

# Promoting Export Diversification in African LDCs

Presentation at the WTO Public Forum, Geneva,  
Sept. 24, 2012

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The International Centre  
for Trade and Sustainable  
Development



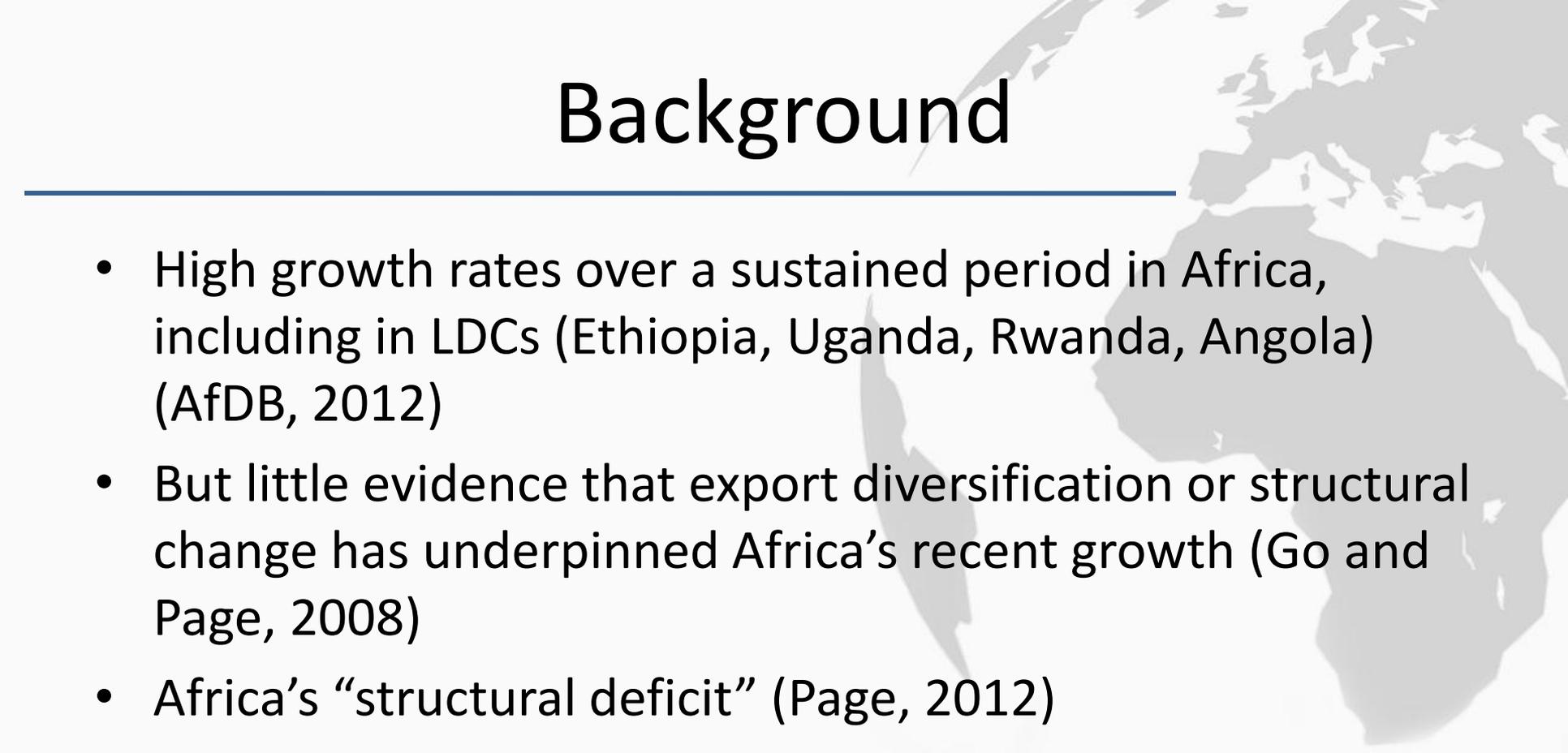
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# Outline

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- Background
- Why is export diversification desirable?
- Status of export diversification in African LDCs
- Constraints
- Can African LDCs achieve export diversification?

# Background



- High growth rates over a sustained period in Africa, including in LDCs (Ethiopia, Uganda, Rwanda, Angola) (AfDB, 2012)
- But little evidence that export diversification or structural change has underpinned Africa's recent growth (Go and Page, 2008)
- Africa's "structural deficit" (Page, 2012)
- "Africa has failed to industrialize" (Page, 2012). Evidence that, since 1990, labor in Africa has moved from higher to lower-productivity employment (M&R, 2011)

# Why diversify exports?



- Export diversification – a goal of the IPoA
  - A broader export base as an enabler of LDC exports
- Classic arguments for export diversification
  - ToT decline – but does this argument stand?
  - Vulnerability to external shocks
    - Evidence that industry and product (but not export market) diversification helped LA firms weather the impact of the global financial crisis (Costa-Neto and Romeu, 2011)
    - Evidence from Africa: South-South trade as saviour
  - Export diversification and jobs
    - Low employment elasticity (0.04) of current growth patterns – evidence of export-oriented jobless growth
    - The potential of labour-intensive processing to create jobs for Africa’s “youth bulge”

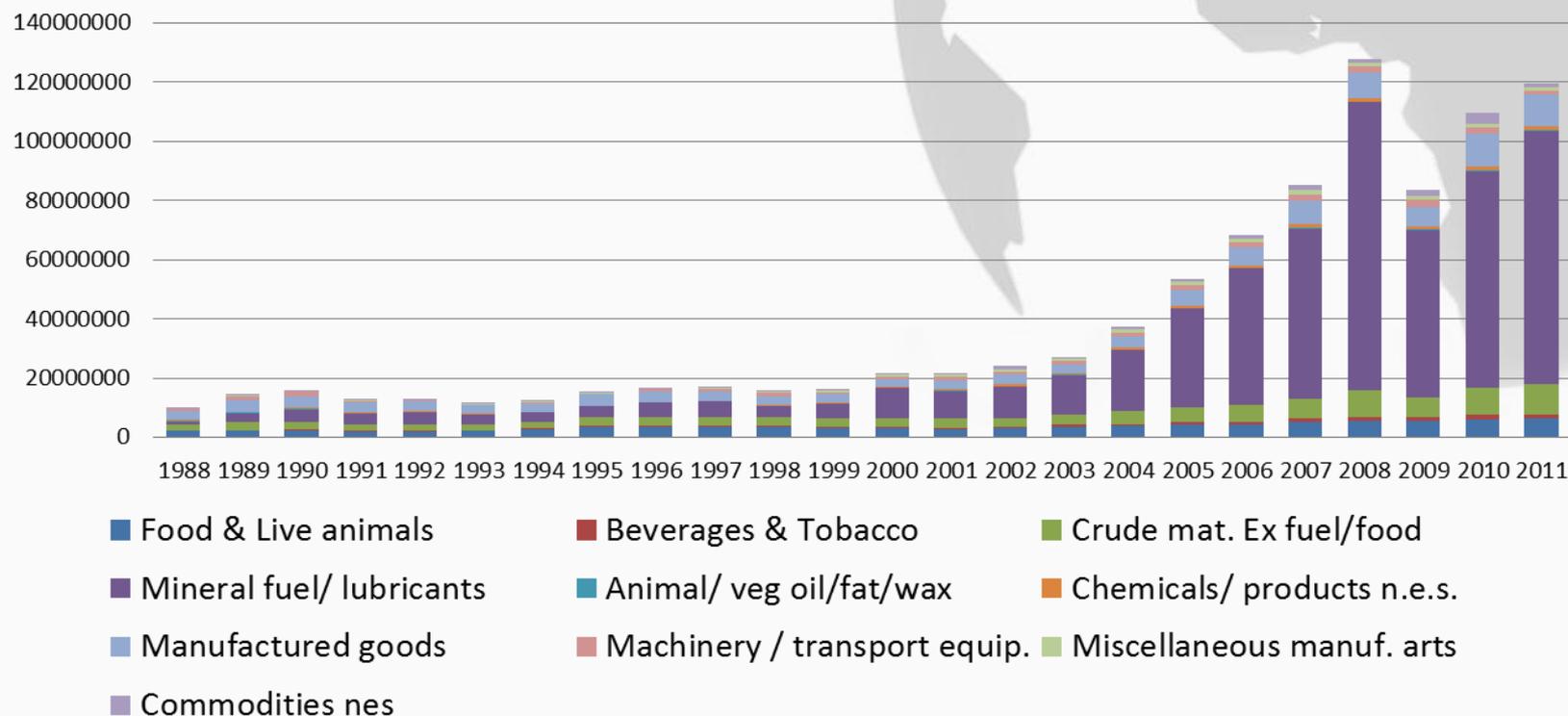
# Why diversify exports?/2

- Classic arguments for export diversification (cont.)
- Export diversification and economic growth
  - More prosperous countries tend to be more diversified than other countries (HHR, 2005)
  - Countries with more diversified production and export structures have higher per capita incomes (Imbs and Wacziarg, 2003; Cadot et al., 2011)
  - Countries that produce and export more sophisticated products tend to grow faster (Hausmann et al., 2007; UNIDO, 2009)
- Why export diversification is good for growth
  - The “portfolio effect”: the more diversified exports are, the less volatile are export earnings
  - The “dynamic effect”: long-run growth is associated with learning to produce an expanding range of goods
  - Recent literature: export diversification as a process of discovery; learning from exporting (Bigsten et al., 2004) and technology transfer

# Status of export diversification

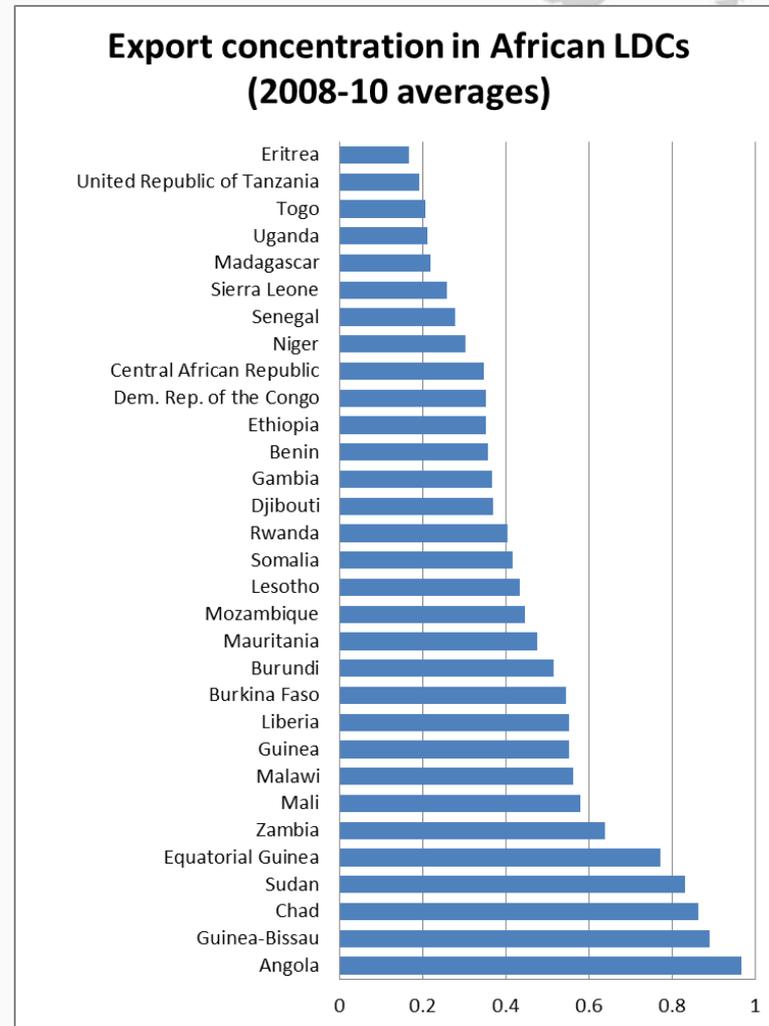
- Sharp rise in African LDC exports... but predominantly commodities (oil)

**African LDCs' exports by product category, 1990-2011 (US\$ thousands)**



# Status of export diversification/2

- Great variation in export product concentration across countries.
- In general, oil exporting countries are the least diversified.
- Low concentration ratios misleading.



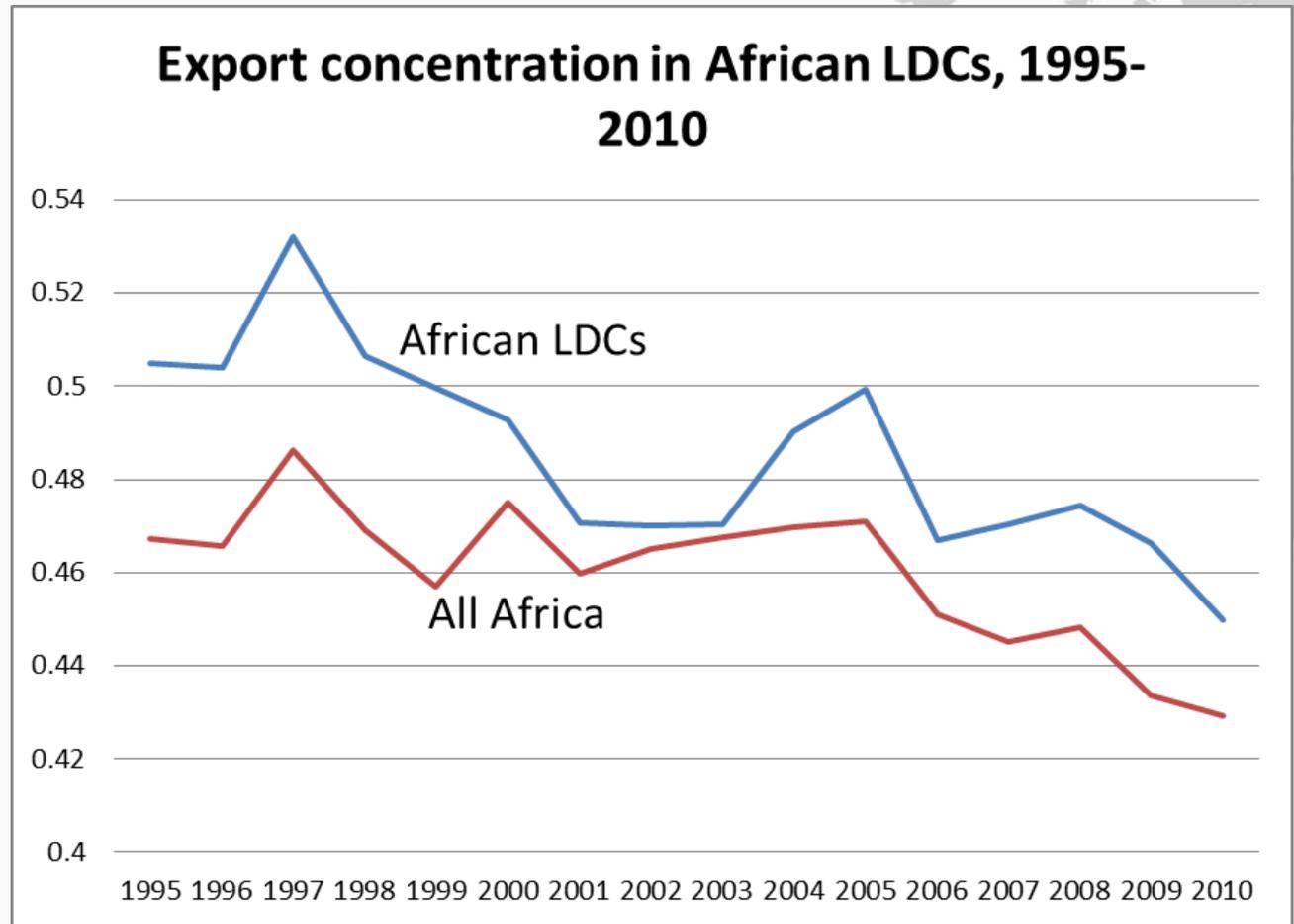
# Status of export diversification/3

- Exports concentrated in a few products, mainly oil and minerals.
- Even where concentration ratios are low, exports are mainly unsophisticated products.
- Little or no processing; some basic manufactures exports in a few countries (notably Madagascar).

Country	Product	Number of products accounting for over 75% of exports
Angola	Mineral fuels (97.3%)	1
Burundi	Coffee (70.2%), tea (13.1%)	2
DRC	Cathodes (24.7%), cobalt (17.8%), copper (11.9%)	6
Chad	Mineral fuels (87.2%)	1
Equatorial Guinea	Mineral fuels (78%), natural gas (14.7%)	1
Eritrea	Sheep (11.2%), cardamoms (9.2%), mens'/boys' shirts (8.6%)	19
Ethiopia	Coffee (42.1%), sesame seeds (22.5%), cut flowers (10.7%)	3
Gambia	Cashew nuts (20.3%), crude oil (15%), titanium (11.2%)	9
Guinea Bissau	Cashew nuts, in shell (92.9%)	1
Lesotho	Diamonds (37%), mens'/boys' trousers and shirts (15%), womens'/girls' trousers and shirts (7.5%)	6
Madagascar	Shrimps and prawns (9.9%), vanilla (6.6%), jerseys, pullovers, cardigans, etc., knitted (4.6%)	32
Malawi	Tobacco (53%), black tea (6.9%), natural uranium (6.8%)	5
Mali	Cotton (35.7%), mineral fuels (29.1%), sesame seeds (7.8%)	4
Rwanda	Coffee (30.4%), niobium, etc. (24.8%), black tea (13.8%)	4
Senegal	Mineral fuels (26.4%), Portland cement (10.5%), phosphoric acid (9.8%)	18
Sierra Leone	Diamonds (26.9%), aluminium ores (14.8%), cocoa beans (11.8%)	11
Sudan	Mineral fuels (90.8%)	1
Tanzania	Precious metal ores (14.5%), tobacco (8.7%), coffee (6.4%)	24
Zambia	Copper cathodes (48%), Unrefined copper (26.7%)	3

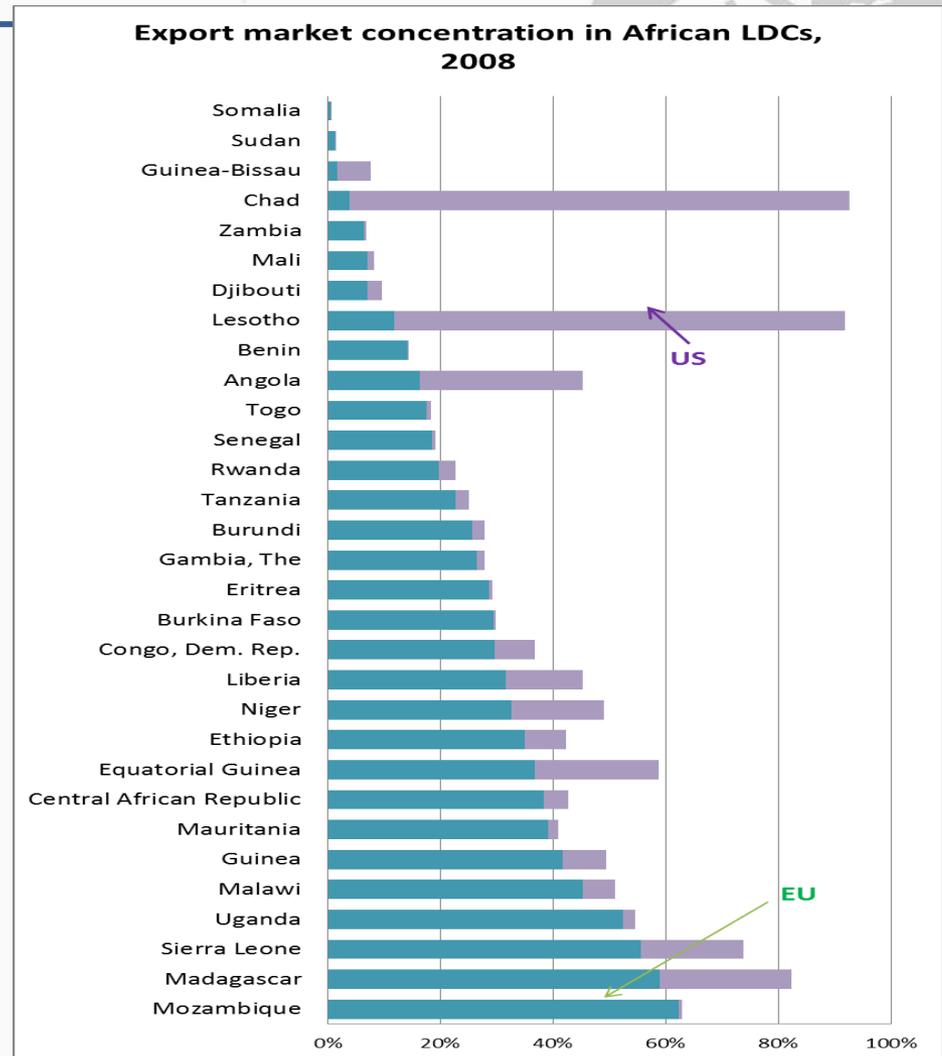
# Status of export diversification/4

- Aggregate export concentration has declined over time.
- But this is more the result of natural resource discoveries than anything else...

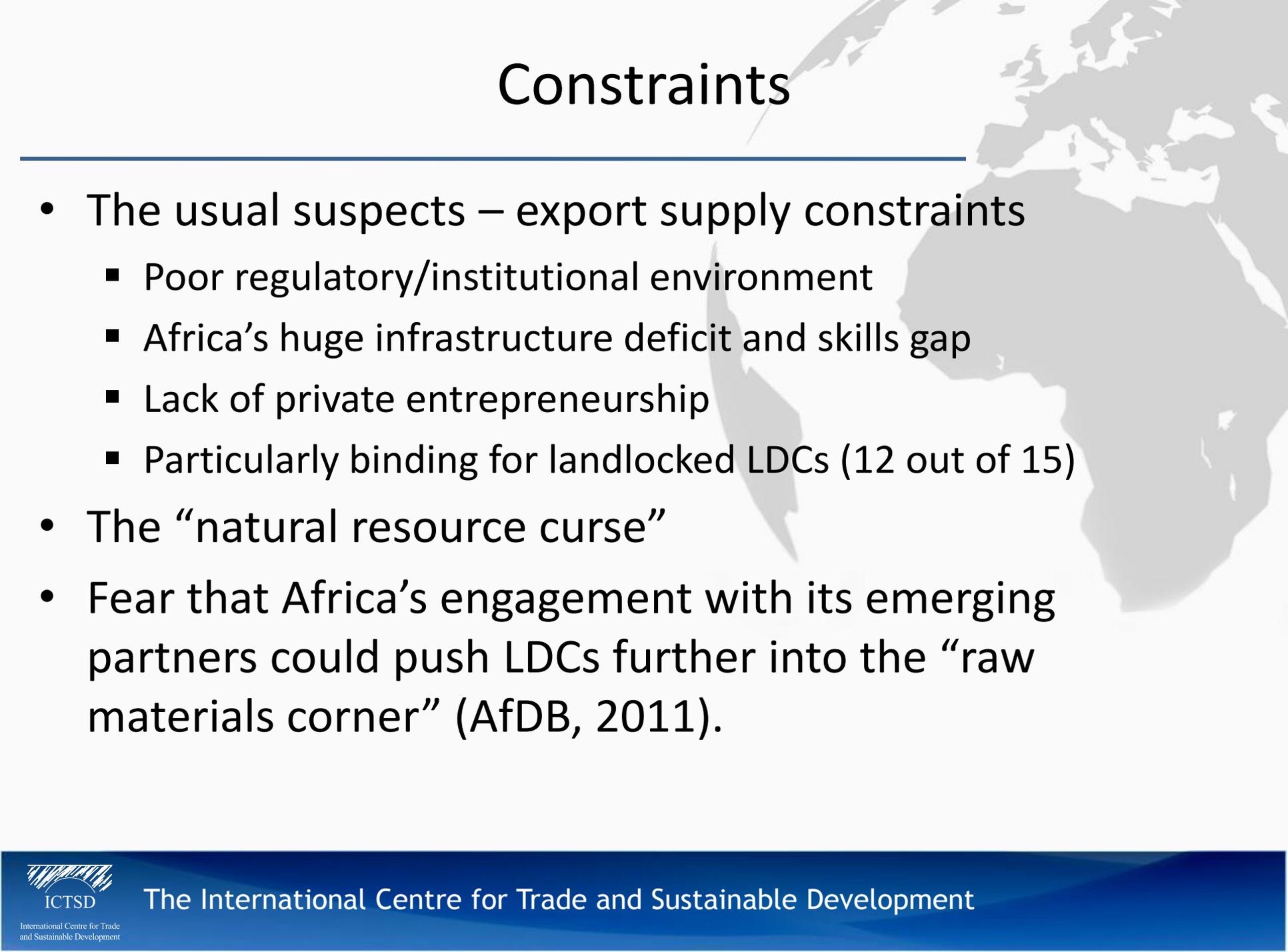


# Status of export diversification/5

- Many African LDCs depend on a few export markets.
- However, emerging partners (such as China, India, Brazil) have helped reduce export market concentration.

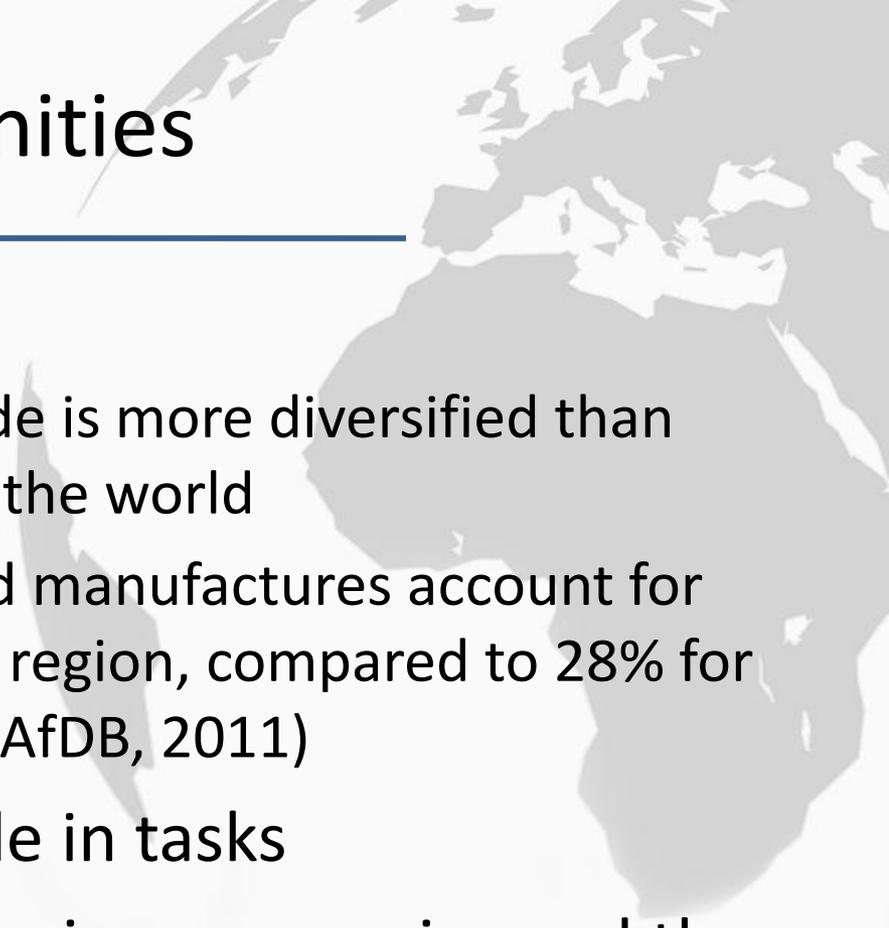


# Constraints



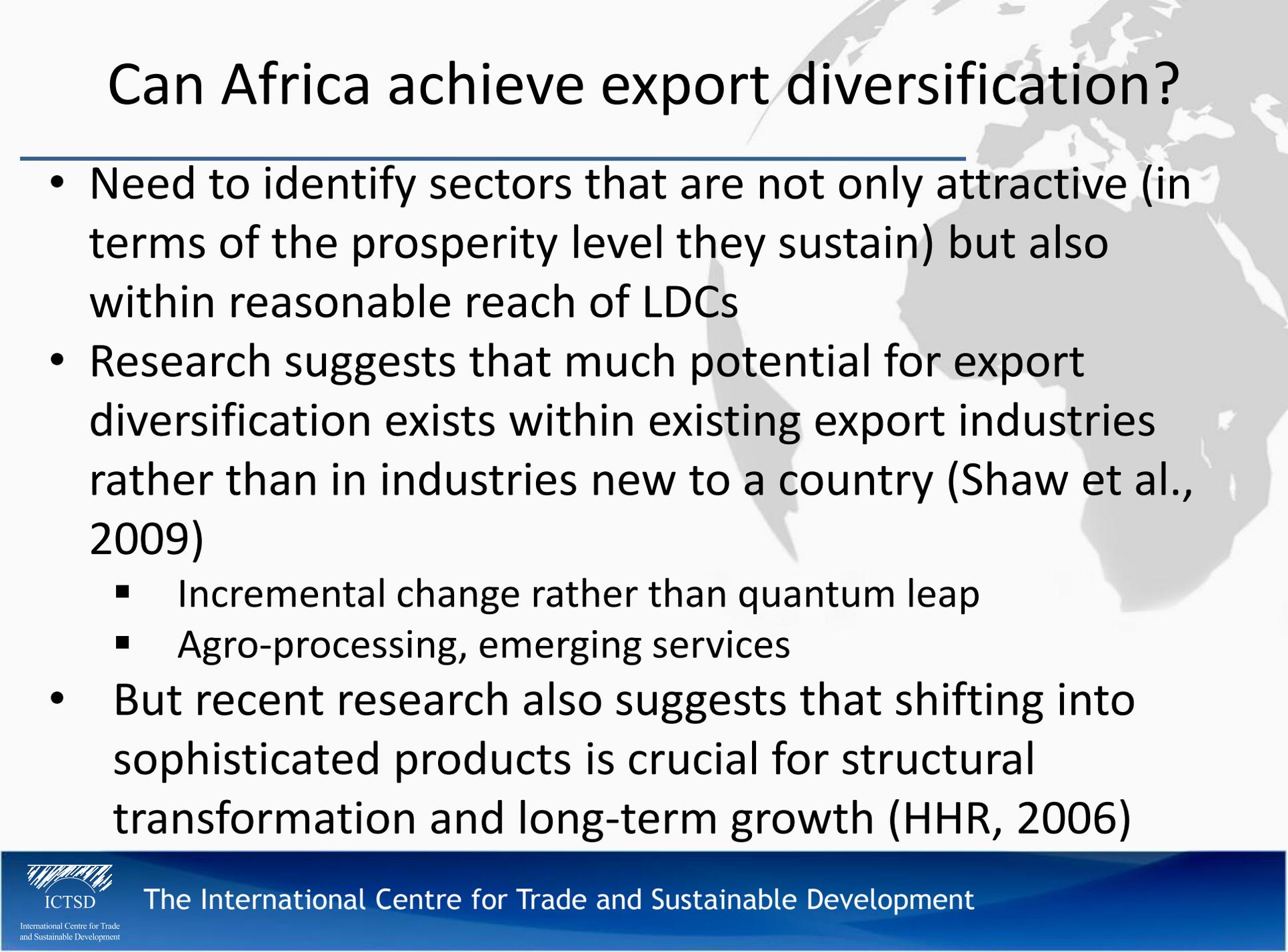
- The usual suspects – export supply constraints
  - Poor regulatory/institutional environment
  - Africa’s huge infrastructure deficit and skills gap
  - Lack of private entrepreneurship
  - Particularly binding for landlocked LDCs (12 out of 15)
- The “natural resource curse”
- Fear that Africa’s engagement with its emerging partners could push LDCs further into the “raw materials corner” (AfDB, 2011).

# Opportunities



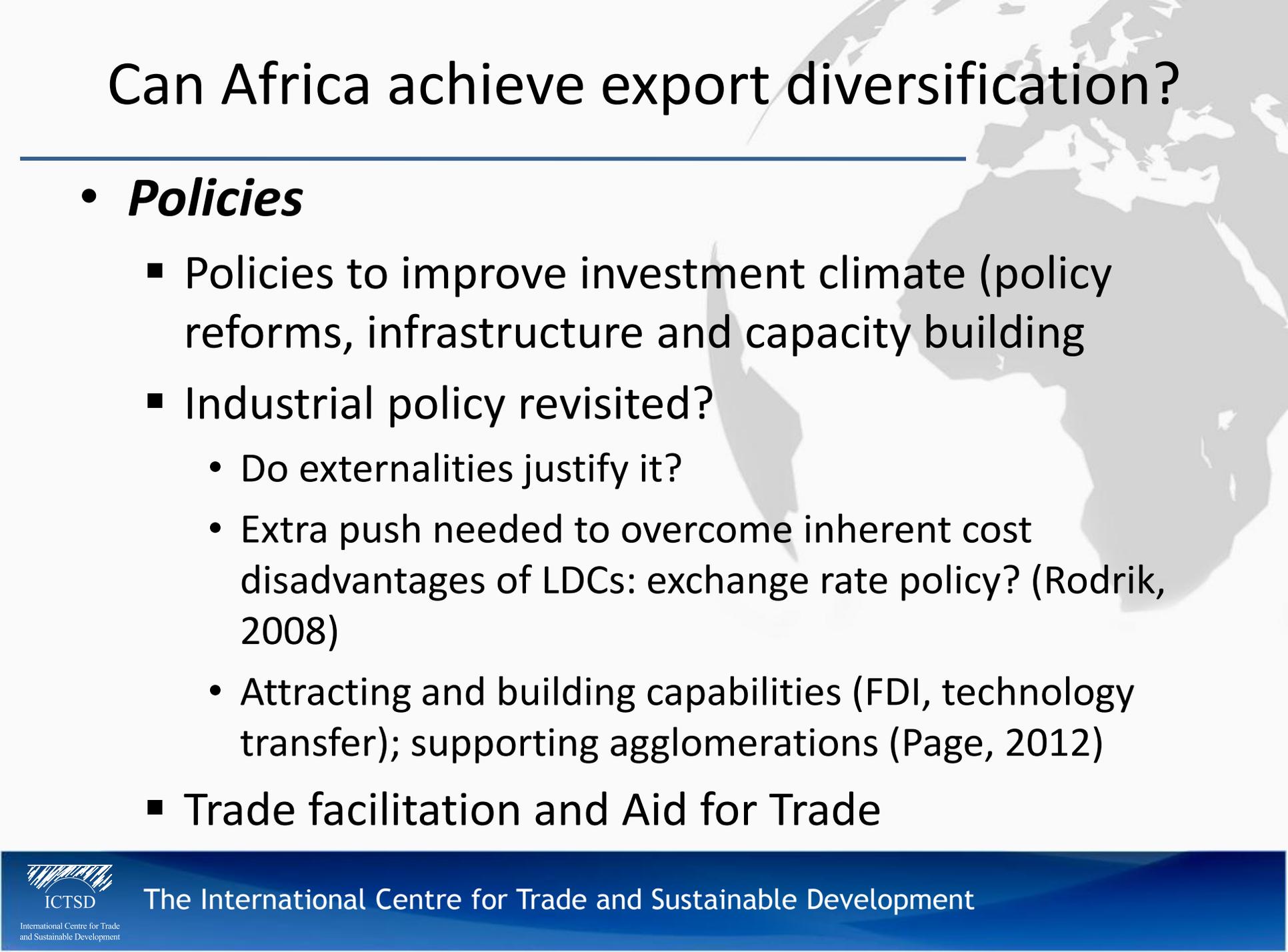
- Regional trade
  - Evidence that intra-Africa trade is more diversified than Africa's trade with the rest of the world
  - Non-oil agricultural goods and manufactures account for 60% of Africa's exports to the region, compared to 28% for Africa's exports to the world (AfDB, 2011)
- Global value chains and trade in tasks
- Rising cost pressures in emerging economies and the product life-cycle
- Can Chinese SEZs spur industrial development in Africa?

# Can Africa achieve export diversification?



- Need to identify sectors that are not only attractive (in terms of the prosperity level they sustain) but also within reasonable reach of LDCs
- Research suggests that much potential for export diversification exists within existing export industries rather than in industries new to a country (Shaw et al., 2009)
  - Incremental change rather than quantum leap
  - Agro-processing, emerging services
- But recent research also suggests that shifting into sophisticated products is crucial for structural transformation and long-term growth (HHR, 2006)

# Can Africa achieve export diversification?



- ***Policies***

- Policies to improve investment climate (policy reforms, infrastructure and capacity building)
- Industrial policy revisited?
  - Do externalities justify it?
  - Extra push needed to overcome inherent cost disadvantages of LDCs: exchange rate policy? (Rodrik, 2008)
  - Attracting and building capabilities (FDI, technology transfer); supporting agglomerations (Page, 2012)
- Trade facilitation and Aid for Trade

# Concluding remarks

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- Export growth/diversification – a dangerous obsession!
- Focus on competitiveness and structural transformation
- Exports not an end in itself but a means to inclusive growth

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