing number of national institutions involved in trade development, ITC's new challenge was to facilitate effective networks of TSIs. In most of its nearly 150 partner countries, at least a dozen TSIs flourished. Larger countries had many more. The effectiveness of trade support infrastructure clearly hinged on how well these different institutions worked together, both at the national and the international levels.

At national and subregional levels, this led to calls for larger, more integrated projects to avoid fragmentation. This approach had already yielded good results in the early days of ITC. From 1970 to 1978, ITC implemented integrated programmes in 48 countries, as well as five regional projects. Based on the Danish-led evaluation of ITC in 2004–2006, better integration on a larger scale became a major objective. Scaling up country interventions became important in the context of the reorientation towards LDCs, where multiple layers of trade impediments often held exporters back. Only an integrated approach held the promise of tangible results.

## Networking, exchanging best practices and training

Networking and exchange of best practices are central themes of the TPO Network World Conference and Awards. The first international gathering of trade promotion organizations took place in Colombia in 1996, and has been held biennially ever since. ITC participated actively in the first three conferences in Cartagena, Santiago de Chile and Marrakech and has been co-host since the 2002 conference in Beijing for all subsequent conferences, held in Malta, Buenos Aires, The Hague, Mexico City and Kuala Lumpur. ITC became the secretariat of the conferences and their network (TPOnet), hosts its website and has published worldwide TPO directories.<sup>34</sup>

TPO Network World Conferences and Awards have served as an effective platform to accelerate the professionalization of trade promotion. They have facilitated exchange among trade promotion professionals from both high- and low-income countries. An awards programme managed by ITC recognizes excellence in performance, and the conferences offer the right framework to share methodology and first results of ITC's recently developed benchmarking service for TSIs.

Training trade representatives has long been a small but important part of ITC's programme. The first trade representative seminars took place in the 1960s. The Foreign Trade Representation programme was re-launched in 2008, with national workshops held in Bangladesh, Indonesia; Belize, Guatemala, Mexico, Algeria, Benin, Côte d'Ivoire and Egypt.

In 1973, ITC published its *Guide for Trade Representatives*. Written by an experienced Australian trade attaché, it was in high demand, leading to a second edition in 1993 and a third one in 2013. The guide is a good example of using publications for training. In the 1970s, Brazil held a one-week training programme for its trade attachés based on the book, which was translated into Portuguese. The current third edition of the guide is in use for training in several countries.

### BOX 4: Building capacity for trade promotion organizations

ITC has been involved in creating most TPOs in developing countries. During the 1970s, 48 organizations were set up with ITC assistance. The mixed performance of newly created TPOs triggered a reassessment of their role. On the basis of this assessment, ITC continues to be asked for assistance when partner countries set up trade support organizations. Recent examples include the Jordan Export Development Corporation, TPOs in Mali, Sierra Leone and São Tomé e Príncipe, and the Dubai Export Development Centre, which is the host of the 2014 TPO Network World Conference and Awards.

In parallel, ITC conducts tailored capacity-building programmes for TPOs. ITC works with small LDCs such as Lesotho, as well as large emerging economies such as Brazil, where ITC has been involved in a major programme to strengthen Apex-Brasil, the Brazilian Trade and Investment Promotion Agency, an award winner at the 2010 TPO Network World Conference. These programmes address TPO services such as trade and market

intelligence, trade fair participation, product and market development, advocacy in national policy debates, impact assessment and benchmarking.

Among ITC's target groups – governments, TSIs and firms – TSIs have most consistently appreciated the services ITC offers. In 2008, 59% of the TSIs participating in the ITC client survey rated ITC positively for contributions to export development, compared to 47% of ministries and 35% of SMEs. (See Dalberg Global Development Advisors and Globescan [2009], ITC Clients' Perceptions Survey 2008, Geneva, 5 February).





## Focusing on enterprises

ITC enterprise-oriented programmes illustrate how technical cooperation programmes can strengthen the competitiveness of firms in developing countries, increase exports and generate income and employment. Considering the potential beneficiaries – tens of millions of SMEs in developing countries – the selection of exporting countries, sectors, firms and markets for these programmes has been a challenge. At the same time, ITC's firm-level programmes have reinforced the credibility of the institution and its Trade-Related Technical Assistance Programme.

These programmes have yielded tangible results, opened up opportunities for learning by doing for participating TSIs and provided important linkages to the business community in partner countries. They have also created networks around products and functions and reinforced ITC's integrated approach to trade promotion and export development, working simultaneously at the macro-, meso- and microeconomic levels.

### Challenges of selection and scale

Early in ITC's history it became clear that partners wanted more than information and institutional support. Offering customized training and market research could enable enterprises to expand their international business. SMEs were the obvious target group because they represented the vast majority in terms of numbers and employment and were less outward oriented than large local or foreign-owned firms. Enterprise programmes have been attractive because of their direct link to the final objectives of trade promotion: higher export-related revenues, income and employment.

Direct SME programmes were particularly important in countries where TSIs were absent or struggling to make a difference and for groups of exporters, products and target markets, which were difficult to reach with generic initiatives. SME programmes also responded to donor pressure to provide easily communicable evidence of results, which were by nature more difficult to show for initiatives focusing on policy and institutions or trade intelligence.

Challenges associated with SME programmes have been initial selection and scale. How to identify individual companies and sectors to benefit from enterprise programmes is a subject that has been extensively discussed and criticized by some as 'picking winners'. How to scale up from pilot initiatives to countrywide programmes? At the operational level, the challenge has been how to ensure that enterprise-oriented programmes result in additional exports and income.<sup>35</sup>

A recent review of case studies on the effectiveness of Aid for Trade concluded that 'direct support to exporters does seem to lead to diversification across products and destinations'.<sup>36</sup>



### ITC responds

ITC's programme to support the international business development of SMEs encompassed four approaches: readily accessible information resources, sector-specific development, programmes that concentrated on the totality of the production and distribution cycle, and strategic issues such as South-South trade and female participation. These approaches evolved in parallel to the increasingly differentiated needs of outward-looking firms in developing countries.

#### ■ Resources for small and medium-sized enterprises

In the 1970s, ITC developed a comprehensive practical training course for outward-oriented SMEs on exporting, which was widely used in its technical cooperation programme. During the 1990s, *Trade Secrets: The Export Answer Book for SMEs* became a widely used source of practical export advice. National counterpart institutions teamed up with ITC to identify 100 need-to-know questions in their particular country and to provide succinct one- to two-page answers, on the basis of which national versions of the publication in some 50 countries and in 10 languages were produced. Bancomext, the Mexican Bank for Foreign Trade, reported that the Mexican version of the publication provided answers to 70% of the estimated 4,000 trade-related queries received per month.<sup>37</sup>

#### ■ Sector development programmes

In response to the varying trade support needs across industries, ITC began early to build up expertise in sectors relevant to partner countries. Typically, sector development programmes involved preparing market studies and handbooks, advisory missions and training, and country-specific or regional technical cooperation with product-focused business associations and selected firms. Many of these programmes made a major contribution to the competitiveness of participating SMEs and had a significant impact on export revenues and related income and employment. While there is no overall evaluation of the hundreds of sector development projects implemented by ITC over 50 years, the following evidence provides an idea of the type of results they produced.

- For agricultural products, including spices, jute, silk, tea, cocoa and coffee (see box 5), ITC implemented a series of multi-year export development programmes in the 1980s. For jute, an evaluation reported, 'Market development and promotion of jute is a major success for the ITC.' Working with modest budgets (around US\$6 million in 28 projects between 1979 and 1999), ITC produced substantial results in assisting tens of millions of very poor people by stimulating demand, which kept jute prices from falling.<sup>38</sup>
- Between 1986 and 1993, ITC actively supported China's silk industry. It increased its exports during those seven years from US\$1.1 billion to US\$2.9 billion, and the share of ready-made articles rose from 23% to 74% in value terms.<sup>39</sup>



- Similarly, ITC played a pivotal role in the rise of China's Yunnan province to become one of Asia's leading cut flower centres. According to the Yunnan Flower Association, the programme lifted more than 20,000 farming families out of rural poverty.<sup>40</sup>
- Mali's exports of mangoes increased significantly and found new markets during the past 10 years. This was the result of multi-donor and multi-agency technical cooperation programmes along the entire value chain, in which ITC focused on the international marketing aspects.

ITC also contributed to the international business development of SMEs in the manufacturing sector. In Zimbabwe, for instance, a project helped manufacturers of small agricultural machinery to improve the technical design of their products, to increase their exports from US\$40,000 in 1988 to US\$4.8 million in 1993 and to penetrate a number of new neighbouring markets.<sup>41</sup>

Similar results were realized in the services sector. An evaluation of the sector development programmes financed by the Netherlands Trust Fund observed that out of 40 Bangladeshi software companies participating in one project, 24 reported they had increased exports to Europe by mid-2013. An average 20% increase in exports was recorded by these companies during the project. The evaluation concluded that creating exporter competitiveness for SMEs through a TSI-centred, value chain based approach is successful and should be encouraged in similar initiatives.<sup>42</sup>

#### ■ **Boosting export competitiveness**

In the 1980s, ITC began to focus on cross-cutting impediments to export competitiveness, such as supply chain management, quality control and packaging. It understood that developing country exports could not be sustained on the marketing and promotion side alone. Supply-side constraints were affecting the development of exportable products. The in-house availability of senior advisers with extensive experience in their areas of specialization gave ITC's technical cooperation programme depth and credibility and strengthened its capacity to address constraints at the firm level. In these programmes, ITC typically worked with specialized TSIs, such as standards bodies and packaging institutes, as well as directly with enterprises.

ITC's Export Quality Programme raised the awareness of quality as indispensable to export success, both at the enterprise and the institutional level. A significant number of ITC's national export development projects benefited from the in-house expertise on quality management, as exemplified by its highly praised sector development programmes in Central Asia.<sup>43</sup>

The Export Quality Programme's publications, many of which were jointly produced with the International Organization for Standardization (ISO), have been in high demand. Ten thousand copies of ITC's 1994 quality management handbook were issued in English, French and Spanish. Partner institutions produced national versions in Chinese, Hindi, Arabic, Romanian and Greek.<sup>44</sup> The second edition had 15 national versions, and the third edition is being used in a similar way. The 2010 ISO and ITC joint publication, *Building Linkages for Export Success*, made the case for close collaboration between national standards bodies and TPOs.

## Targeting strategic trade issues

Other ITC programmes were designed to generate additional trade transactions at the firm level. In the 1980s, the South-South Trade Promotion Programme was credited with having originated several hundred million dollars of new intra-African trade, thanks to its three-pronged approach of identifying products with potential for intra-regional trade, conducting detailed supply and demand surveys, and organizing buyers' and sellers' meetings with decision-makers from the business sector.

The Women in Trade Programme, which expanded rapidly during the past decade, focused on gender mainstreaming at the policy and institutional levels and managed to assist women-owned firms in developing countries to improve their international competitiveness and increase their export revenue for a number of different projects.

The Ethical Fashion Programme has undoubtedly been ITC's single most successful initiative in communicating to the world that market-led technical cooperation programmes can contribute to eradicating poverty. ITC's ability to link African, Haitian and Palestinian cooperatives, many of them consisting of marginalized women, to the supply chains of leading fashion houses in Europe and beyond, thereby creating jobs and income, has become emblematic of ITC and a success story that has been featured extensively in the international media.<sup>45</sup>



### BOX 5: ITC's Coffee Programme supports an industry

Since the 1970s, ITC has supported exporters of commodities and agriculture-based products, such as jute, silk, spices, cocoa, tea, cotton and leather. ITC's Coffee Programme is one example of how small programmes have made a significant impact.

*The Coffee Exporter's Guide* was first published in 1992 and rapidly became a standard reference. The manager of the library of the International Coffee Organization in London considers it 'undoubtedly one of the most consulted publications in our extensive collection', and there is evidence on the wide use of the publication by growers, exporters, certifiers and processors. Updated and enriched versions appeared in 2002 and 2012.

Led by ITC, more than 100 industry experts, companies and institutions contributed to make the guide relevant, neutral and hands-on. The guide is available free online in English, French and Spanish from [www.thecoffeeguide.org](http://www.thecoffeeguide.org). In print, it is one of ITC's bestsellers. *The Coffee Exporter's Guide* and its companion website have been the basis for a range of technical cooperation programmes.

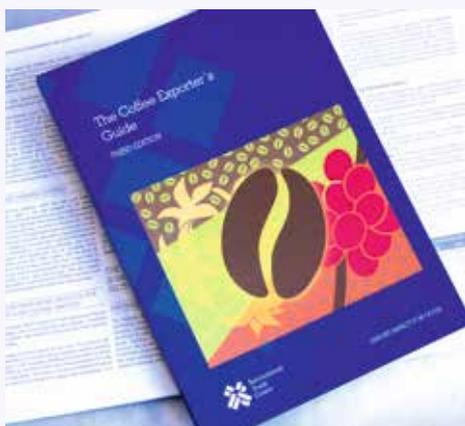
The Coffee Programme also engaged in:

- Direct training of growers, traders, exporters, certifiers and other stakeholders;
- Institution building for coffee-related trade support bodies;
- Stimulating international demand for coffee through programmes like the Cup of Excellence – see [www.cupofexcellence.org](http://www.cupofexcellence.org);
- Matchmaking between women producers of coffee and international buyers.

Similar to other small-scale but high-impact programmes, its success depended on:

- The choice of an important product, function or market, in this case, coffee;
- A long-term commitment to the programme, which allows for experimentation, learning through experience and continuous refinement;
- The ability to build an external network of leading professionals and institutions to support the programme;
- An entrepreneurial manager to run the programme, with enough room to function and time to devote to it.

The same ingredients for success apply to many other ITC programmes focusing on specific products and areas such as quality control, packaging, certifications, commercial arbitration and supply chain management.



## Facilitating public-private partnerships

During the past 50 years, the trade orientation of developed and developing countries has steadily grown. Exports of goods and services accounted for 12% of the combined GDP of developing countries in 1964 and for 32% half a century later. Together with foreign direct investment and finance, trade has been the driver of globalization, which called for a transformation in national development policies and strategies, economic governance, and management.

The understanding of trade-related private sector concerns by policymakers and the quality of public-private partnerships became critical determinants for economic development. This is clearly work in progress. In the run-up to the 2004 WTO Ministerial Conference in Cancún, Mexico, ITC estimated that in more than half of the world, business interests were not sufficiently integrated into national trade negotiation positions.<sup>46</sup>

Since ITC's foundation, the importance of public-private partnerships has been a central tenet. ITC has been committed to involving the private sector in the full cycle of designing, implementing and evaluating trade promotion and development programmes. There are numerous cases in which its technical cooperation programmes helped create trade-related public-private partnerships in partner countries.

In more recent years, ITC increasingly applied its expertise with these partnerships to trade policy and the design of export strategies. Although these programmes remain small and depend on full stakeholder support, their potential, and – in a number of cases – their actual impact, is considerable. ITC's support of the business sector in LDCs during the WTO accession process and the design of national and sector-specific export strategies illustrated the programmes' significance.

### BOX 6: Supporting least developed countries' accession to WTO



In 2009, WTO requested that ITC assist the business sector in LDCs that were acceding to the organization. LDCs were assisted in the process of preparing for membership, and ITC facilitated accession-related public-private partnerships to ensure that the interests of the private sector were taken into account before and during the negotiations. ITC's Business and Trade Policy Team supported the accession process in several LDCs, including Ethiopia, the Lao People's Democratic Republic, Liberia, Samoa and Yemen, through advisory missions and interacting with national stakeholders, training of business associations,

and providing customized case studies and relevant expertise.

Sili Epa Tuioti, a board member of the Samoa Chamber of Commerce, summarized the impact of ITC's programme:

*“ITC's support was instrumental in alleviating the fears, in allowing the business community to learn from the experience of other LDCs that have joined the WTO and in finding a voice for the business community to influence the government's negotiating position.”*

*“The impact of ITC's support reaches far beyond accession, as now the communication channels between the business community and those responsible for trade policy in government have been established. The government now routinely comes to the private sector to seek its views on policy.”*

**BOX 7: Designing national export strategies**

One area in which public-private partnerships have proved to be indispensable is in the design of national and sector-level export strategies. In the late 1990s, there was growing recognition that improving countries' export performance did not hinge only on trade promotion activities but depended as much on export development. It was also recognized that export performance depended on the overarching issues of stimulating the appropriate supply-side responses and enhancing national competitiveness.

In response, ITC developed a new programme to support partner countries in the design of national export strategies. Its methodology consists of four phases:

- A pre-engagement phase to agree on scope, objectives and commitments;
- An inception phase to create the formal structure and assign personnel to manage the process;
- The design phase, in which specialized teams work on selected sectors and on cross-sector functions;
- The implementation and management phase, which sets up the structures to support implementation.

This process, based on inclusiveness and dialogue among all stakeholders, results in a fully home-grown strategy that specifies clear priorities and provides a detailed five-year plan of action and an implementation management framework.

From 2003 to 2013, ITC assisted in the design of 25 national export strategies, in addition to 21 sectoral and six regional strategies. Over the same period of time, the global market for export strategies increased ten-fold, reaching an estimated level of US\$130 million to US\$150 million per annum and resulting in the annual implementation of about

US\$7 billion in programmes. ITC's share in the global market for export strategies was estimated to be around 5%, according to the November 2013 evaluation of ITC's export strategy work.

The evaluation concluded, 'Beneficiaries ... responded very positively regarding the design and rigor of the four-phase methodology indicating on many occasions that it was superior to competitors' products and that the inclusive approach, central to the methodology, was very effective in building capacity... ITC has built a superior product for purposes of capacity building and identifying export opportunities.'

Beneficiaries have expressed their appreciation of ITC's national export strategy work. The Romanian Minister of Economy and Commerce, Iuliu Winkler, commented:

***‘With the support of the International Trade Centre and its strategy design tools, Romania has prepared its first ever national export development strategy and has created a national export council which will ensure the effective management of its implementation... I am convinced that the national export strategy represents a milestone in Romania's move towards its international competitiveness and membership in the European Union. ’***

*(ITC, Annual Report 2005, p. 5.)*

At the same time, the November 2013 evaluation pointed to the need for improving the follow-up and implementation of the strategies' recommendations. This suggests that the export strategy service has significant and untapped potential if the implementation issues can be resolved in ways that are made explicit in the initial strategy design offer.



## Fostering cooperation

ITC, as a public international organization with a mandate for private sector trade development, was from the beginning ideally situated to facilitate public-private partnerships. Its first Executive Director, Herbert L. Jacobsen, and his team organized 23 high-level national symposia of government offices, exporters and institutions such as chambers of commerce to assist in identifying export development priorities and the programming of trade-related technical assistance.<sup>47</sup> ITC's major strengths were its credibility with both policymakers and business leaders, its impartiality and its convening power to foster cooperation between the public and private sectors.

In the 1980s, ITC's programme with chambers of commerce in numerous countries led to the chambers being regarded as serious interlocutors for governments. Jordan, Kenya, the United Republic of Tanzania and several countries of the Association of Southeast Asian Nations were cases in point.

Over the past two decades, trade policy, export strategy and regional integration were areas where ITC's expertise in facilitating public-private dialogue made a difference. Prior to its involvement, the weakness of existing public-private partnerships had been exposed during the negotiations and immediately after the conclusion of the Uruguay Round of trade negotiations in Marrakech in April 1994.

In response, ITC, jointly with the Commonwealth Secretariat, produced the *Business Guide to the World Trading System* in English, French and Spanish, which became a bestseller and was translated by partners into 10 additional languages. In parallel, ITC launched World Tr@de Net, which brought together government officials, companies, trade lawyers and civil society to build more solid, trade policy-related public-private partnerships.

During the past 15 years, ITC has reinforced these initial interventions and consolidated them in programmes with a special focus on business, trade policy and export strategy, thereby responding to the growing recognition that export success requires national trade policies and strategies driven by public-private partnerships. Demand for these new services has been buoyant (see boxes 6 and 7).

Because ITC's capabilities spanned the policy, institutional and enterprise levels, it permitted the design of larger and more integrated national and regional export development programmes. This corresponded to the new priorities under the Aid for Trade initiative. Resources for trade development have multiplied, as have the number of providers of trade-related technical cooperation. In addition, it has become increasingly essential to document programmes' impact.

Public-private partnerships played a major role in the development of a new generation of large-scale projects. In the Programme for Building African Capacity for Trade, ITC's largest-ever programme, the strengthening of the Common Market for Eastern and Southern Africa Business Council and its recognition as the voice of the private sector was an important achievement. Similarly, the Enhancing Arab Capacity for Trade Programme, ITC's largest technical cooperation project in the Middle East and North Africa, was based on interventions at the macro-, meso- and microeconomic levels driven by public-private partnerships.

## Moving forward

Trade promotion has emerged as a distinct discipline in economic development, with its proper institutions, professional cadre and best practices. ITC has been a central player in its advance and its maturation, yet it has also been deeply affected by the changes it helped precipitate. With growing differentiation and sophistication in the trade promotion field over the past 50 years, ITC kept pace with dramatic changes in the trading environment. ITC has evolved from a collective trade information centre for developing countries to spearheading trade-related technical cooperation programmes in partner states.

ITC has continually evolved in response to fundamental changes in international trade, the establishment of trade promotion institutions in most developing countries, extensively supported by ITC, and the participation of a growing number of other multilateral and bilateral organizations in trade-related technical assistance. In recent years, ITC had to learn how to become first among its peers in trade promotion and development. ITC is small compared with global expenditure on trade promotion, trade-related technical assistance and Aid for Trade, but it has managed to be globally recognized as an authoritative voice in its field.



The founders of ITC proved to be visionary in terms of anticipating the usefulness of having an international institution at the centre of the newly emerging field of trade promotion and development, as well as endowing this new organization with an open structure and culture responsive to changing circumstances. The forces of change turned out to be massive. With the advance of globalization, trade moved up the international policy and development agenda. The international division of labour and the

structure of world trade patterns were revolutionized. Modern logistics and information technology profoundly transformed the business of exporting. Countries throughout the world invested increasingly in their international competitiveness and trade support infrastructure. Aid for Trade became the largest development assistance initiative.

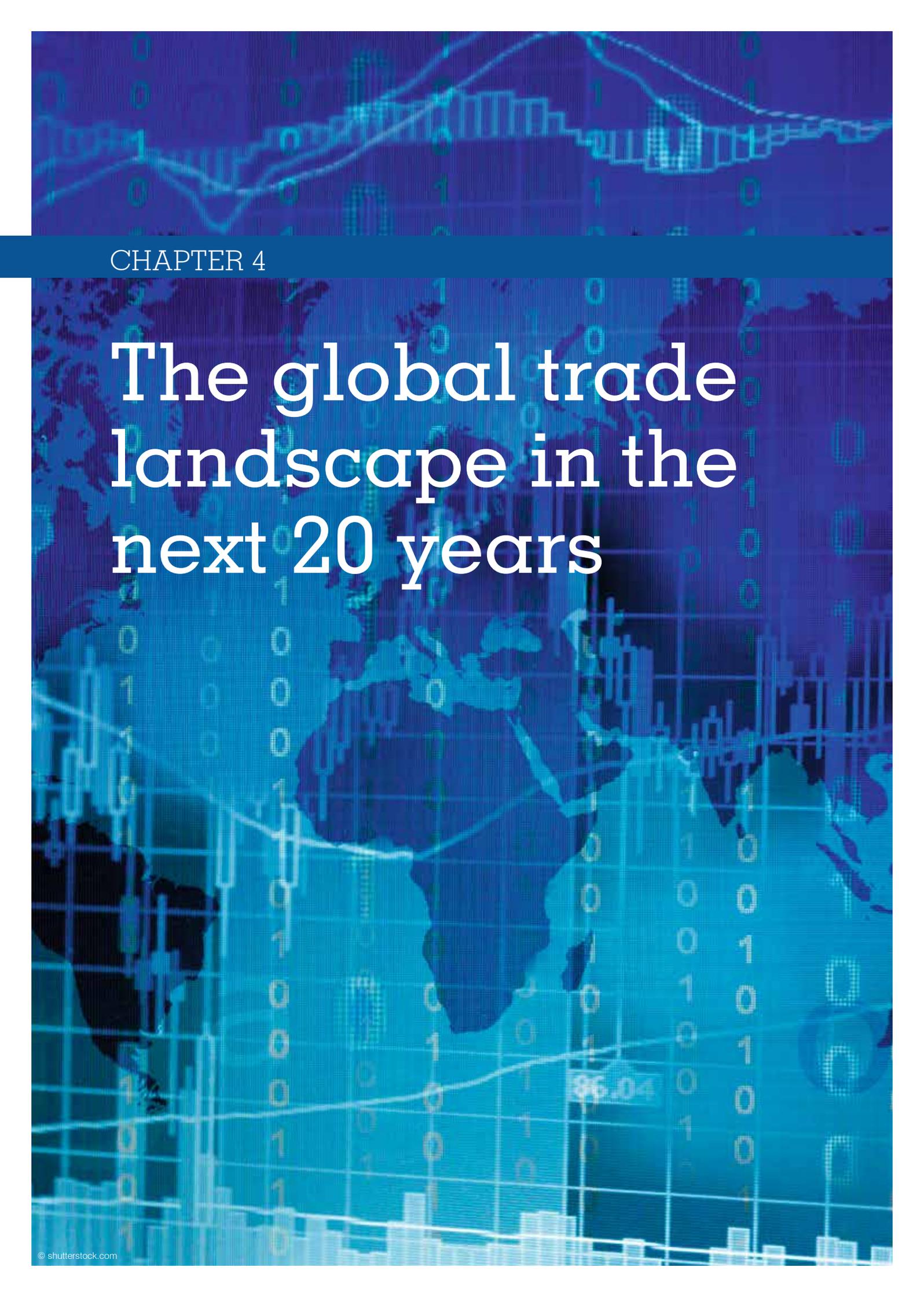
In this environment, ITC has been at its best when it managed to anticipate change and the implications for enterprises, TSIs and policymakers; to react by adapting its expertise, priorities and programmes; and to implement projects to accompany its partners in adjusting. Then all of ITC's strengths came to the fore: its independence and neutrality, its convening power, Geneva's vantage point on trade, and the ability to attract financial resources and high-level expertise from all over the world.

## ENDNOTES

1. WTO (2013). World Trade Report 2013. Geneva, p. 192.
2. Trade and market intelligence are defined here as information that helps exporters expand their business through a better understanding of international demand and supply and by identifying market opportunities in terms of the classic four variables in marketing referred to as the 4 Ps: product, place, price and promotion. The term 'trade intelligence' is used rather than 'trade information' in line with current practice at ITC and to emphasize the efforts to provide actionable knowledge for traders.
3. A trade support institution (TSI) is any recognized public or private entity offering trade development and trade-related services. The services may be provided to government policy and strategy makers, as well as to institutions and enterprises, with the objective of facilitating and promoting sustainable trade. See ITC (2013), *Entering New Markets: A Guide for Trade Representatives*, Geneva, <http://www.intracen.org/Entering-New-Markets-A-Guide-for-Trade-Representatives/>.
4. See in particular the Danish-led evaluation, DMI Associates (2006), Evaluation of the International Trade Centre UNCTAD/WTO: Synthesis Report, Copenhagen, April; ITC (1994), ITC at the Crossroads: An Agenda for the Future, JAG document ITC/AG(XXVII)/143, Geneva, 5 October; and McKinsey (1977), *Trade Promotion in the Eighties – The challenge for the ITC*, New York, October; and the evaluations of ITC's major programmes.
5. See, for example, the 2011 ITC client survey prepared by Dalberg Global Development Advisors, <http://www.intracen.org/itc/about/how-itc-works/evaluation/client-survey/>.
6. ITC's first programme on the promotion of exports of engineering consulting services from developing countries took place as early as 1982. See Glover, Frederick J. (1984), *The International Trade Centre, UNCTAD/GATT, 1964–1984: An Historical Account of Twenty Years of Service to Developing Countries*, Geneva, p. 34.
7. ITC has played a pioneering role in getting trade and entrepreneurship development for the women on development agenda. An example is the 1985 Nairobi Forward-looking Strategies for the Advancement of Women. More recently, ITC has succeeded in including the gender perspective in the Aid for Trade initiative.
8. Glover, op. cit.: 23.
9. An example is the "Strategy for revitalization, recovery and growth of Africa's trade in the 1990s and beyond", adopted by the African ministers of trade in Addis Ababa in December 1990. ITC (1994). *International Trade Forum*, No. 3, p. 18.
10. Glover, op. cit.: 16.
11. <http://www.intracen.org/news/Delegates-uncover-the-benefits-of-WEDF-2012/#sthash.9OEzbNvO.dpuf>.
12. See the 2009 ITC client survey, prepared by Dalberg Global Development Advisors, p. 15, <http://www.intracen.org/itc/about/how-itc-works/evaluation/client-survey/>.
13. From 1950 to 1962, the share of developing countries in international trade declined from 32% to 21%. See Glover, op. cit.: 1.
14. See, for instance, the inquiries into the major challenges to developing country exporters in the ITC clients' perceptions surveys of 2007, 2008, 2009, 2010 and 2011, carried out by Dalberg Global Development Advisors and Globescan (for 2007 and 2008) or Dalberg alone (for 2009–2011). Access to market information is consistently perceived as the top challenge or one of the top challenges.

15. The initial proposal was made by a Brazilian member of the working committee and was strongly supported by the GATT Action Committee in 1962. Text from GATT document COM.III/115 (1962), Geneva, October.
16. See Glover, op. cit.: 18.
17. Products covered by the Market News Service represented more than US\$2 billion in exports from developing countries and included floricultural products, herbs and spices, hides, skins and semi-tanned leather, tropical timber and timber products, rice and concentrated fruit juices, and active ingredients in generically produced pharmaceuticals.
18. Franco, Maria Rosario Q., and Maurice Kogon (1999). Report on the Evaluation of the ITC Programme: Trade Information. Geneva. 17 August.
19. Combined national budgets for export promotion are estimated to be at least US\$5 billion per annum. ITC's expenditure on strengthening the trade support infrastructure in partner countries in the widest sense has clearly remained below US\$50 million per annum.
20. See Porter, Michael (1990), *The Competitive Advantage of Nations*, New York: Free Press; a series of papers in the 1990s by Jörg Meyer-Stamer and the German Development Institute on systemic competitiveness; World Bank (1993), *The East Asian Miracle: Economic Growth and Public Policy*, Washington, D.C.
21. See papers by Andrew Singer and Donald B. Keesing, including Keesing and Singer (1991), *Development assistance gone wrong: why support services have failed to expand exports*, Policy Research Working Paper, No. WPS 543, Washington, D.C.: World Bank.
22. Hogan, Paul, Donald B. Keesing and Andrew Singer (1991). *The Role of Support Services in Expanding Manufactured Exports from Developing Countries*. Washington, D.C.: Economic Development Institute of the World Bank, p. 2. For an interesting review of the debate, see DMI Associates (2006), *The Role of Trade Support Networks, Evaluation of International Trade Centre (UNCTAD/WTO)*, vol. 6: Global Context, Copenhagen, available from <http://www.itcevaluation.org/filedir/Reports/Global%20Context%20A/Role%20of%20Trade%20Support%20Networks.pdf>.
23. See in particular the work of Ledermann, Daniel, Marcelo Olerreaga and Lucy Payton (2009), *Export promotion agencies revisited*, Policy Research Working Paper, No. 5125, Washington D.C.: World Bank, Development Research Group, November; Volpe Martincus, Christian (2011), *Assessing the Impact of Trade Promotion in Latin America*, in *Where to Spend the Next Million: Applying Impact Evaluation to Trade*, Olivier Cadot, Ana M. Fernandes, Julien Gourdon and Aaditya Mattoo, eds., Washington, DC: The World Bank and London: Centre for Economic Policy Research, pp. 39–81; Volpe Martincus, Christian and Jerónimo Carballo (2010), *Beyond the average effects: the distributional impacts of export promotion programs in developing countries*, *Journal of Development Economics*, vol. 92, No. 2 (July), pp. 201–214; Cadot, Olivier, Ana Fernandes, Julien Gourdon, Aaditya Mattoo and Jaime de Melo (2014), *Evaluating aid for trade: a survey of recent studies*, Policy Research Working Paper, No. 6742, Washington, D.C.: World Bank, January.
24. Lederman, Daniel, Marcelo Olerreaga and Lucy Payton (2006). *Export promotion agencies: what works and what doesn't*. Policy Research Working Paper, No. 4044. Washington, D.C.: World Bank, October. The recognition of the importance of TSIs was also reflected in the inclusion of the role of TPOs in the global competitiveness analysis of the World Economic Forum.
25. In 2012, 0.04% of the value of world trade in goods and services (US\$18 trillion) amounted to US\$7.2 billion.
26. Wyndham White, Eric (Director-General of GATT) (1964). *International Trade Forum*, No. 1, p. 40.
27. Glover, op. cit.:13.
28. Ibid.:64.
29. Cited from ITC (2004), *ITC Presents: Portraits of Trade Development*, p. 5.
30. Ibid.
31. ITC (2011). *Modular Learning System – Supply Chain Management*, 2011 Aid for Trade Global Review: Case Story. Geneva. 16 February.
32. Ibid.
33. See ITC, *ITC Presents: Portraits of Trade Development*: 60–63
34. See Browne, Stephen, and Sam Laird (2011), *The International Trade Centre: Export Impact for Good*, Abingdon: Routledge, p. 88.
35. See the comments on ITC's enterprise-oriented approach in ITC (1990), *Report of the Committee to Review the Structure of ITC*, Geneva, 8 October.
36. Cadot, Fernandes, Gourdon, Mattoo and de Melo, op. cit, *Evaluating Aid for Trade*. January 2014.
37. See interview with Gabriel Barrera, executive vice president for international promotion, Bancorex, in ITC, *ITC Presents: Portraits of Trade Development*: 68–70.
38. Nanda Kumar, Secretary-General of the International Jute Study Group; see ITC, *ITC Presents: Portraits of Trade Development*: 57–59. 2004
39. See Antero Hyvärinen (1994), *International Trade Forum*, No. 3, p. 18.
40. See ITC, *ITC Presents: Portraits of Trade Development*: 30–34. 2004
41. See George Dziecielewski (1994), *International Trade Forum*, No. 3, p. 20.

42. ITC, Monitoring and Evaluation Unit (2013). Evaluation of the NTF II Programme (International Trade Centre/Centre for the Promotion of Imports from Developing Countries; Partnership Agreement Netherlands Trust Funds). Geneva. November.
43. Ibid.
44. ITC (1994). *International Trade Forum*, No. 3, p. 18.
45. See for instance, Suzy Menkes (2012), Bags made by hand, in East Africa, *New York Times*, 3 September, [http://www.nytimes.com/2012/09/04/fashion/bags-made-by-hand-in-east-africa.html?pagewanted=1&\\_r=1&ref=suzymenkes&adxnlnx=1346749202-m1nauHpqwQOj/e4xpLB9czw](http://www.nytimes.com/2012/09/04/fashion/bags-made-by-hand-in-east-africa.html?pagewanted=1&_r=1&ref=suzymenkes&adxnlnx=1346749202-m1nauHpqwQOj/e4xpLB9czw); Suzy Menkes (2013), A giant's helping hand, *New York Times*, 23 September, [http://www.nytimes.com/2013/09/24/fashion/Giorgio-Armani-Gives-Young-Designer-a-Hand.html?\\_r=1&](http://www.nytimes.com/2013/09/24/fashion/Giorgio-Armani-Gives-Young-Designer-a-Hand.html?_r=1&); Matthew Drummond (2013), Ethical fashion? No, it's not an oxymoron, *Australian Financial Review*, 22 August, [http://www.afr.com/p/lifestyle/afrmagazine/ethical\\_fashion\\_no\\_it\\_not\\_an\\_oxymoron\\_v6ggLGqIrS9vUl8mCcGF4N](http://www.afr.com/p/lifestyle/afrmagazine/ethical_fashion_no_it_not_an_oxymoron_v6ggLGqIrS9vUl8mCcGF4N); BoF 500: Simone Cipriani, Business of Fashion, <http://www.businessoffashion.com/simone-cipriani>; Maybelle Morgan (2014), Who's who: Stella Jean, *Vogue UK*, 28 January <http://www.vogue.co.uk/spy/biographies/stella-jean-biography>; Oskar Metsavaht recebe convidados no lançamento da coleção de acessórios da E-Ayiti, *Vogue Brazil*, 7 February 2014, <http://vogue.globo.com/moda/noticia/2014/02/oskar-metsavaht-recebe-convidados-no-lancamento-da-colecao-de-acessorios-da-e-aity.html>; Meredith Lepore (2014), One to watch: designer Karen Walker, *Fashion Times*, 12 February, <http://www.fashiontimes.com/articles/2578/20140212/one-watch-designer-karen-walker.htm>.
46. Assessment by Peter Naray, ITC senior adviser on the world trading system; see ITC (2004), *ITC Presents: Portraits of Trade Development*: 82.
47. Hulm, Peter (2004). Interview with Jacqueline Rigoulet and Frederick J. Glover, early days at ITC. *International Trade Forum*, No. 1, p. 10.



CHAPTER 4

# The global trade landscape in the next 20 years

**I**f trade has changed significantly over the past 50 years, the next 20 years will bring equally profound changes. Consumer demand, what is traded and what is produced will continue to evolve.

Three trends will be significant:

- Developing countries will expand their share in the global economy;
- Supply chains and international production networks will be the dominant 'delivery mechanism' through which goods and services are produced and supplied to consumers;
- Declining costs and increasing power of information technology products and services will allow small and medium-sized enterprises (SMEs) to connect to buyers and suppliers more directly. This will enable them to tap a larger international market and source inputs from a broader range of suppliers.

## A larger share for developing countries

An important trend is the 'rise of the rest'. Developing countries will expand their share in the global economy, given their higher rates of economic growth than developed countries. Large emerging economies will be important markets and sources of goods and services. China's gross domestic product (GDP) will equal that of the United States over the next 20 years. The European Union and the United States will represent just one-third of global trade flows. China, India, the Russian Federation and Brazil will account for almost one-quarter of the total (O'Neill and Terzi, 2014).

### *SMEs need to focus on consumer demand in emerging economies.*

A multipolar global economy has major implications for SMEs. They need to focus on consumer demand in emerging economies, as well as in Organisation for Economic Co-operation and Development (OECD) markets. Consumers in emerging economies will be a growing source of demand for food and other agricultural and natural-resource-based products; manufactured goods; and services, including leisure-related services.

Countries will have an incentive to conclude trade agreements to improve their access to emerging markets. Countries and companies are initiating investment and trade promotion activities that target these markets.



## Connecting SMEs to supply chains

The opportunities offered by electronic trading platforms or other ways to conduct trade digitally are conditional on attaining an adequate level of information technology infrastructure. Much will depend on the attractiveness of a country for FDI and the extent to which foreign investors establish manufacturing, processing, assembly, distribution or similar facilities in least developed countries (LDCs) and other low-income economies.

SMEs play an important role in every economy in terms of employment and income generation. A large company-level database spanning 104 countries shows that on average companies with fewer than 100 workers generate the same share of employment as large firms. Smaller companies generated 45% of the new jobs and have the highest sales and employment growth (Ayyagari, Demirgüç-Kunt and Maksimovic, 2011).

Another important trend is the prevalence of supply chains and international production networks that deliver the goods and services produced and supplied to consumers. Supply chain networks and business models will adapt to changing demand patterns and changing production costs.

Supply chain production offers SMEs new trade opportunities, which allows them to specialize. Multinationals from emerging economies will become more important as hubs or anchors of production networks and value chains, whether they are buyer-led networks, such as large retailers, or major industrial firms.

One implication of this trend is that foreign direct investment (FDI) will become less dominated by developed countries. Large firms from emerging economies will invest in low-income countries and provide opportunities for local SMEs to become suppliers.

If higher economic growth rates are sustained in large developing economies, supply chain trade will present opportunities for SMEs to feed into regional production networks that serve international demand. A precondition is that regional integration efforts succeed in eliminating barriers to trade and investment flows, both intra-regionally and globally.



## Technology innovations foster trade

Innovation and competition among information and communications technology providers increase trade opportunities for SMEs. Declining costs and the increasing power of information technology products and services will allow SMEs to connect to buyers and suppliers more directly. This will enable them to tap into much larger international markets and to source inputs from a broader range of suppliers.

Information technologies, the Internet and social media platforms allow small businesses to enter global markets, sometimes bypassing local markets. The increasing availability of digital technologies will generate new opportunities for SMEs to sell services.

These developments require SMEs to adapt to the new environment. The net impact on SMEs will be positive. This is because information and communications technology and related advances, such as digital trade platforms and associated mobile payment systems, will greatly lower search and matching costs, reduce information asymmetries between large firms and SMEs, and increase access to capital and partners.

The opportunities created by a multipolar world economy can be captured if the business environment supports SMEs. A high-cost operating environment overshadowed by uncertainty will hold back SMEs by reducing the rate of return on investment and increasing the cost of credit. Poor trade facilitation and logistics performance will disrupt supply chains and may prevent SMEs from becoming suppliers or integrating into production networks.

These changes will affect governments, the donor community and small business owners. When considering the evolving dynamics of global trade and Aid for Trade efforts directed towards SMEs, there are lessons learned regarding what determines trade performance and diversification. Against this backdrop, the role played by SMEs in the economic development of low-income countries warrants closer scrutiny.



## Aid for Trade initiatives

In the changing dynamics of world trade, Aid for Trade initiatives should concentrate on reducing real trade costs for SMEs and enhancing their capacity to participate effectively in international production networks and value chains.

### Address supply chain constraints

SMEs need to provide reliable delivery of goods and services that satisfy increasingly stringent product and process standards on a timely basis.

Technical assistance must focus on working with lead firms, major buyers and potential suppliers to overcome constraints that impede the expansion of goods and services-related trade. It should also focus on the use of information technology and digital trade platforms, as well as trade facilitation and improving the performance of logistics services providers.

### Focus on high-growth markets

Aid for Trade initiatives must recognize that a rising share of world GDP and trade will be assumed by China and other emerging economies. This calls for stepped-up assistance to help SMEs connect to buyers and overcome non-tariff barriers in these markets.

Trade barriers are higher in emerging economies than in developed markets. For example, most LDC exports of manufactures today go to developed nations, rather than Brazil, China or India. To expand trade in industrial products, a priority for LDCs is to substantially increase the share of exports of manufactured and processed products to emerging economies.

### Improve export survival rates

A key challenge for LDCs and, more generally, countries located in regions that have not seen a major expansion in the share of supply chain trade is not only to export products to new markets or to begin to export new products, but to expand the total value of trade with a given partner country once a trade link has been established.



A distinguishing feature of low-income countries is the low survival rate of new export relationships, according to research on company-level trade flows. SMEs in developing countries are as entrepreneurial as companies in richer countries in exploring new markets, but they are less successful in sustaining trade relationships.

The challenge is about reducing failure and exit rates (Besedeš and Prusa, 2011). For low-income developing countries, seven of every 10 new export relationships fail within two years, as compared with more successful exporters, which fail at only half that rate. Africa has the lowest survival rates. Fewer than 20% of new export relationships established by companies in Malawi, Mali, Senegal and the United Republic of Tanzania survive longer than one year (Cadot et al., 2013).

Low survival rates are one reason why most companies do not export and why most exports from developing countries are realized by a small number of large firms. Low survival rates affect the total volume of exports because new relationships do not deepen and expand over time, which is the primary channel for export growth and diversification.

The question for policymakers is why survival rates are so low. Is it a reflection of the companies not having a sustainable competitive advantage? Do the fixed costs of entry into a new export market mean companies cannot realize a steady profit once the total costs of exporting are considered? Are companies unable to meet quality standards? Can companies meet requirements regarding timeliness and reliability? Are companies encouraged by trade promotion organizations to engage in exports that are not profitable?

Learning by doing is important for export survival. Experience with exporting the same product to other markets increases survival rates, as does the presence of other companies in the exporting country that sell a similar product to the same destination. This can lead to cross-firm synergies as exporters learn from each other. Research points to the importance of multinationals being present in a country as examples and sources of know-how, particularly in agri-business value chains (Fernandez-Stark, Bamber and Gereffi, 2011; 2012).<sup>1</sup>

Successfully diversifying exports and the survival of exporting companies depend on their ability to master exporting over time. Setbacks are not necessarily negative. Companies can learn valuable lessons from a failed effort to penetrate a market.

These considerations have implications for trade development efforts and technical assistance. The efficacy of trade promotion organizations (TPOs) is associated with an increase in exports. However, their initiatives often increase the number of companies trying out new markets rather than increasing the volume of exports by helping them to realize economies of scale and improve their productivity.<sup>2</sup>

The low durability rates of new trade relationships suggest that more focus may be needed on raising survival rates of companies.



## A bigger role for the private sector

In developed economies, SMEs account for a small share of exports. In the United States, for example, the top 5% of companies in the manufacturing sector account for more than 90% of export value. They export numerous products to multiple destinations. Companies that ship more than five products to more than five destinations were credited with 92% of total United States exports by value in 2000 (Bernard et al., 2012). In the European Union, 5% of all companies are responsible for 70% of total exports (Mayer and Ottaviano, 2007).

The top 5% of exporters in developing countries account for some 80% of total exports of non-oil products, as noted in chapter 2 (Freund and Pierola, 2012). These statistics caution that it is important not to limit trade development activities to SMEs. If governments aim to expand exports, improve productivity and boost competitiveness, they should direct initiatives towards the companies already doing well and those that have significant growth potential.

The type of export assistance and trade support frequently offered to large companies with high growth potential may do little to help them. These companies have already demonstrated their ability to overcome the fixed costs associated with entering foreign markets. They have the managerial capabilities to compete in those markets. The emphasis should be on identifying constraints that impede their growth.

### Promoting investment

Foreign capital and inward FDI typically power the small set of sizeable, rapidly growing firms in developing countries that account for the lion's share of export volumes, trade growth and diversification. Foreign affiliates and subsidiaries of multinational companies, joint ventures, and other forms of equity participation and partnerships are a major driver of trade growth in many countries and are a key channel through which SMEs can participate in international trade.

Large foreign-owned and domestic companies look to specialized SMEs when establishing, operating and extending their value chains. Research on successful trade expansion shows that promoting trade must be closely integrated with promoting investment.



FDI has brought export diversification and trade volume growth in many developing countries. SMEs provide impetus. The large US-based multinationals that collectively account for most United States exports source about one-quarter of their parts, components and other inputs, including services, from SMEs (Slaughter, 2013). Indirectly, SMEs play a major role in the overall United States trade performance, which also holds true for other developed countries. Their share in the total value added of United States exports is around 40%.

While SMEs can benefit from participating in value chains by supplying goods and services, technological changes will increase their opportunities to export. In this chapter, eBay's Wendy James writes that new technologies that enable electronic trading have great potential to enhance the ability of SMEs to sell directly to buyers worldwide.

## Addressing trade barriers

The December 2013 WTO Agreement on Trade Facilitation provides an important focal point for countries to improve their performance in moving goods across borders. Critical are efficient logistics providers and access to related infrastructure to distribute goods efficiently, including postal and express delivery service. These services enable SMEs to benefit from digital trade opportunities.

Many countries have reduced import tariffs, but non-tariff measures (NTMs) are becoming an increasing source of friction between trading partners. The development community has recognized the importance of dealing with NTMs. In 2010, ITC, the World Bank, the African Development Bank and the United Nations Conference on Trade and Development launched a Transparency in Trade initiative to support transparency in data and information on trade barriers, including NTMs.

ITC is complementing this initiative with a series of surveys of the business community in developing countries. The surveys reveal that obstacles to trade are often related to the process of documenting compliance with specific regulatory requirements in both exporting and importing countries.

This survey data can inform discussions between the private sector and governments to identify trade barriers and agree on an action plan to reduce or reform regulatory measures that impede trade. This can be done at national and regional levels to support regional integration. For example, the Moroccan government set up an inter-ministerial working group to discuss the findings of the ITC NTM Survey and identified priority actions. Madagascar used the NTM Survey findings at meetings of the Common Market for Eastern and Southern Africa committee that deals with NTMs.



## Credit and management shortfalls

Market access barriers, lack of knowledge or capacity to satisfy technical performance requirements and product standards, and constraints such as deficient infrastructure are important challenges. They often prevent SMEs from connecting to larger domestic or foreign-owned companies that are downstream in a value chain. But SMEs also confront many obstacles that have little to do with market access barriers or enhancing their appeal to international value chains.

***Trade finance is a key bottleneck. Even well-managed, profitable companies may not be able to expand because they cannot obtain credit.***

Trade finance, including the costs and availability of funding for working capital, is one important bottleneck. SMEs are discouraged by the inability to secure bank finance and are more severely affected than larger companies when the availability of credit shrinks (Beck, Demirgüç-Kunt and Maksimovic, 2008). Limited access to credit helps explain why SMEs contribute less to economic growth. Even well-managed, profitable companies may not be able to expand and improve their productivity because they cannot obtain credit.

One reason for the dominance of large, 'born to export' companies in developing countries that have connections to or are owned by foreign companies is that they do not face this financing constraint. Broad-based export development depends on overcoming shortcomings in the institutional and investment environment and addressing the factors that prevent SMEs from accessing credit.

## Public-private dialogue

Recent data for 41,000 companies in 119 countries finds that an unfriendly business environment, which limits access to finance, power or land, accounts for 40% of the average difference in size between African firms and those located elsewhere. Other factors include the specific characteristics of companies, for example whether they are importers or exporters (Iacovone, Ramachandran and Schmidt, 2014).

Identifying the obstacles to trade and participation in value chains are complex challenges. Reducing trade costs associated with NTMs and negotiating the differences in regulatory requirements across countries are particularly difficult (Cadot and Malouche, 2012; Hoekman and Mattoo, 2013).

Bringing stakeholders together is a precondition for gaining a common understanding of the impacts of NTMs and other regulations on traders and investors (Cadot et al.,

2012). Establishing trust is paramount if the various parties are to engage fully and openly.

Making effective progress in resolving trade bottlenecks requires identifying priorities; developing an action plan; and agreeing on the division of responsibilities among the principal players, including lead companies, buyers, government bodies, development partners and local communities. It is important to clarify who is accountable for what. Accountability is conditional on effective monitoring and assessment of progress, which is often best pursued in partnership with the businesses that have a direct stake in the identified priorities.

Working together, the players can find ways to lower trade costs and lessen supply chain frictions. One way forward is to organize coordination around specific value chains - creating supply chain councils that bring together business representatives and regulatory authorities that are responsible for enforcing NTMs, as well as affected consumer, farm and trade organizations (Hoekman, 2014). A supply chain perspective can help identify how organizations such as ITC can be more effective in providing trade-related technical assistance.

A major challenge to cutting trade costs is to determine what exactly needs to be done. A bundle of policy-induced constraints may need to be revisited to allow SMEs and small producers to expand their output and sales for export. SMEs may need to cooperate and invest in the facilities needed to strengthen a value chain to improve quality, increase volume and boost revenues.

A comprehensive 'whole of the supply chain' approach, rather than focusing on specific policy instruments, is the best way to deal with the multiple issues involved. Trimming trade costs and enhancing the competitiveness of companies requires a flexible and cross-cutting strategy that addresses the policy areas that drive successful supply chains, including:

- Trade logistics
- Transport and distribution
- Border management
- Product health and safety standards
- Foreign investment
- Free movement of business people and service providers

International cooperation should focus on supporting trade competitiveness. NTMs affect traders in both their home market and in export markets. Reducing NTMs more effectively through regional or bilateral agreements is key. Making progress on this front has proved difficult, in part because many of the NTMs are the result of regulatory regimes that fulfil a legitimate function, such as consumer protection.

The negotiation literature stresses that negotiators need to learn about the preferences, interests and priorities of other parties as well as their own, which takes time. Negotiations involve complex interaction between domestic groups that results in shared understanding of objectives and priorities. Learning is critical when it comes to the substance of policy rules. Officials and stakeholders must understand what the implications are of a proposed regulation and how it will influence the economy.

'Knowledge platforms' – forums aimed at fostering a substantive, evidence-based analysis of the impacts of specific policies – could help build a common understanding of where there are large potential gains by opening markets to greater competition. These forums could raise awareness of the necessary preconditions, and identify options to remedy possible negative consequences of policy reforms (Hoekman and Mattoo, 2013).

The forums could also:

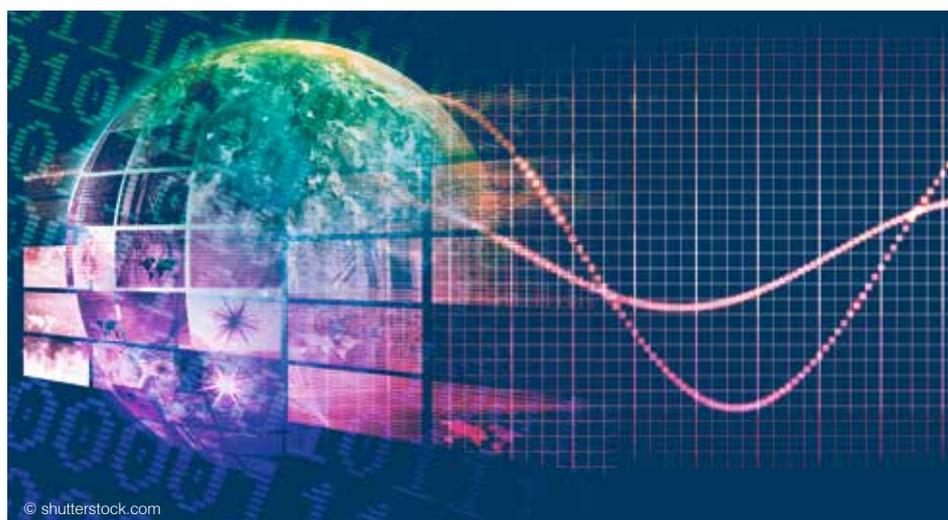
- Act as a mechanism through which information is generated on prevailing regulatory measures and their effects on prices and trade flows;
- Enhance knowledge of experiences elsewhere by bringing together representatives from a range of countries, including officials, regulators and services suppliers;
- Identify alternative options and approaches through collecting and sharing information on best practices;
- Identify the need for external financial and technical assistance, which would help governments decide where Aid for Trade initiatives would be most effective.

## International business perspectives

The following pages present five essays on priority areas that could facilitate the expansion of SME trade in the coming years. It includes:

- Recommendations to improve the policy environment for cross-border trade and foreign direct investment flows – International Chamber of Commerce;
- A call for concerted action to reduce supply chain trade barriers – Bain & Company;
- Opportunities created by the Internet and information-technology-driven market platforms – eBay Marketplace;
- Suggestions for large companies to help small enterprises navigate regulatory requirements and trade obstacles, to participate in global production and service networks – FedEx Express;
- Advice on how to strengthen SME participation in agri-business value chains – Duke University.

These contributions highlight the challenges confronting SMEs in the evolving trade system, as well as opportunities to expand trade as an instrument for sustainable economic growth.



# Addressing global trade barriers

*By Jean-Guy Carrier, Secretary General, International Chamber of Commerce*

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*The International Chamber of Commerce represents approximately 6.5 million companies in 130 countries, ranging from SMEs to large corporations. It was founded in 1919 with the mission to promote cross-border trade and investment as a means to foster peace and prosperity.*

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A major challenge facing businesses in an increasingly integrated global economy in the coming years is the absence of global rules to support trade and investment expansion. These rules are important for smaller companies, because they have less capacity to engage directly with governments.

Global value chains dominate today's economy. World trade is increasingly characterized by the dispersal of production among various nations, driven by technological progress and costs, as well as access to resources and markets. Traditional measures of trade that record gross flows of goods and services each time they cross borders do not capture the value that is added in a particular country of the production of any good or service that is exported. Nor do these measures reflect the role of imports of intermediate goods and services in export performance.

Looking at trade from a value-added perspective reveals how upstream domestic industries contribute to exports, even if they have little direct international exposure. These changes in the nature of world trade have considerable implications for the policy choices and global rules that allow governments and business to leverage trade and investment most effectively to contribute to economic growth and job creation.

***In an integrated global economy, businesses benefit from global trade and investment rules.***

It is particularly important to revitalize the WTO and to make progress in opening access to markets on a multilateral basis. Improving the WTO's capacity to develop international trade and investment rules is a necessary condition for a twenty-first-century rules-based multilateral system that generates growth and jobs.

In recent years, the international trade agenda has been pursued regionally through negotiations such as the Trans-Pacific Partnership, the Transatlantic Trade and Investment Partnership, and the Regional Comprehensive Economic Partnership. Regional and preferential trade agreements (RTAs and PTAs) may bring faster results than the multilateral process, empower parties to conclude negotiations in areas beyond the global consensus and treat specific issues that remain unaddressed in international forums. The resulting achievements in opening trade can substantially complement the WTO system, and serve as important building blocks for future multilateral trade opening.

Yet businesses are concerned that regulatory fragmentation may increase with the continued proliferation of RTAs and PTAs. This would raise the costs of doing business, especially in a world where trade is taking place via global value chains. This proliferation makes it difficult for SMEs to participate in international trade, because they may lack the capacity to adapt to each new set of conditions posed by these agreements.



Integrating the advances of RTAs and PTAs into WTO rules will help create a level playing field for all companies in every region of the world. The business community strongly supports increasing the capacity of the WTO to foster convergence by making permanent the WTO Transparency Mechanism for RTAs and PTAs. Under this mechanism, best-practice guidelines can reduce the complexity and variation of the rules in various trade agreements, including rules of origin, and integrate RTA and PTA gains into the WTO. Application of the Transparency Mechanism for RTAs and PTAs is a practical measure that should encourage greater compatibility and complementarity of these trade agreements with the multilateral trading system.

Cross-border investment generates employment, increases government revenues and creates trade opportunities. Domestically, FDI links local companies to global value chains; underwrites imports and exports; and facilitates the inflow of capital, technology and skills across sectors.

More than 3,000 international investment agreements now exist, according to UNCTAD's *World Investment Report* 2012. This vast network of treaties is too large and complex for investors to handle. Yet these 3,000-plus treaties only protect two-thirds of global FDI and cover only one-fifth of possible bilateral investment relationships. UNCTAD estimates that a further 14,000 bilateral treaties would be needed to provide full coverage of international investment.

The private sector needs a stable and predictable investment environment to continue to create employment and wealth, especially in times of economic uncertainty. Therefore, broad discussion should be encouraged on investment issues, such as:

- Dispute settlement in international agreements;
- The rising importance of international investments by state-owned enterprises;
- How public-private partnerships – including co-investment by host states and private investors – can contribute to breaking down investment barriers.

This should be done together with international organizations where dialogue is already under way, such as OECD, UNCTAD and WTO, with support from organizations such as ITC.

# Tackling supply chain barriers

*By Mark Gottfredson, Partner, Bain & Company*

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*A global management consulting firm, Bain & Company has worked with more than 4,600 companies, ranging from non-governmental organizations to large multinational corporations.*

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Supply chain barriers – everything from poor transport infrastructure to customs clearance snarls – are finally getting attention. Reducing a limited number of these barriers to best-practice levels would boost global GDP by nearly 5%, according to a 2013 report by the World Economic Forum. That is six times as powerful as the estimated effect of eliminating all tariffs.

Over the past year, the WTO began focusing on these issues, turning from tariffs to trade facilitation. The WTO Ministerial negotiations in Bali in December 2013 produced a Trade Facilitation Agreement, which is the first multilateral agreement to simplify customs procedures, thus cutting costs and improving speed and efficiency.

There are significant challenges ahead. The Bali agreement still has to be implemented, and the role of the WTO in enforcing its new rules remains uncertain. At the same time, customs procedures are only one of many types of obstacles to growth in international trade.

As the work of pressing for reform progresses, trade advocates may find it helpful to reframe the debate that tends to take place in many countries. Arguments about international trade usually focus on the companies that will be hurt and the workers who will lose their jobs if trade is opened up. The potential victims urge their governments to keep competitive products out of their countries.

## ***Reframe the debate: focus on barriers that keep products in a country.***

It may be more fruitful to focus on the obstacles that keep products in the country – that is, on the barriers to a nation's exports. Exports generate jobs and profits that ultimately benefit the country's whole economy. Many countries and companies would find their products could be competitive in the global marketplace if supply chain barriers were eliminated.

Poor transport infrastructure, quality concerns, customs obstacles and dozens of other intertwined barriers all obstruct the free flow of goods from one nation to another. Not surprisingly, that flow cannot be significantly improved by tackling just one or two of the barriers. It requires coordinated efforts on multiple fronts. This is challenging because it involves crossing the boundaries that separate the public sector from the private and one ministry or governmental agency from another.

As a result, advocacy involves a host of different stakeholders, which all must pull in the direction of increasing trade. The payoff comes when a tipping point is reached and products become competitive globally. This underscores the benefits of freer trade, and it is when the process becomes self-perpetuating.

What specific recommendations follow from this discussion? The starting point is for governments to perform diagnostics of their supply chain barriers and the costs they

impose on domestic industries. The results should assess the true costs of doing business. They should include an inventory of products and services for which the country could be globally competitive if costs could be reduced.

Once a set of industries has been identified as potential export champions for the country, officials should set up teams composed of representatives from relevant ministries and from the private sector to do the hard work of re-engineering current processes and identifying investments that should be made. This typically requires a steering committee of individuals who are senior enough to change policies and have the power to shape budgets, set targets and measure performance. Below the steering committee should be working groups composed of a range of stakeholders, supported by advisers who can share best practices across countries and regions.

As improvements are made, ministries should ensure that they are widely accessible. For example, reductions in the number of licences required for transport within a country should apply equally to imported as well as exported products.

The new direction in global trade talks has tremendous potential to increase trade, jobs, SME participation in global commerce and the well-being of populations. But success will require dedication and perseverance.

Countries can begin this process themselves. As they progress, they can put pressure on other countries to do the same through the WTO and other trade forums. It is an exciting time, witnessing the enthusiasm about what was achieved at WTO Ministerial meeting in Bali. Now is the time to act on that positive momentum.



# Connecting the world through technology and commerce

*By Wendy Jones, Vice President, Geographic Expansion and Cross Border Trade, eBay Marketplaces*

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*eBay Marketplaces, an online global marketplace for buyers and sellers, lists more than 500 million items for sale and has more than 128 million active users.*

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Over decades, reducing trade barriers and opening markets have increased opportunities for multinational corporations to serve new markets, dramatically promoting economic growth, empowering consumers and lifting hundreds of millions of people out of poverty.

Despite this progress, there remains a gnawing sense among many policymakers worldwide and the citizens they represent that globalization is neither inclusive nor truly open to enterprises outside the largest conglomerates. This is why the newest global trade trends, powered by Internet and mobile technologies and open to even the smallest micro-businesses, are so important and exciting.

*There remains a sense that globalization is neither inclusive nor truly open to enterprises outside the largest conglomerates. This is why mobile technologies are so exciting.*

A more accessible and inclusive global trade regime will help address the concerns of political leaders and citizens, but it is also important for simple economic reasons. The International Finance Corporation reports that SMEs make up 90% of businesses and more than 50% of employment worldwide.

In the developing world in particular, small businesses drive economic growth and employment. Traditional small businesses have largely been limited to domestic markets and a local reach. They were unable to engage in cross-border trade because of the large fixed capital investments and resources required to set up a global business and access international customers. Only the largest corporations could be truly cosmopolitan.

Internet and mobile-technology-based products and services are helping to open global commercial activity to SMEs around the world, including those in developing countries. They are enabling small enterprises to take advantage of global markets at the same rate as conglomerates. The World Economic Forum reports that the use of technology platforms can reduce the burdens small businesses face when selling overseas, increasing cross-border small business sales by 60% to 80%.<sup>3</sup>

eBay provides a suite of technology services to connect millions of buyers and sellers, which facilitates commerce on a global scale. It does this through one of the world's largest online marketplaces, together with PayPal, which enables individuals to send and receive digital payments securely, easily and quickly at the point of sale and around the world. eBay Enterprise facilitates omni-channel commerce, which is business conducted through all media from mobile phones to physical stores, radio, television and direct mail. eBay also facilitates multichannel retailing and digital marketing for global enterprises.



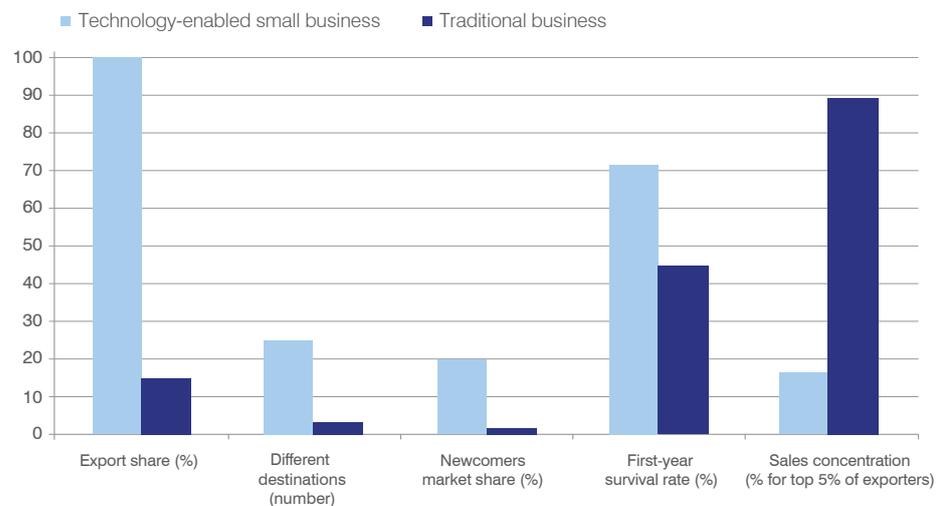
*In a parallel model for emerging global trade, a business of any size can reach consumers around the world through an Internet connection, intermediary services and logistical providers.*

eBay has conducted research on technology-enabled small businesses in the developing world using its marketplaces service to sell their products. It has published this research in a report, *Commerce 3.0 for Development*.<sup>4</sup> The research findings are impressive.

For example, in Peru about 14% of traditional businesses export. More than 95% of the Peruvian small businesses using eBay's marketplaces platform engage in selling abroad. Traditional Peruvian exporters reach on average three different markets. Exporters using eBay's platform reach 25 markets. Only 45% of traditional Peruvian businesses survive their first year; nearly 75% of technology-empowered Peruvian exporters manage to do so. Finally, in Peru as a whole, the top 5% of traditional exporters account for 90% of exports, whereas on eBay's platform, the top 5% of exporters claim only 15% of sales (figure 16).

**Figure 16. eBay powers commerce in Peru**

*Digital platforms enable small enterprises to have greater global reach.*

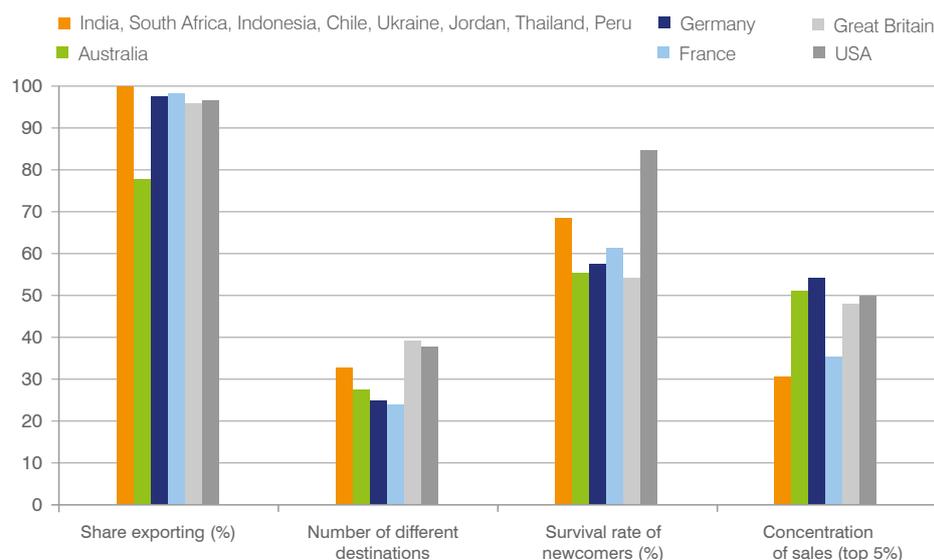


Source: *Commerce 3.0: a global phenomenon*, eBay Inc. Main Street (2014)

Even more exciting is that these findings held true when eBay looked at merchants from the United States, France, South Africa, Germany, India, Chile, Ukraine, Jordan, Indonesia and Thailand.<sup>5</sup> This proves that Internet and mobile technology services open global commerce to smaller businesses no matter where they are based (figure 17).

**Figure 17. Internet and mobile technologies work for small businesses**

*When SMEs in developing countries use Internet and mobile technology to reach customers, their performance is comparable to SMEs in developed countries.*



Source: *Commerce 3.0: a global phenomenon*, eBay Inc. Main Street (2014)

At just 30 years old, Parul Arora has become a successful global entrepreneur while remaining a small business owner. Her story is like those of many thousands of micro-business entrepreneurs around the world. Together with her mother, Usha, she runs an online jewellery boutique out of New Delhi. Indiatrend markets jewellery from local artisans and offers its own line of handicraft jewels. Indiatrend has sold its products to more than 40 countries, including Poland, Finland, Japan, China, the Russian Federation, Israel, Kuwait, Macedonia and Turkey, enabling the Aroras to employ nine people.

Parul Arora's words are the most powerful testimony: 'The Internet has been a blessing for people like me. I have been able to bring my creativity, along with the Indian art of jewel making, and spread it around the world. It makes me immensely happy that someone in Germany loves their Indiatrend jewellery.'

### *Consider how to revise the world trading regime to accommodate the rise of small business trade fuelled by technology.*

Until recently, smaller businesses have mostly participated in global trade by plugging into a large multinational corporation's supply chain. It is now clear that technology and the Internet are creating a parallel model for emerging global trade. A business of any size can reach consumers around the world through an Internet connection, intermediary services and logistical providers. This new model has powerful economic and social consequences for individuals, families and communities.

The social opportunity may be more important than the economic opportunity. Technology, particularly the Internet, is creating a truly global marketplace – one where a business of any size and from any country can participate. This equality of opportunity, which enables every business to connect with every consumer, is something that the world has never seen before. This development could expand the globalization winner's circle from the few to the many.

Revolution does not happen overnight. The Internet and mobile technology are creating trade opportunities for SMEs around the world, and service providers such as eBay are working to help businesses and consumers take full advantage. The global trading system is struggling to keep up. The nuts and bolts of regulation and policy, as well as the related infrastructure, were not designed with small businesses in mind.

Policymakers need to consider how to revise the world trading regime to accommodate the rise of small business trade fuelled by technology. In service to a vision of nearly seamless transactions across borders and oceans, governments around the world must work together to reduce customs complexity, remove regulatory hurdles and harmonize national regulations.



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# Supporting SMEs to benefit from trade opportunities

*By Michael L. Ducker, Chief Operating Officer and President, International, FedEx Express*

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*FedEx Express provides global courier delivery services to more than 220 countries and territories, with an average 3.9 million deliveries daily.*

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In the past half century, developing countries have shared the benefits from the enormous growth of international trade. Focusing on the needs of SMEs as they compete in the new global economy will spread these benefits even further.

FedEx is proud of the role it plays in enabling SMEs to expand internationally. Modern information technology and transportation services have fundamentally changed the way the global economy works. The Internet now connects buyers and sellers from around the world in a single global marketplace.

Products are now made in multiple countries connected through logistics and information networks that allow specialization and collaboration across the entire value chain. These atomized production chains create unprecedented opportunities for countries and businesses of all sizes to participate in the global economy.

Every day, FedEx witnesses examples of SMEs taking advantage of the Internet to sell their products around the world. As the eBay study demonstrates, companies that use the Internet to market their products are far more likely to export than businesses using more traditional models.

Electronic commerce is growing as much as 20% per year in many countries and holds great potential to increase the share of SMEs' contribution to trade. But for many SMEs, trying to fulfil overseas orders received through the Internet presents complex challenges. A large part of FedEx's services is dedicated to helping these SMEs navigate complex global trade rules. It also partners with trade promotion agencies to connect customers with additional resources and information that can help them increase their export opportunities.

Among the biggest challenges SMEs must overcome are the complex customs rules and red tape associated with international trade. This is why the recently completed WTO Agreement on Trade Facilitation is so important. For the first time, the WTO will have binding rules with nearly 160 countries determined to reduce the administrative costs of moving goods across borders.

Improved border management will make developing countries more attractive locales for conducting business and will boost the competitiveness of SMEs. Additional administrative reforms that make it easier for small, low-value shipments to cross borders, including policies to facilitate returned goods, will also help SMEs boost their exports.



Work is needed to ensure that SMEs can benefit from the more than 583 free trade agreements being negotiated or already in force. SMEs are often unaware of free trade agreements, and even if they are, they usually do not have the time and resources to comply with complex requirements such as rules of origin. As a result, they fail to reap the benefits of these agreements. Where possible, these rules should be simplified and structured in such a way as to ensure that free trade agreements benefit SMEs as well as larger companies.

Efficient finance, insurance, telecommunications, Internet, transportation and logistics services are critical to manufacturing and exporting success. Open services markets and increased services competition will help SMEs expand their businesses at home and abroad. Developing countries have much to gain from increased services investment in their economies.

SMEs often lack strong spokespersons for their trade issues. Small business owners are typically not in a position to petition their government or participate in trade negotiations. FedEx is proud to advocate for the needs of small business everywhere it operates. It is essential to continue to strengthen the capacity of SMEs to make their voices heard when global trade rules are being negotiated.

***Improved border management will make developing countries more attractive locales to conduct business and will boost SME competitiveness.***

Technology will continue to make the world a smaller, more interdependent place. But expanding trade and increased global prosperity cannot be taken for granted. While more and more countries are embracing the benefits of closer economic integration and open markets, others still cling to protectionist policies that stifle growth and limit opportunity. For the past 20 years, trade has grown at twice the rate of global GDP growth. But now, trade and GDP grow at about the same rate. Increased protectionism, which reduces trade, accounts for part of this dramatic deceleration.

Over the next 50 years, ITC will continue to play a vital role in educating policymakers, businesses and other stakeholders on the benefits of trade and will help them share in the gains that trade creates. Enormous potential remains to be unleashed in the decades to come if the right choices are made.

# Linking small producers to high-value agro-industrial chains

By Karina Fernandez-Stark, Penny Bamber and Gary Gereffi, Duke University

*The Center on Globalization, Governance & Competitiveness at Duke University researches global value chains and the effects of globalization on governments, institutions and corporations.*

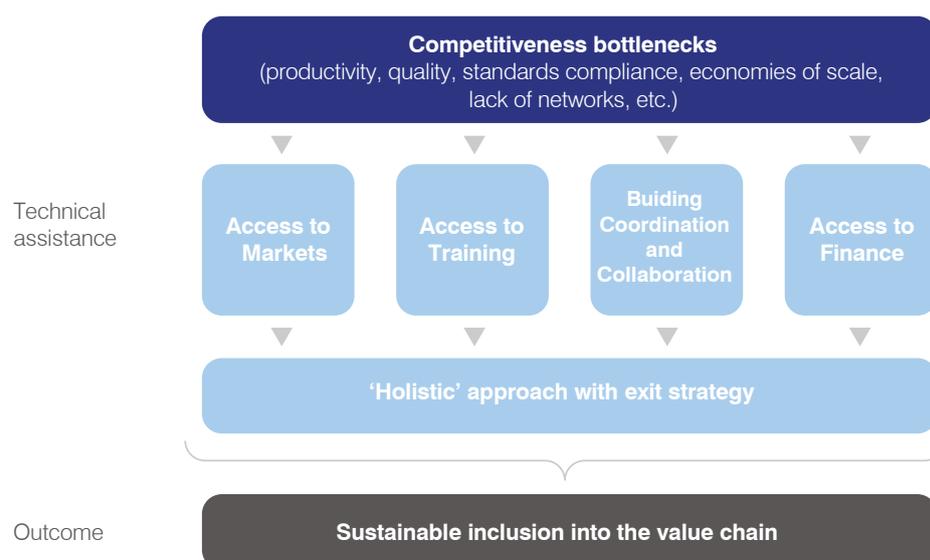
By including smallholder producers in national, regional and global value chains, developing countries can address rural poverty. Most smallholders in developing countries face obstacles to participation in these value chains and are being shut out of important growth opportunities.<sup>6</sup>

Four major constraints limit the competitiveness of small and medium-sized producers and their sustainable incorporation into value chains (figure 18):

- Access to markets;
- Access to training;
- Collaborative, coordinated horizontal and vertical linkages;
- Access to finance.

**Figure 18. Bringing smallholders into agro-industrial chains**

*To help smallholders be part of value chains, they need supporting programmes that bring access to training, markets and finance, as well as smooth linkages throughout the chain.*



Source: Fernandez-Stark, Karina, Penny Bamber and Gary Gereffi, 2012.



## Access to markets

Producers need to be linked to buyers as part of a value chain to have greater access to markets. Traditionally, agri-business spot markets did not require a direct relationship between the producer and the buyer. The producer sold a harvest to the highest bidder. The emphasis on food safety has transformed the industry, and heightened the need for specific product characteristics, as well as control over production and traceability.

Governance of the sector shifted from an arms-length interaction to a much closer relationship, with the buyer dictating exactly what is produced and under what conditions (Lee, Gereffi and Beauvais, 2012).

Many small producers, as a result of geography, culture or other circumstances, do not have the networks to establish these relationships with potential customers. They do not generally participate in international trade fairs, have websites or generate publicity. Often they do not know the scope of a potential market for their products. They may not understand buyers' requirements.

Buyers, especially from abroad, have no way of knowing about these potential producers, let alone establishing formal sourcing contracts, or communicating product or quality standards. To link producers and buyers, external assistance is often required.

The first stage is to set up the link between producers and buyers. This requires educating buyers or lead firms regarding the business potential of sourcing from small producers. It also requires facilitating interactions until the small producers are in a position to sustainably manage the relationship independently.

In Africa, researchers have found that to link smallholders with the private sector was the most important role for implementing agencies (Henson et al., 2008). Value chain interventions that focus on building these linkages are more effective than those oriented towards improving the broader context in which the chain is embedded (Humphrey and Navas-Alemán, 2010).

In domestic markets, this could be a direct link between the producer and the final buyer, allowing the producer to avoid other intermediaries and capture as much value as possible from participation. In global value chains, this link is more likely to be with an exporter intermediary.

Intermediaries are criticized for taking advantage of small producers. This is not necessarily the case. An effective intermediary fulfils a vital role, translating buyer needs for the small producer and building a relationship where social, economic and language barriers may prevent direct interaction. An intermediary often also facilitates access to finance to obtain inputs and technical assistance.

## Access to training

Specific training is often required to improve productivity and quality, introduce new technologies and plant varieties, and comply with food safety and other certification requirements that govern entry into the national, regional and international value chains. Agro-industrial chains today are more complex and sophisticated than in the past. Crops grown with traditional methods often do not meet market requirements. Skills development in agricultural value chains has been generally underestimated. Training at the commercial scale has emerged only in recent years.

Rural education levels in many developing countries are low. Technical assistance and education programmes run by governments are often understaffed and inadequately prepared to cater to increasingly demanding buyers. As many of these services are provided through agriculture ministries, there has been a tendency in the past for extension services to focus too heavily on production, without attention to the entrepreneurial skills small producers need to operate independently in today's market. 'Value chains will be better equipped to respond to end market demand if training goes beyond knowledge transfer to the promotion of behaviour change in the value chain, in terms of relationships and innovation' (Sebstad and Snodgrass, 2008).

Training for growers to facilitate participation in value chains must cover several elements.

- Explain the purpose of the training to the producers and convince them of the importance of adapting the way they grow crops.
- Focus technical training on sound agricultural practices aligned with buyers' standards. Also address productivity-enhancing techniques that do not require large investments, are relatively simple and are easy to learn.
- Enhance skills that satisfy contract demands for consistency of supply and quality. This includes planning, efficient cost management, accounting, financial literacy and client management, as well as appropriate and timely infrastructure and equipment investments.
- Include interpersonal skills that are increasingly essential for growth in value chains, especially for small producers who must work together to achieve economies of scale. These include communication, leadership, conflict management and negotiation techniques.

The manner in which training programmes are delivered is critical. Practical training is important, because many producers do not keep written records and rely on memory in developing new methods.

Effective training settings include on-site practical sessions with the growers, with real examples and visits to successful farmers and demonstration plots. Trainers can teach them how to maintain their books for farm management purposes.



## Collaborative, coordinated linkages

Coordination and collaboration should take place in two dimensions.

- First, producer groups or associations ensure horizontal coordination among farmers. This enables farmers to benefit from economies of scale and provides opportunities to add value to their products.
- Second, interactions up and down the value chain lead to synergies, as stakeholders share information to improve the performance of the chain as a whole. Sustainable participation in value chains for small producers requires some form of organization on an ongoing basis.

Small and medium-sized producers need economies of scale to compete in the marketplace. It is not cost-effective or profitable for a buyer to work with producers individually. It is important for growers to work together to meet market requirements and exchange ideas to manage common problems, reduce information asymmetries in production and build social capital to empower them to sell their products in more sophisticated markets.

Mutual commitment remains critical to successful engagement in a cooperative. Small and medium-sized producers often need outside encouragement and support to appreciate the payoffs of collective action, and to establish themselves as formal legal organizations. Collective action can yield significant benefits, including access to cheaper inputs, shared investment costs in expensive cold chain (refrigeration) and logistics infrastructure, better opportunities to penetrate new markets, and higher incomes.

Vertical coordination and collaboration among supply chain stakeholders is critical for maintaining and upgrading its performance (Gereffi et al., 2011). Stakeholders include farmers, ranchers, landowners, providers of resources such as fertilizer or equipment, intermediaries, buyers, industry associations, training institutions, industry services

providers, finance institutions, government agencies focused on the industry, export promotion agencies and regulatory institutions.

Fostering dialogue and public-private alliances helps to resolve information asymmetries for smallholders, and nurtures industry growth, both locally and nationally. These alliances provide a forum to share insights into the challenges faced by the sector, with the ultimate goal of coordinating and defining a common industry strategy.

Asymmetrical information problems can often be overcome when all of the stakeholders work together. Several projects have linked producers with resource and services providers, as well as with banking institutions. Coordination with government regulators in pursuit of vital reforms enhances industry competitiveness.

## Access to finance

Entry into the value chain requires investments such as infrastructure, equipment and certifications. Small producers often face a squeeze on liquidity and credit and have no access to formal finance channels, which limit their ability to make the necessary investments.

Credit for small producers in both low- and high-value agriculture is tight for a number of reasons. These include high risk, asymmetrical information, lack of guarantees, dispersion in rural areas and unfavourable economic policies. Credit constraints prevent small producers from investing in equipment such as irrigation systems, greenhouses or cold storage to achieve productivity improvements; to develop unused portions of their land; and to upgrade into higher-value products. These constraints curtail their participation in coordinated value chains.

*Trade support in an era of international value chains entails resolving investment issues. Trade and investment promotion cannot be separated.*

Direct financing from buyers and using buyers' contracts as collateral for loan guarantees for banks are two important ways to improve access to finance.

Direct financing consists of loans to producers through schemes such as resource-provision contracts, in which the buyer supplies inputs such as seeds and fertilizer and other services on credit and may absorb the financing cost. Working with the banking sector to create financial instruments that are more effective in meeting smallholders' needs and offering training to give producers the required financial literacy to manage loans are two areas in which providers of assistance can make a difference.

## A blueprint for technical assistance to smallholders

Five lessons emerge for designing successful technical assistance programmes.

- **Consider growers as 'productive agents'.** All interventions should begin with an exit strategy. Once the project ends, all necessary conditions must be met for producers to continue on their own to supply the value chains in a competitive and sustainable way. These conditions include improving quality through training and meeting the specific requirements of buyers.
- **Understand that differences abound in groups of small and medium-sized producers.** Some producers have more experience, greater financial resources and

better organization than others. Appreciating these differences helps to accurately determine the nature and length of technical assistance to achieve sustainability.

- **Use a holistic approach to competitiveness.** Holistic programmes that address major competitiveness constraints tend to be more successful than those that resolve problems individually.
- **Have a relevant track record.** The agency in charge of assistance programmes must have sufficient local experience and expertise to generate trust among farmers and other value chain stakeholders.
- **Design a clear supply chain approach.** Take into consideration buyers' requirements, opportunities to add value and the best ways to establish linkages. Markets are highly competitive. Failure to pay attention to details could lead to untenable initiatives, in which producers are pushed out of the chain as soon as the donor intervention is over.

Emerging economies are likely to sustain growth rates that exceed those of developed nations. This suggests that assistance should focus on these markets, including efforts to understand consumer demand preferences and requirements. Assistance should include support for governments seeking to reduce market access barriers, notably NTMs.

Trade volume growth is driven primarily by large, productive firms. Trade support programmes for SMEs should also assess whether specific constraints that impede further growth of successful larger exporters can be removed or relaxed. This will indirectly help SMEs, as large firms typically source from smaller producers.

*Emerging economies are likely to sustain growth rates that exceed those of developed nations. Technical assistance should focus on these markets, including efforts to understand consumer demand preferences and requirements.*

Many large firms that drive aggregate export growth performance are foreign owned or involve foreign investment. Trade support in an era of international value chains entails resolving investment issues. Trade and investment promotion cannot be separated.

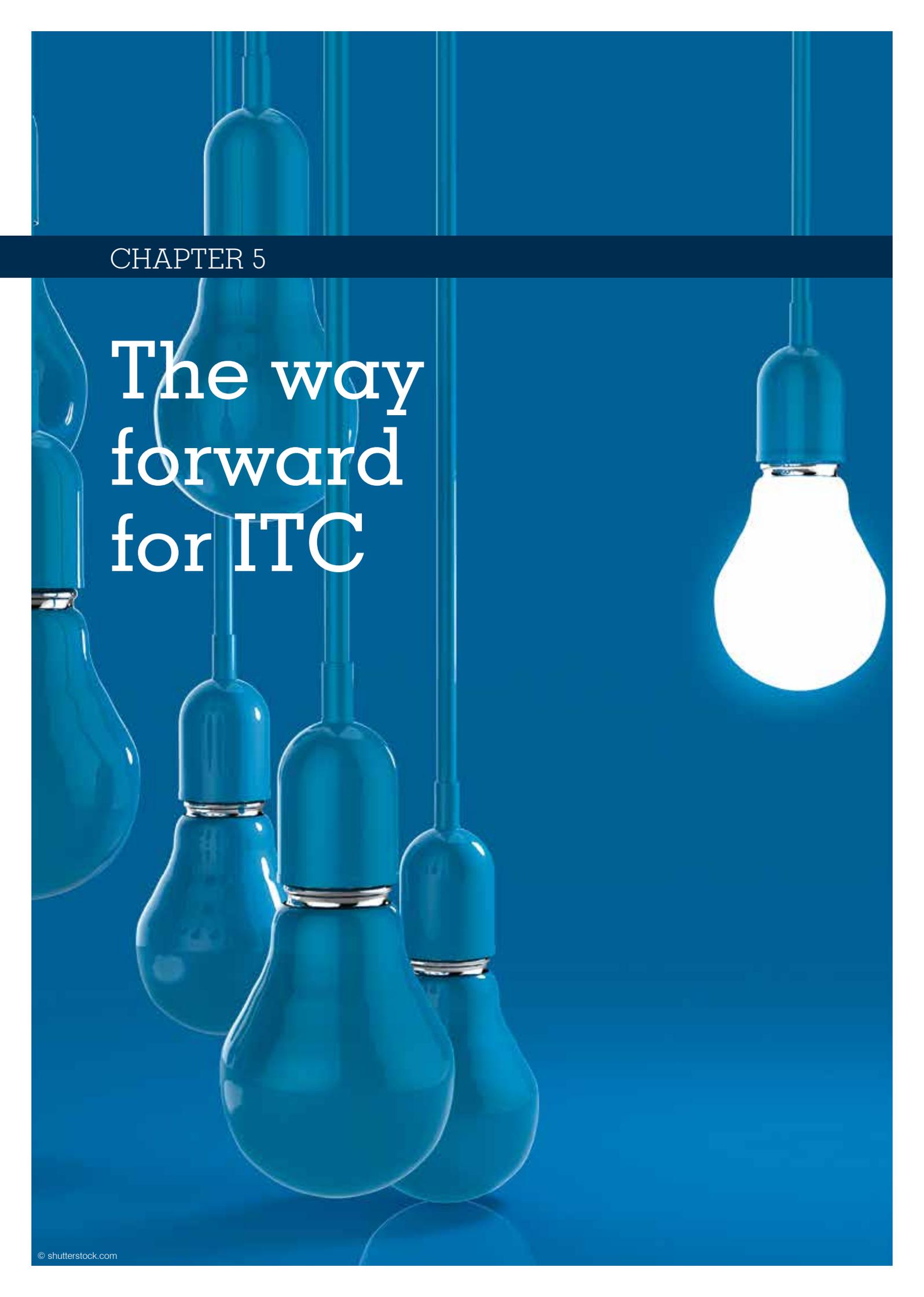
From a value chain perspective, assistance should contribute to stronger horizontal and vertical enterprise linkages. Trade facilitation and related measures in the areas of transport, logistics and other services should be considered. Effective coordination and cooperation between and among lead firms, buyers, SMEs and small producers may be strengthened by implementing public-private mechanisms designed to increase accountability.

SMEs have great potential to use electronic commerce to expand their exports. Their ability to do so will depend on managerial capacities and the availability of a workforce with the requisite skills. In designing trade support programmes, focus on trade infrastructure and policies that maximize competition between the associated service providers, including logistics services suppliers and telecommunications operators.

Finally, the scope to further expand trade, whether directly through electronic trading platforms or indirectly by supplying other firms that are part of a value chain, will depend on the SMEs themselves. They must be capable producers, and also be willing to cooperate and learn about best practices. This points to a need for tailored training as part of any programme aimed at improving trade performance.

## ENDNOTES

1. Recent papers that analyse new exporter relationship survival rates and their determinants include Brenton et al. (2010), Cadot et al. (2011; 2013), Alvarez (2007), Schmeiser (2012), Albornoz et al. (2012) and Jaud et al. (2014).
2. See, for example, Lederman, Olarreaga and Payton (2010) and Volpe and Carballo (2008; 2010).
3. World Economic Forum (2013). *Enabling Trade: Valuing Growth Opportunities*. Geneva. Available at [http://www3.weforum.org/docs/WEF\\_SCT\\_EnablingTrade\\_Report\\_2013.pdf](http://www3.weforum.org/docs/WEF_SCT_EnablingTrade_Report_2013.pdf).
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5. Fernandez-Stark, Karina, Penny Bamber and Gary Gereffi. (2012). Inclusion of Small- and Medium-Sized Producers in High-Value Agro-Food Value Chains. Durham, N.C.: Duke CGGC. December. Available at [http://www.cggc.duke.edu/pdfs/2012-05\\_DukeCGGC\\_InclusiveBusiness\\_and\\_HighValueAgricultureValueChains\\_v2.pdf](http://www.cggc.duke.edu/pdfs/2012-05_DukeCGGC_InclusiveBusiness_and_HighValueAgricultureValueChains_v2.pdf)



CHAPTER 5

# The way forward for ITC

**F**or ITC, 50 years of fostering trade competitiveness has generated a wealth of experience and expertise. The organization gained valuable insights and learned many lessons in supporting small and medium-sized enterprises (SMEs) in developing, least developed and transition economies to enhance their global competitiveness.

While ITC's mandate has not changed, the trade landscape has morphed radically, along with how ITC has delivered its trade-related technical assistance. The rise of a multipolar global economy has opened avenues for new trade, market and investment opportunities as trade regimes matured and worldwide supply chains became a critical means of production. A technological revolution transformed the way business is being transacted.

Despite these changes, some principles remain as valid as they were 50 years ago. Trade competitiveness is still the result of a combination of firm-level productivity; the enterprises' ability to link up to new markets, technologies, skills and investments; as well as the trade support infrastructure, regulatory framework, trade-related costs, and broader micro- and macroeconomic policies. To enable trade competitiveness and empower SMEs to connect with global markets requires assistance that reckons with these multiple dimensions.

ITC's 50th anniversary is an opportunity to reflect upon what worked well over five decades of trade-related technical assistance. The organization's market-led and business-oriented thinking, paired with a pragmatic and responsive culture, were the primary reasons for its many successes. Proximity to enterprises – from the smallest to multinationals – helped ITC translate complex theories into pragmatic solutions.

ITC emerged as a leading player, bridging public and private sector interests to unlock trade opportunities with the resulting impact on development. These underlying principles will continue as the cornerstone of ITC's assistance.





## Competitiveness – a gateway to supply chain trade

As discussed in the previous chapters, competitiveness, trade and investment drivers have become increasingly interlinked; they are strongly associated with a conducive and predictable business environment. International diagnostic gauges such as the World Bank's *Doing Business* report, its *Logistics Performance Index*, the World Economic Forum's *Global Competitiveness Index* and ITC's *NTM Surveys* expose obstacles to trade and have helped reformers assess the trading and business environment of their country against international best practices. These types of assessments have triggered the need to undertake further analytical work at the enterprise and country level to devise targeted policy responses that are financially feasible, operationally practical and politically possible.

In the years to come, production and trade will be dominated by supply chains. Geographically dispersed production patterns will expand and amplify, leading to further subcontracting, joint venture and franchising arrangements. 'Made in the world' will be the origin of an increasing number of products and services as contractual cooperation agreements evolve.

*'Made in the world' will be the origin of a growing number of products and services as supply chains expand.*

A wide range of SME-based alliances will continue to evolve, from short-term purchaser-supplier relationships involving technology, research and development to longer-term cooperative agreements for production, distribution and marketing. At times these relationships will involve associated investments.

Supply chain trade offers SMEs growth opportunities. It also comes with rising competitive pressures and a need for continuous innovation. ITC, like other trade-related technical assistance providers, will progressively integrate responses to these challenges in its capacity-building programmes and will be urging stakeholders to 'think supply chain'.



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These developments will affect ITC's efforts to enhance SME competitiveness in four areas:

- An engine of improved economic growth;
- A means to generate the required domestic resources for investments in human resource development through health, infrastructure and education;
- A potential provider of some of these essential services;
- A direct partner in trade and technology transfers.

## Enhancing supply-side capacities

Globalization and fragmentation of production networks offer new market horizons, and have led to greater competitive pressures for SMEs in domestic and international markets. These pressures take different forms including pricing, quantity-related requirements, quality or safety standards, or delivery schedules.

ITC will continue to support SMEs with market demand requirements and associated trends in supply chain trade and in open markets. ITC will especially emphasize measures to cope with NTMs and private industry standards.

ITC technical assistance programmes will offer increasingly integrated solutions in response to determinants of competitiveness, as they become more interlinked. These integrated solutions will include expanding the productive capacity of SMEs and addressing challenges related to sourcing, finance and investments. They will also address policy-related bottlenecks, as well as trade costs related to transport, logistics and border issues, and will enhance the capacities and service provision from trade support institutions.

Differences between enterprise-oriented programmes described in chapter 3 will gradually blur. Traditional product or sector development programmes will converge with cross-cutting or functional programmes to enhance SME competitiveness. ITC will also increasingly address the macroeconomic dimension, echoing the lessons from chapter 3 that trade promotion cannot be a substitute for policy reform.

Supporting innovations for goods and services, associated production processes and organizational structures will be a growing focus of ITC assistance. The accent will be on SMEs, vertical supply chain arrangements, horizontal linkages among enterprises and local support institutions. Strong linkages to other enterprises and support institutions can play a key role for SMEs to strengthen their sustainability and innovation capabilities. The use of collective resources combined with inter-firm and institutional coordination tends to generate more robust growth and helps maximize the benefits of trade in the long run.

A major bottleneck for SME development is a dearth of financing. Lack of access to finance thwarts economic growth around the world, but tends to be more difficult for SMEs in developing countries. This situation is often exacerbated by an uncompetitive banking sector, the lack of collateral, high transaction costs and the risk profile of developing-country SMEs. When traditional means of financing such as commercial banking services are inadequate, ITC will help explore access to alternative sources of SME financing in relation to both equity and loans and to strengthen the dialogue between the SMEs and the financiers.



## Activating new market opportunities

Supply chain trade and the trade in intermediate components and services offer new opportunities for SMEs to perform specialized tasks and tap into niche markets. These opportunities are often higher-value in nature and generate more income. Adopting a supply chain logic will lead to a larger share of the workforce being integrated into lucrative segments of the trade-related economy.

ITC will continue to work as a ‘connector’ to assist developing country exporters to link up to market opportunities, to diversify their exports into market segments offered by global value chains, and to open international and regional markets. ITC has a focus on assisting exporters to become involved with longer-term cooperative purchaser-supplier arrangements. These cooperative arrangements will enable more predictable export transactions and positive spillover from investments, knowledge transfer and upgrading of the skills base of the labour force. These arrangements will also benefit individual exporters and the economy at large.

The low ‘survival rate’ of emerging export relationships and the related issue of high SME mortality rates is discussed in chapter 4. International value chains and regional and local markets represent different opportunities and risks for SMEs. Addressing regional and local markets in combination with global value chains allows SMEs to diversify risks and tap into different resources, markets and knowledge.

Understanding the specific market requirements is essential for enterprises and for the design of trade development programmes provided by domestic trade support institutions and international organizations such as ITC.

ITC technical assistance aims to create sustainable trade relations between developing country exporters and buyers in international and regional markets. The technical assistance has a market-led approach, which enables exporters to have an in-depth understanding of markets and related risks and requirements, including technical standards, quality and delivery terms.

## Enabling long-term growth trajectories

A country’s ability to tap into lucrative growth markets signals its competitiveness. As with enterprises, countries must constantly enhance their competitiveness. This enables countries to improve their position in global markets and build a foundation for economic growth and societal development.



While improving competitiveness in the same product or service area will bring short-term advantages, it seldom fosters the more profound economic and industrial transformation required for long-term growth and development. A country's long-term growth prospects are closely associated with the pace and nature of structural reform, as well as its technological capabilities.

***The ability to tap lucrative growth markets is a sign of national competitiveness.***

Moving towards more promising value chain trajectories requires long-term vision and strategy for socioeconomic development, supportive policies, a flexible and skilled workforce, and a robust educational and entrepreneurship framework. ITC will focus on supporting the structural changes required to enhance development through trade.

## Fostering trade in services

As discussed in chapter 1, the services sector is a major source of economic growth. Its commercial significance extends far beyond the value of direct services trade. A substantial and growing amount of services in relation to research, design, communications, transport, marketing, logistics and finance, for example, is embedded in manufactured goods and in agro-produce.

ITC will encourage stakeholders to 'think services trade' and support enterprises, coalitions of services providers and policymakers to unlock the massive potential represented by services trade. As a result, ITC's portfolio of service-centred capacity building will deepen and broaden in the years to come.

ITC will assist SMEs to tap into services-related opportunities created by supply chain trade and investments. This will allow SMEs to focus on higher-value activities, create employment and raise export revenues. Focus will also be on the increasing opportunities associated with the large and growing services content in manufactured goods and agro-produce, often described as the 'servicification' of production.

ITC work in 'traditional' services areas will intensify. These areas include tourism, information technology (benefiting from advances relating to the Internet and telecommunications) and technology-enabled services such as business process outsourcing. A new generation of services projects and associated innovative offerings will be developed to support coalitions of services providers, aimed at awareness raising about the potential of services exports from developing and least developed countries. ITC will also address barriers to services trade, many of which are regulatory.

## New growth poles – new opportunities for SMEs

International trade is changing because of the evolving structures of global supply chains, bringing value-added trade in tasks and components, as well as emerging markets and new growth poles. The new multipolar world, with fast growth and increasing purchasing power in developing countries, especially the emerging economies, has underscored the importance of South-South trade.

Emerging markets and production locations, and associated regional and South-South trade patterns, will continue to be a major force in the global economy. These factors will shape the Aid for Trade agenda in terms of markets and in terms of cooperation more broadly. ITC will increasingly tap into emerging economies' expertise to build trade capacity in least developed countries (LDCs) through knowledge and experience sharing and technology transfer.

ITC has responded to this shift in trading patterns and has addressed Africa's need to diversify its export markets. From a modest beginning, connecting West African cotton producers to buyers in Asia, ITC has developed comprehensive programmes to target emerging countries' markets, notably India and China.

A recent project, Supporting India's Trade Preferences for Africa, aims to increase exports from Ethiopia, Kenya, Rwanda, the United Republic of Tanzania and Uganda to India through investment and skills sharing from that market. The project, to be implemented from 2015 to 2020, is a good example of trilateral cooperation to promote public-private partnerships, improve the capacities of East African companies and institutions, and create business linkages.

### *A new African-Indian programme is a model for ITC's next generation of programmes to expand South-South opportunities for SMEs.*

The project is a model for ITC's next generation of large programmes that aim to expand SME opportunities in the South. Similar new ITC initiatives focus on China and Turkey as emerging growth poles and catalysts for increased South-South cooperation, investment, and trade with Asian and African LDCs.

Many SMEs from LDCs have the ambition to expand their businesses or to commercialize their operations but lack the capabilities to connect to the right type of technology and information providers, financial institutions and business partners. ITC assists SMEs and associated trade support institutions to address challenges, which generate uncertainty, increased costs and significant lost time for businesses.



ITC will continue to support a private sector-led regional integration agenda, especially in Africa.

ITC will address procedural constraints at border crossings, regulatory obstacles to attracting private investments and uncompetitive practices stoked by vested interests. ITC will continue to support and strengthen regional institutions to enable them to:

- Provide leadership to reconcile national policy differences;
- Harmonize regulations;
- Advocate when national governments hesitate at the implementation stage of translating regional policy directives into domestic policies.

## New frontiers for trade development

Since its beginnings in 1964, ITC has engaged in the global debate on trade-related issues. International forums such as the Executive Forum, rebranded as the World Export Development Forum in 2010, and the biennial TPO Network World Conference and Awards have emerged as important platforms for trade practitioners, governments and businesses to discuss trade development and promotion-related issues.

### *The focus will be on SME competitiveness.*

In a world marked by a flurry of international forums and events, ITC strives to enrich the global debate on trade by its focused and value-adding agenda. ITC's major assets and strengths lie in its unique mandate at the intersection of the public and private sector. The proximity to the private sector, the understanding of business needs and its hands-on work with companies around the world provide ITC with an informed view and give it an important voice in the global arena.

ITC will continue to advocate for private sector interests and strategically orient trade-related technical assistance by creating platforms where stakeholders can work together towards inclusive, sustainable trade development solutions.



The focus will be on SME competitiveness and related job creation. Through innovative research, analysis and applied studies, together with knowledge gains from project results and multi-stakeholder partnerships, ITC will continue to be a laboratory for ideas and an intelligence hub for development solutions anchored in the private sector.

ITC will continue to provide thought leadership in numerous areas associated with trade development, including:

- Barriers to trade;
- The green economy and environmental sustainability;
- E-commerce;
- Private standards;
- Empowering women, youth and poor rural communities in trade;
- Addressing the specific needs of fragile and post-conflict countries in trade;
- Trade in services, including tourism and ICT-enabled services;
- Informal cross-border trade;
- The role of migrant workers.

ITC will embark on new ventures such as an expanding list of services trade (including tourism and ICT-enabled services), SME-focused trade facilitation in the aftermath of the December 2013 World Trade Organization Bali agreement, and convergence of a trade and investment perspective.

In years to come, ITC will also lead the way in trade promotion and institutional strengthening. New trends include the gradual convergence of trade and investment promotion and renewed emphasis on accountability and effectiveness of trade support institutions.

Thought leadership will be translated into new projects and programmes to offer novel technical services, to facilitate the exchange of good practices, and to instil result-based management thinking and principles in the modus operandi of trade support institutions.

ITC will continue to be a lead player in identifying emerging market opportunities and challenges associated with trade development, particularly from the SME perspective. A very significant contribution in terms of ITC's thought leadership is the organization's ability to think about trade development holistically and to conceptualize support packages that provide integrated solutions to enhance competitiveness and harness related development benefits. As a result, ITC provides solutions that offer concerted interventions at the company, sector, institutional and policy levels.





ITC projects and programmes will be subject to continuous review of relevance, efficiency, sustainability, and impact on job creation, entrepreneurship and broad-based economic development, thereby optimizing return on investment. ITC will also contribute to thought leadership with efficient needs assessment methodologies, cognizant of the complexities associated with achieving sustainable, widespread socioeconomic development from trade.

Technical innovation in these fields will continue as ITC embarks on new ventures. ITC's robust and flexible tools and methodologies are designed to meet SME needs in different socioeconomic environments. ITC will encourage coordination of policy and regulatory measures as part of this process. Eliminating one distortion but not others might paradoxically make things worse, not better, as noted by the World Bank.

This approach balances business interests to reduce costs and improve competitiveness with government objectives to promote competition, prevent market failures, correct information asymmetries, preserve consumer safety, protect the environment and promote better access to services.

## Driving innovation

Enterprises and institutions must constantly innovate to remain competitive and relevant. This also applies to ITC. Innovation will shape ITC's next generation of technical tools and solutions, as well as its capacity-building programmes.

Accelerated technological progress creates new market opportunities for SMEs through electronic commerce and revolutionizes delivery modes for trade-related technical assistance. Web- and mobile-based communication of trade data and market information and digital learning are creating new frontiers.

Digital tools and online marketplaces offer SMEs the potential to gain a more comprehensive understanding of international markets and raise their efficiency, as well as connect with international customers and broader ranges of suppliers. Beyond e-commerce, technological innovations in communication, transport and logistics will create more efficiencies in production and trade.

ITC services will focus on delivering innovative technical assistance to SMEs through multipliers such as more efficient trade support institutions and electronic platforms.

ITC has a history of innovation and implementation of digital tools. Over the past eight years, Trade@Hand, a suite of mobile information tools, was successfully rolled out in several LDCs. ITC will work with external partners to supply training for e-commerce,

social media and the Internet, and will use the growing number of electronic marketplaces and digital tools available to promote and support trade.

ITC advisory programmes on electronic payment solutions and logistics tools to enable better inventory management and linkages with partners in global supply chains will help SMEs access markets.

ITC will continue to improve its existing web-based applications and tools and to provide new innovative tools and solutions to continuously meet the ever-evolving requirements from the global user base of ITC web-based resources.

## Making trade work for sustainable development

Development and promotion of international trade at ITC has never been a means in itself, but a vehicle for facilitating sustainable economic growth to generate income and create employment. Over the years the focus on trade impact on development has grown at ITC as the players in trade-related technical assistance developed a better understanding of the complex interaction and interdependence of related factors.

ITC's expanding service offering of capacity-building programmes that directly engage businesses, institutions and governments has led to more elaborate thinking and solutions that optimize benefits from trade for sustainable development.

Risks in relation to production and international trade will continue to evolve and likely grow in complexity, thereby posing an increasing challenge to sustainability. For example, impacts of climate change, natural disasters, price fluctuations in commodities trade, geopolitical risks, financial and economic instabilities or risks related to supply chain trade will have major effects on international trade and linked development prospects. These considerations will continue to be integral part of ITC's capacity-building support and advisory services.

ITC will continue to support stakeholders to 'think sustainable production and trade' – environmentally and socially sustainable. Addressing poverty through job creation and empowering women and youth and through environmentally sustainable and climate-smart solutions are massive international challenges facing the global community today and will increase in years to come.





As part of its poverty alleviation focus ITC will also target the specific needs of post-conflict and fragile states and the growing group of poor in middle-income countries.

ITC's poverty orientation will include projects that directly capacitate vulnerable producer groups and that focus on initiatives at institutional and policy levels. ITC acknowledges that efficient poverty orientation in trade-related technical assistance requires an integrated approach at production, institutional and policy levels.

ITC will strengthen a range of programmes and initiatives aimed at making trade work for sustainable development.

### Women in trade

In developing countries, women-owned companies represent close to 40% of all SMEs. This results in a development dividend through women's spending on health and education of children. Investing in women's enterprise development contributes to income generation for the poor, which impacts economic and social development.

ITC has created a strong foundation for future success through developing close partnerships. The Global Platform for Action on Sourcing from Women Vendors is an ITC-led network bringing together partners purchasing more than US\$70 billion in goods and services annually with more than 30,000 business and professional women. The Platform brings together buyers and sellers with the aim of increasing women entrepreneurs' share of corporate, government and institutional procurement.

ITC has been successful in brokering partnerships with major and smaller coffee buyers and women coffee growers in fragile states. ITC's shift in perspective from viewing the value chain to the productive perspective as well as the perspective of the people producing the product, is resulting in strategies that are more sensitive to the needs of the people concerned. This approach helps to highlight income inequalities that ITC plans to better address through its ongoing work on sustained and sustainable inclusive development, with trade as a means of implementing the post-2015 development agenda.



### Youth in trade

Young people are engines of creativity and the drivers of much innovation in all societies. They also represent a critical component of the global labour force in LDCs, landlocked developing countries and Small Island Developing States, where youth account for more than 1 billion people. Youth unemployment is a major global issue. The global youth unemployment rate was more than 13% in 2013, which is much higher than the overall global unemployment rate.

The consequences of youth unemployment and related under-employment have a harmful impact on many countries. Most developing countries offer limited trade support services specifically targeting young people wanting start their own businesses. There are fewer support services available for young people who have an ambition to export.

ITC has a special role to play vis-à-vis its obligations under the Millennium Development Goals and its commitment to the United Nations Secretary-General's Five-Year Action Agenda, which aims to create opportunities for youth through trade. In the coming years, ITC will expand its range of projects aimed at supporting youth in trade.

### Poor rural communities in trade

Some of the greatest challenges to achieving inclusive 'trade impact for good' are at the producer end of the value chain. In most developing countries raw materials originate from a large number of very fragmented rural communities.

ITC is developing a range of new products, services and alliances to reduce the isolation of rural communities, improve their decision-making capacity, boost their year-round income generation, increase their engagement in development activities and strengthen their links to global value chains. ITC calls these initiatives 'Bridging the gap' or 'Covering the last kilometre'.

### Fragile and post-conflict countries in trade

Efforts aimed at reducing poverty pose special challenges in fragile states and countries affected by conflict. The developmental challenges encountered in countries emerging from conflict relate mainly to the limited capacity of institutions to execute development programmes. Establishing capable trade support institutions will be a priority in ITC's interventions in post-conflict countries. ITC's strategy will be to launch its technical assistance activities once urgent needs in fragile and post-conflict countries have been met.



Because economic growth, trade and jobs are high on the agenda of the post-2015 development framework, there is a growing consensus among UN actors, national governments and civil society to focus on the role of the private sector. The rise of value chains has strengthened the rationale for Aid for Trade, with the private sector as an important partner in delivering Aid for Trade solutions and in providing capacity-building support.

These developments are excellent prerequisites for ITC's work. There will be a continued and increased demand for trade-related capacity building from ITC and from the Aid for Trade community. ITC is well positioned to scale up its operations to assist a larger number of SMEs in connecting to global markets. At the same time, ITC stands ready to assume its responsibility in responding to the post-2015 development framework and related trade and economic growth objectives.

ITC's future growth will be anchored in a robust results-oriented approach. Results-based management (RBM) principles will continue to be the main driver to determine which solutions yield the highest benefits. ITC projects and programmes will be subjected to a continuous review of relevance, efficiency, effectiveness, sustainability and impact, thereby optimizing return on investment.

Via its project reviews, ITC will also contribute to the ongoing exploration within the Aid for Trade community on how best to perform cost-efficient impact assessments of trade-related technical assistance in relation to job creation and entrepreneurship, broad-based economic development and environmental sustainability.

ITC will contribute to thought leadership for efficient needs assessment methodologies with recognition of the complexities associated with achieving sustainable broad socioeconomic development from trade. ITC will increasingly transfer its RBM knowledge to beneficiary countries. Assisting trade support institutions to become more results focused by embedding RBM methodologies and tools in their operations will empower them to provide more effective business development services to SMEs.

## Leveraging ITC work via partnerships

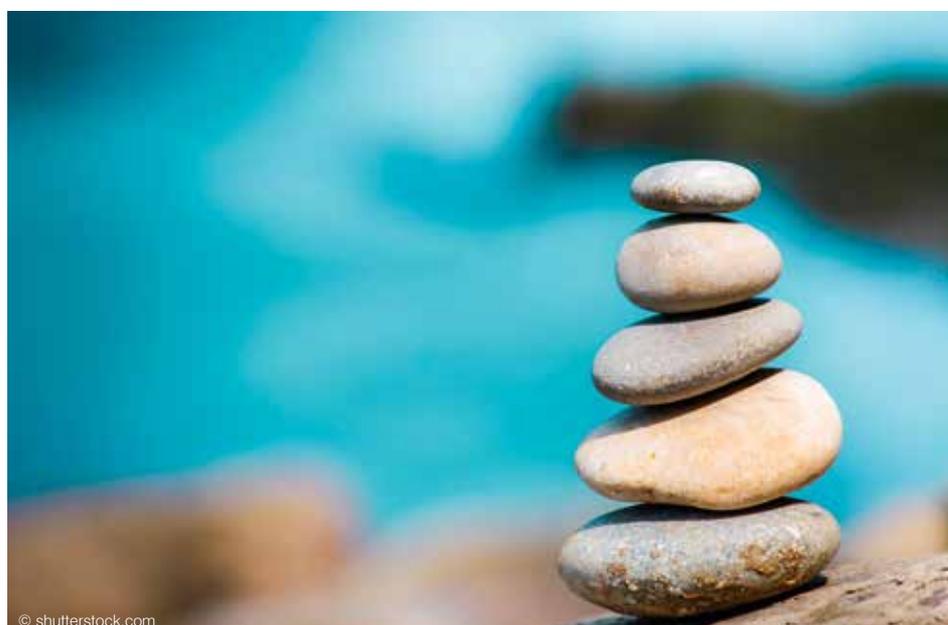
Partnerships are the most effective mechanism to leverage ITC work. A key lesson forming the foundation for ITC's modus operandi and related trade-related technical assistance is that sustainable outcomes and impact can only be achieved in partnership with other trade development experts, private as well as public, national as well as international.

ITC will strengthen its partnership with other organizations in the United Nations and other international organizations, with private sector stakeholders, and with partners in emerging markets and developed countries.

- Being headquartered in Geneva provides ITC with a well-connected international location in proximity to the World Trade Organization and the United Nations Conference on Trade and Development, as well as a constellation of think-tanks, associations and non-governmental organizations. ITC is already a key player in this Geneva-based trade cluster and thinking hub, and is committed to intensify cooperation over the coming decades.
- ITC will expand collaboration with other international organizations and UN bodies in the field of trade research and analysis. This includes the World Bank, World Economic Forum and regional development banks. ITC will also strengthen its cooperation with concerted coordination and programming efforts, such as the UN Development Assistance Framework, UN Development Assistance Plan, One UN delivery responses, the Chief Executives Board Inter-Agency Cluster on Trade and Productive Capacity, and the Enhanced Integrated Framework. As the UN's arm specialized in

trade development, ITC will increasingly build on these partnerships to contribute to trade advocacy, internationally and locally, and to ensure that the organization's knowledge and expertise extends to a maximum number of beneficiaries.

- ITC will also expand its private sector networks, ranging from strategic partnerships with multinational corporations to business chambers and coalitions. Using its unique position at the nexus of the public and private sector, ITC will build on business partnerships in both traditional and emerging markets to inform its trade-related technical assistance, to develop new business linkages for SMEs, to facilitate the transfer of knowledge and know-how, and to effectively advocate private sector interests in trade policy reform. ITC will leverage its convening power and position as an impartial broker to offer a platform for businesses to discuss and address trade-related issues.
- ITC will deepen and broaden partnerships with government and non-government organizations at national and regional levels. Cooperation will expand in technical and functional areas. Growing emphasis will put on partnerships with institutions in developed countries as knowledge providers in global networks.



## Delivering 'Trade Impact for Good'

ITC's mandate has not changed over the past five decades. Considering the ongoing and emerging needs in international trade and trends in Aid for Trade, this mandate is unlikely to change in the foreseeable future.

Technical assistance will evolve in tandem with the international trading environment and will continue to be tailored to the specific needs of beneficiary countries. ITC will continue its market-led and demand-driven focus with the objective of eradicating poverty. Technical assistance services will remain rooted in the Aid for Trade initiative launched at the Sixth WTO Ministerial Meeting in 2005.

ITC's innovative practices and holistic approach to trade issues at multiple levels will continue to drive its service delivery. Trade development and associated SME competitiveness are the cornerstones of ITC's agenda. Pursuing this agenda involves overcoming information asymmetries, strengthening the institutional support framework and improving the business environment.

ITC will continue to support SMEs to prosper in international trade and benefit from the opportunities offered by e-commerce, global value chains and emerging markets. ITC will also pursue initiatives to remove barriers to trade and will assist SMEs to cope with the risks in conducting trade and participating in supply networks. ITC will develop leading-edge capacity development programmes, some of which will be based on electronic learning, to build essential skills and knowledge within enterprises and associated institutions.

ITC will evolve beyond the prospects described in these pages. What will remain constant is its focus on using trade as a vehicle for sustainable and inclusive socioeconomic development, in accordance with its mission to deliver 'Trade Impact for Good'.

ITC's commitment to 'Doing More and Doing Better' will set the tone for the future and will ensure that during the decades to come, ITC remains a leading provider of solutions for SMEs aiming to internationalize.



# APPENDICES

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## Chapters 1 and 2

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## ITC at a Glance

The emerging post-2015 development agenda emphasizes that small and medium-sized enterprises (SMEs) are key drivers of global efforts to unlock growth, reduce poverty and deliver sustainable livelihoods.

For 50 years, ITC has worked towards creating a global trading system actively encourages sustainable development – one of the main thrusts of the post-2015 development agenda.

ITC is the only multilateral agency fully dedicated to developing the international competitiveness of SMEs and assisting the business sector in partner countries to become more competitive in global markets. It does this by capacity-building activities directed at SMEs, trade support institutions and policymakers.

ITC's mission is to support small business export success in least developed countries, landlocked developing countries, Small Island Developing States and sub-Saharan Africa. ITC is a 100% Aid for Trade institution with the knowledge and experience to promote and encourage entrepreneurship and empower small businesses to integrate into regional and global value chains.

ITC focuses on small business export success because SMEs are key to sustained growth and prosperity. SMEs, which drive more than 80% of job creation in low-income countries, must play an important role in creating economic opportunities.

### Working with ITC

ITC has nearly 300 staff, representing 74 nationalities. With support from donors and development partners, ITC works with policymakers, trade support institutions, exporters and other stakeholders in the public and private sectors.

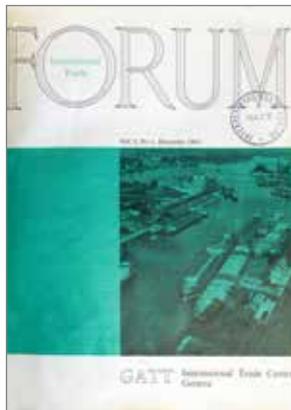
ITC's projects and programmes are grouped under six key themes:

- Trade and market intelligence for SME competitiveness;
- Supporting regional economic integration and South-South trade;
- Connecting to value chains: SME competitiveness, diversification and links to export markets;
- Strengthening trade and investment support institutions;
- Promoting and mainstreaming inclusive and green trade;
- Building a conducive business and policy environment through public-private partnerships.

# ITC's five decades

## 1964

ITC begins operations in Villa Le Bocage, Geneva, with a staff of five.



The first edition of ITC's International Trade Forum magazine is published in December 1964.

## 1970

ITC's annual technical cooperation programme hits the US\$ 1 million mark for the first time.

## 1973

ITC is designated United Nations focal point for technical assistance and export promotion.



ITC examines the role of packaging and design in sales. Soup tins that contain the same product can attract consumers on different social-economic levels, depending on the design of the tin. Photo credit: Nestlé

## 1978

ITC's annual technical cooperation programme hits US\$ 10 million for the first time.



ITC shares information about ways to export perishable goods while keeping transport costs within limits, in line with New Zealand's experience in trade in food commodities. Photo credit: The New Zealand Apple and Pear Marketing Board

## 1981

ITC's new headquarters in Geneva is officially inaugurated.



## 1983

The United Nations Development Programme grants executive agency status to ITC.



ITC publishes a new study that reveals developing countries' exports of tropical and off-season fresh fruits and vegetables have grown rapidly during the previous 20 years. ITC works to help exporters meet rising demand from European markets. Photo credit: FAO

## 1988

ITC shifts focus to training and capacity-building programmes.



A 1984 ITC study finds that furniture exports to industrialized markets, such as coffee tables made in the Philippines, grew rapidly during the 1970s and early 1980s.

## 1990

Extra-budgetary funds from donors fuel more than 70% of ITC's annual expenditures.

## 1992

ITC's annual technical cooperation programme hits US\$ 20 million for the first time.

# 50 YEARS of TRADE IMPACT FOR GOOD

## 1995

ITC sets out a strategic 'road map' to chart new responses to a changing trade landscape, including the new World Trade Organization.



*ITC and the World Association of Small and Medium Enterprises sign a memorandum of understanding to deliver joint projects.*

## 1999

First Executive Forum, later renamed World Export Development Forum, is held on 'Redefining Trade Promotion'.



*ITC trains services exporters in developing countries to take advantage of export marketing opportunities by creating websites, getting listed in relevant directories and creating alliances with industry leaders.  
Photo credit: Bildagentur Baumann*

## 2004

ITC launches 'best practice' awards for trade promotion organizations.



*ITC trains musicians and craftspeople to better understand commercial contracts, and works with stakeholders to develop and market tourism.*

## 2008

Online Market Analysis Tools become free for users in developing countries.



*The SADC Supply Chain and Logistics Programme assists producers of fresh fruits and vegetables in countries such as Malawi in accessing global markets by enhancing their productive capacities and promoting standardization and certification.*

## 2011

US\$ 87 million in annual expenditure, highest to date.



*ITC leads a programme in Viet Nam to connect producers to environmentally sustainable value chains.*

## 2014

Annual expenditure planned at US\$ 91.7 million, with 146 active projects and a staff of 281.



## Trade impact for good

On May 1 1964 a team of four people in a small room in the GATT became the ITC. This 'GATT International Trade Centre' was focused on providing information and advisory services to promote trade, particularly to meet the special needs of developing countries and least developed countries (LDCs).

The aim was to have an international centre which could collect, collate, publish and disseminate information. Today, fifty years later, we are a team of 300 experts of 74 nationalities across the globe working with developing countries, SMEs, TSIs and TPOs, to help them grow and develop through trade.

Today, ITC remains the only United Nations agency which has the specific mandate to work with and support the internationalization of SMEs. Demand for ITC services continues to increase. ITC continues to improve the way it plans, delivers and monitors its services, to align with a clientele with increasingly diverse and sophisticated needs.





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