EXPORT POTENTIAL ASSESSMENT
IDENTIFYING PRIORITY SECTORS AND ATTRACTIVE MARKETS FOR BETTER TARGETED EXPORT PROMOTION ACTIONS

Why

Diversifying the economy and broadening the export base towards high-growth and high-employment-growth sectors is critical for future development and poverty alleviation in many developing countries. Governments often need to complement general (“horizontal”) policies that improve the overall business environment by more targeted, sector-specific policies.

Identifying sectors on which to put priority is necessary for a sound allocation of limited public resources. Governments, donors and other stakeholders need to make an informed decision on which priority sectors to select, and thus need to assess the export potential of individual sectors.

Knowing what to export is as important as knowing where to export. Markets differ in terms of demand and market access conditions. Thus, even promising products may not perform well everywhere. Since the penetration of new markets involves entry costs, it is crucial to identify and to target markets where the country’s export products are competitive. The identification of high-potential sectors is therefore complemented by the identification of attractive markets.

ITC’s Export Potential Assessments are two-step analyses of the identification of high potential export products in a first step and then, for each high performing export product, the identification of attractive markets in a second step. The analyses aim to facilitate decision-making processes by filling a void between broad, macro-economic competitiveness studies and detailed, sector-specific reports.

What

ITC’s Export Potential Assessments start with the analysis of challenges faced by the beneficiary country. While small developing countries often face the challenge of a limited range of export products, larger countries have to deal with totally different issues. These issues are taken into consideration in defining the criteria to be used in the identification of priority sectors and markets. Export Potential Assessments can be delivered within 4 to 8 months, and comprise generally three elements: a study, a skill transfer workshop and a national seminar.

STUDY

Selecting Products

Depending on the situation of the country, two different approaches are available to identify products with high potential for exports – the Export Potential Index and the Product Diversification Index.

The Export Potential Index suits larger developing countries with a broad export base and whose aim is to increase revenues generated by existing export products. The Index identifies among all existing products those with good export potential based on a country’s export performance and world demand.

Export performance is measured by three sub-indicators:

- Comparative advantage: calculated as the share of the product in total national exports as compared to the share of this product in world exports, the indicator shows in which products the country is competitive compared with other countries in the world.
- Growth of comparative advantage: calculated as the annual growth of comparative advantage over the last five years, the indicator shows in which products the country has recently become competitive.
(Change in) trade balance: calculated as the (absolute change in the) share of the trade balance for each product in the country’s total trade, the indicator controls for re-exports and thus focuses on products that are (increasingly) produced in the country.

Combining these sub-indicators into a composite index, this first step of the analysis provides information about best performing sectors.

World demand is then measured by two sub-indicators:

- Market share of a product: calculated as the share of the product in total imports of the market, the indicator shows which products are highly demanded by the market.
- Growth of market share: calculated as the annual growth of the product’s market share over the last five years, the indicator shows which products have recently experienced a relative increase in demand.

The second step of the analysis provides information about the demand conditions of the country’s export products. Combined, the export performance and the world demand index allow for a ranking of the country’s export products in terms of their export potential – the Export Potential Index. Note that the weighting of the different sub-indicators will again reflect the particular situation of the country. For example, while large countries may want to emphasize the size of world demand for their products, for small countries the country’s own export performance and the dynamism of world demand could be more relevant than the size of demand.

The Product Diversification Index is suitable for smaller countries with a limited range of export products, for instance as a consequence of the very strong performance of a few products that impede development of other exports. Since these are often agricultural commodities or natural resources subject to price shocks, the identification of additional export products is key to securing sustainable export revenues. The method suggests products that are “easy” to reach for the country based on the intuitive idea that some products are connected in the product export baskets of many countries. By using information on export connections from all countries worldwide, with a special emphasis on countries that are similar to the one that is assessed, an outcome-based measure of the proximity of the country to new products can be calculated. E.g. a country producing and exporting mostly oil might have the potential to export steel as this product depends on energy inputs; since steel exports may be a feature of other oil exporting countries at a similar level of development to the country under analysis, there is a certain probability that the country under analysis can also work towards the production and exports of steel.

This measure would be refined to also give guidance to countries with specific needs, for example, to move upwards in the value chain or to diversify into products with low levels of international competition. As in the case of the Export Potential Index, the proximity scores (the “ease” to reach certain products) are combined with the size and growth of world demand to create a composite index. Both, the Export Potential Index and the Product Diversification Index can be complemented with additional information that may be available in the country. For example, when a company survey (e.g. a survey on non-tariff measures) has been conducted in a beneficiary country, additional information related to the size of companies and the gender dimension can be used to finalise the selection of products. Finally, information about the potential of expansion of the identified sectors is gathered through discussions with local public and private stakeholders.

Selecting Markets

For each of the selected high potential products, attractive markets are identified based on prevailing demand and market access conditions – the Market Attractiveness Index. Market demand is measured by three sub-indicators that are independent of the exporting country:

- Market size (in value terms) of the product
- Market growth: calculated as the annual growth of imports over the last five years and combined with the expected GDP growth, the indicator shows which markets have high growth prospects.
- (Change in) trade balance: calculated as the (absolute change in the) share of the market's trade balance for the product in the market's total trade, the indicator controls for re-exporters and helps selecting the market that allows the country to capture the largest possible benefit from its production.

Combined, these three sub-indicators provide information on the markets with the best demand conditions.

Market access then reflects the capacity of the assessed country to access potential markets. It is measured by three sub-indicators:

- Relative distance: calculated as the difference between the bilateral distance of the country to the market and the distance of other suppliers to the market, the indicator reflects any advantage in terms of comparably low transport costs the country may have.
- Tariff advantage: calculated as the difference between the tariff applied by the market to the country's exports of the product and the average tariff applied to other suppliers' exports of the product, the indicator reflects any advantage in terms of preferential market access the country may enjoy.
- Existing trade: this indicator captures other dimensions that could affect the likelihood of trading with a country (e.g. colonial ties or the converse, political tensions, common languages) that have not been considered yet.

Combined, the market demand and the market access index allow for a ranking of attractive markets to target when exporting a specific product – the Market Attractiveness Index. As before, the weighting of the different sub-indicators will reflect the particular needs of the country under analysis. Other factors, such as political risk or the general business environment, can be considered upon request.

**SKILL TRANSFER**

A series of skill-transfer workshops can be organised to convey skills to replicate the Export Potential Assessment by stakeholders in the country. Participants learn about the methodology and data sources, data extraction and processing techniques, the construction of indicators, including normalization and weighting methods. A minimum of two workshops is required, however three are recommended.

**VALIDATION CONFERENCE**

A conference can be organised to communicate and discuss the findings and recommendations of the Export Potential Assessment. The conference involves relevant stakeholder institutions.

**Impact**

The expected impact of the Export Potential Assessment is a better understanding of global markets, the reorientation of public support towards sectors that can help foster development and alleviate poverty and the identification of market opportunities that are not fully exploited.

An indicative budget is available on request. Please contact marketanalysis@intracen.org