Promoting Export Competitiveness through Diversification in the COMESA Region

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1. Introduction

- Export growth and diversification are decisive contributor to economic development of African countries and the case for diversification is more persuasive today than ever before because of the continued volatility of primary product prices and the uncertainties about the long run price trends
- Export Diversification is a key element of development in which a country moves to a more diverse export commodities production structure. This helps to increase competitiveness and to scale up resilience to external shocks and providing a path to economic growth.
- Export trade expansion is central to creating new, higher productivity jobs that will facilitate growth and poverty reduction in developing countries
- Investment in skills , infrastructure, institutions, and governance quality increase the likelihood of success of export diversification
- The real test of the AfCFTA, will be how quickly African countries can accelerate export diversification and product sophistication and make trade more inclusive.

Major Determinants of Export Diversification

- Key determinants of Export Divarication include among others, human capital, exchange rate, geographic location, investment, economic integration, population, and governance factors.
- **Human capital** :The level of qualification of the workforce and efforts made in education have a big influence on the capacity of a country to diversify innovate, upgrade to high technology, in production of quality and sophistication of export products.
- Investment: Acquiring new markets for products entails need to expand and diversify exports to high value markets in the industrialised countries**.** Part of the strategy is is to put in place policies that attract more foreign investment. This requires among others improving business regulations and governance environment for business. Domestic private sector investment diversification strategy also helps in shifting the composition of exports from primary products to manufactured products

---- Major Determinants of Export Diversification

Geographic Location: Transport cost discourage export diversification. A lower distance to the main world market , access to the sea and overall transport costs determine the ease with which a nation can increase the variety of products exported to the world market and its competitiveness

Economic Integration: Many studies found out that economic integration has led to faster export diversification. Regional integration could facilitate commercial activities through reforming trade through improved customs procedures and cross border entrepreneurship and trade.

Population: Population, education, health, infrastructure, and income per capita are crucial factors that can be used as factor inputs in the manufacture of diversified and high quality products.

Exchange rate: Exchange rate volatility, especially the overvaluation of currency can discourage diversification and competitiveness by increasing the prices of exports and undermine the competitiveness of the export sector.

Challenges for Export Diversification

– Challenges to export diversification are classified in the literature into challenges due to domestic factors and to external factors.

– Challenges due to domestic factors include: training and quality of labour force, gap in infrastructure, and other logistics, access to and cost of finance, product quality, technology acquisition and adoption, marketing and cost of production. Policies and institutional factors include among others, tariffs, fiscal policy; exchange rate policy, monetary policy, access to the cost of finance, legal enforcement of laws, and lack of appropriate business environment etc.. External factors include among others , meeting international standards, , entry barriers to international markets, access to information in international markets; and cost of operating in foreign markets.

Lessons from Export Diversification Strategies of some emerging Markets.

South Korea: South Korea was either on the same socio-economic development level with most African countries a few decades ago. Key policy measures adopted by South Korea for promotion and diversification of exports were exchange rate devaluation, tax exemptions as an incentive to encourage production of a wide variety of commodities for exports, financing through preferential credit schemes, cash subsidy and subsidy for the use of public utilities which were provided to exporters, export and import link scheme to increase knowledge and awareness of export opportunities through Korea Trade Promotion Corporation (KOTRA) established in 1964. According to the World Bank South Korea ranks consistently in the top ten exporting country in the world for many years. The country easily and successfully weathered the storm of the Asian Financial Crisis because it has developed strong capacity for rapid export response and adjustment.

Brazil: Brazil is another emerging country which successfully diversified its exports. Financial instruments were the main tools used to promote export diversification. Export credit insurance is the key instrument that the country had widely employed . Advance payment under foreign exchange contract is another important financial support provided to exporters.. The National Bank for Economic and Social Development has also been extensively used as an export financing channel to promote export diversification. Strong institutional support and investment in R&D were also used to support export diversification. Today Brazil ranks as the 21st largest export economy in the world.

Policy Recommendation

The following are key policy recommendations for different stakeholders on what need to be done to improve export diversification :

a) Policies at Nation level

(i) A capable, accountable developmental and transformational state which is conducive for private sector participation in promoting export diversification;

(ii) Strategic national and regional infrastructure by formulating best infrastructure policies that will lower costs of doing business and promote globally competitive exports. Since many COMESA member countries are not big enough, one possible way to handle this challenge is for COMESA member countries to collectively promote regional infrastructure.

(iii) Innovative financing schemes to provide finance for export oriented firms such as direct credit incentives and selective subsidies that target export oriented firms. Such schemes should be structured in such a way that they do not encourage rent seeking behavior .

Policy Recommendation

iv. Developing an integrated COMESA economies into the global value chain (GVS) . Africa’s share in GVS remains the lowest among all developing regions of the world. A relatively more convenient starting point is with regional value chain integration as a stepping stone.

v. Strengthen the institutional and regulatory framework.

vi. Support SMEs to access export markets.

vii. Investing in human capital.

b**) Policies at Continental, regional and sub-regional level**

i. Take a lead in coordinating regional infrastructure development.

ii. Assist member countries to initiate regional and continental export diversification policy;

iii. Promote trade facilitation.

iv. Explore innovative financing options that could complement the traditional export diversification financing instruments, such as structured financing c**) Private sector businesses should undertake the following**:

(i) Take full advantage of export promoting incentives provided by government.

(ii) Initiate Public-Private-Partnership(PPP) export diversification projects and infrastructure financing.

d) **Development partners should undertake the following:**

(i) Use ODA to build export promoting and diversification capabilities;

(ii) Finding ways in which to relieve LDCs from WTO rules which constrain these countries.

Thank you very much for your attention