

Expert Meeting on

**Participation of Developing Countries in New and
Dynamic Sectors of World Trade:
The South–South Dimension**

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Diversification in Africa - Towards a new paradigm

By

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*Diversification in Africa
Towards a new paradigm*

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Africa's progress is not sufficient to achieve the Millennium Goals

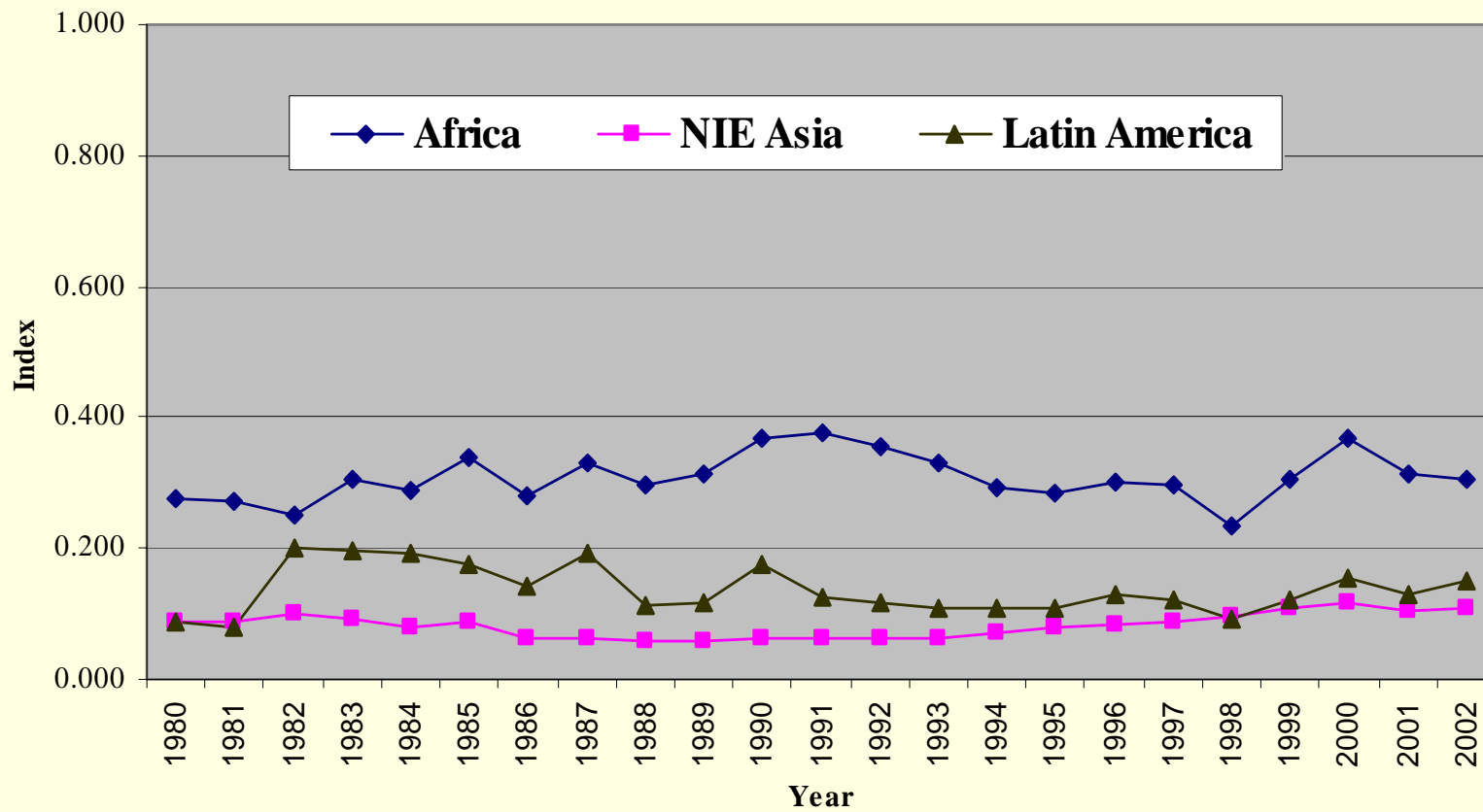
- Marginalization of Africa in international trade
- Limited outcome for African countries from the DDA (ECA, JWT, WE, JDE, 2006, 2007)
- Domestic versus international constraints
- A weak and fragile growth
- When prices of primary commodities decline
- New thinking on development paradigm and role of new dynamic sectors as an engine of growth
- Lack of diversification of African economies
- ECA research project with the support of ATPC

Structure of the presentation

- General introduction
- Stylised facts: Africa's Exports Diversification Trends and diversification's regimes
- How to increase the level of African exports diversifications?
- Diversification, growth and poverty reduction
- Conclusions and way forwards in terms of Research

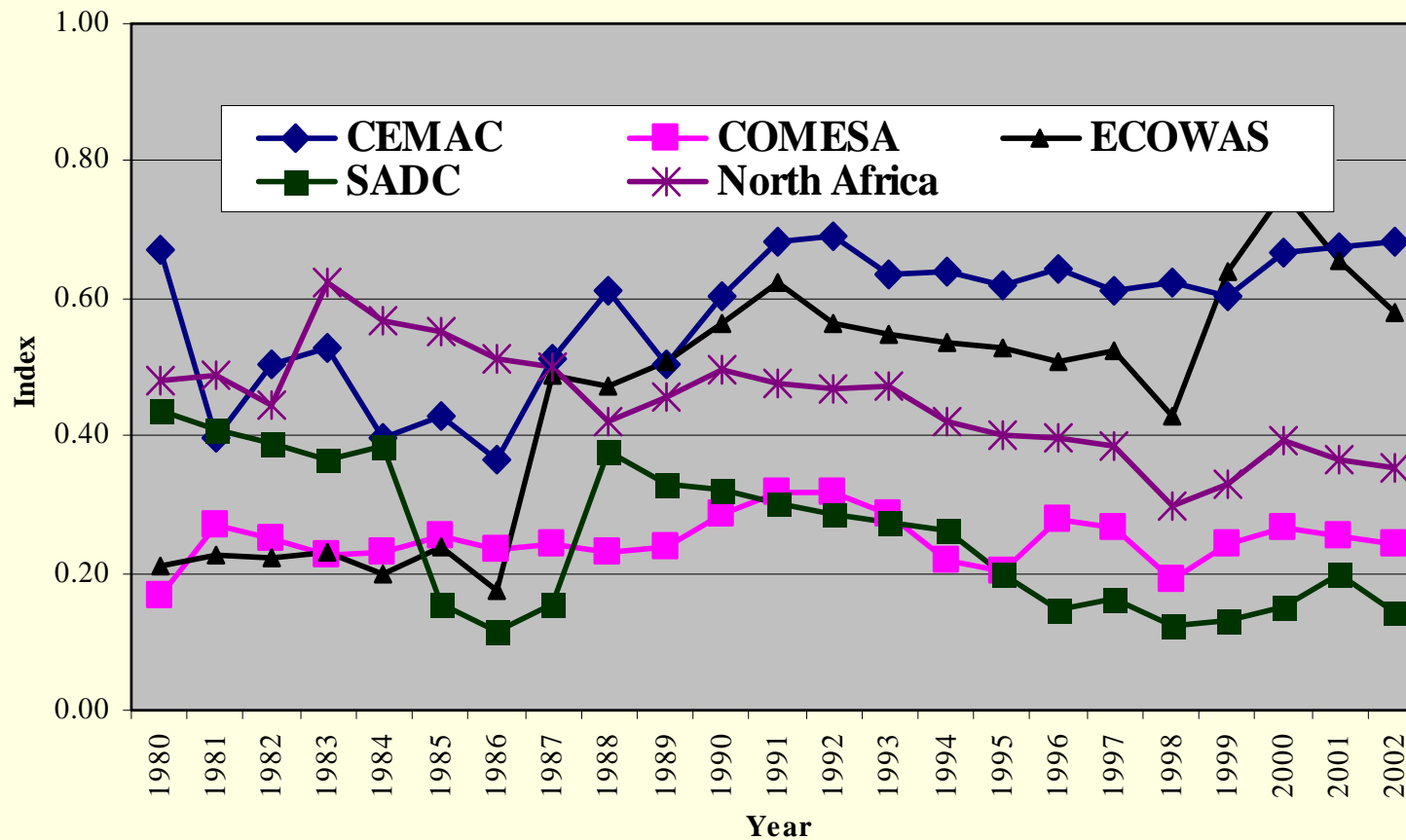
Africa and export diversification

Normalized-Hirschman Index: Africa, Latin America and NIE Asia



Diversification trends at sub-regional level : Some disparities

Normalised Hirschmann Index: Africa's Sub-Regions



General trend of Africa's diversification experience

- The African economies exhibit very low level of diversification
- The African diversification experience has been volatile
- Where there have been some gains towards improved diversification, these gains have been fragile
- Volatility in the diversification indicators.
- African economies have been unable to register on the aggregate, any sustainable movements towards deepening diversification.

Diversification regimes in Africa: Towards a Typology

- Little economic diversification
- Countries that started the process but have not made any significant breakthrough
- Deepened diversification process
- Backsliders in the diversification process
- Conflict and post-conflict countries

Little Economic Diversification

- Countries that have not achieved much
- Unable to achieve any diversification gains that can be pointed at
- Countries that exhibit this regime are exemplified by Burkina Faso, Senegal and Zimbabwe

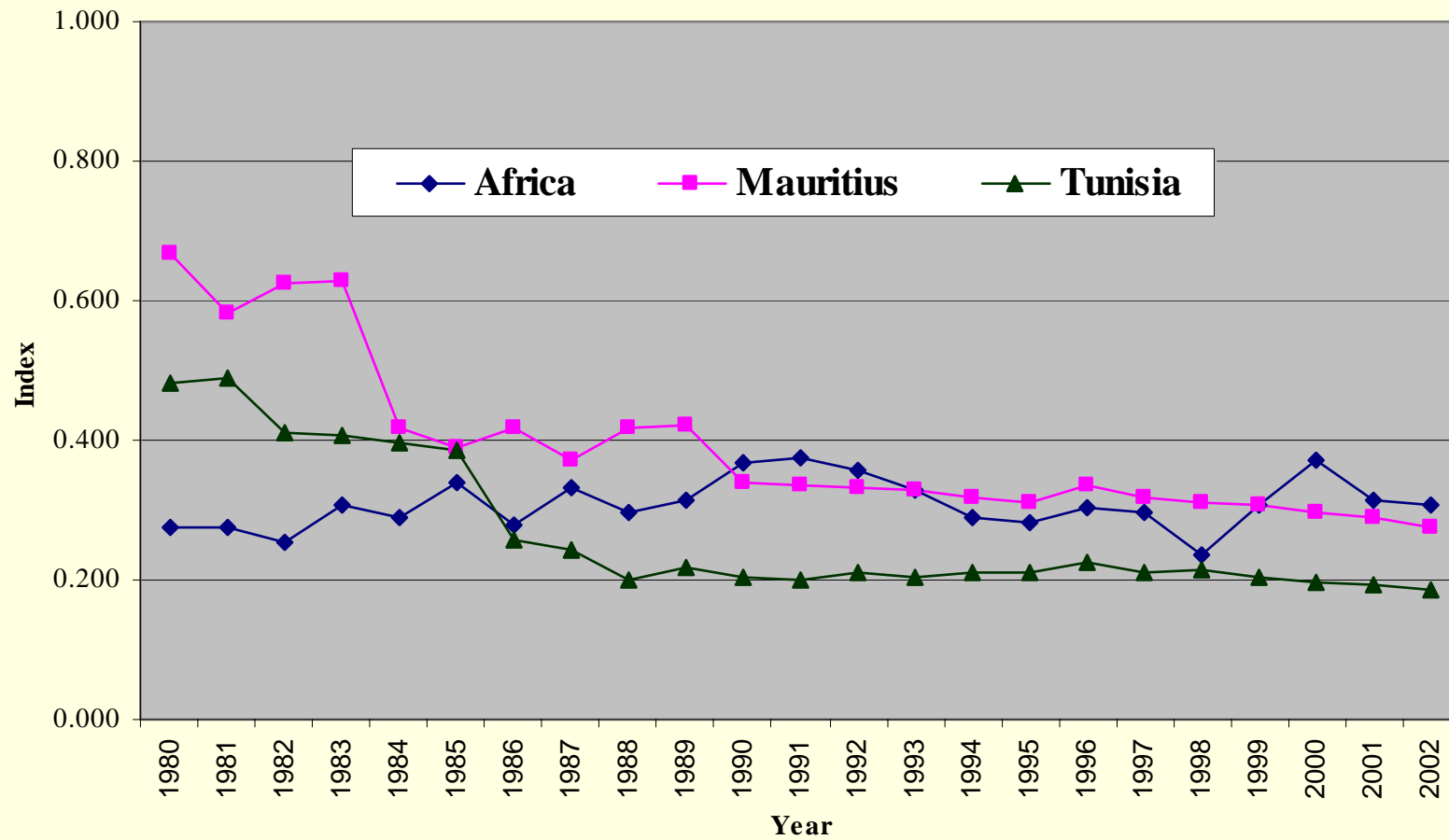
Countries that started the process but have not made any significant breakthrough

- Countries that have not made major breakthroughs in their diversification efforts from their status over the last 20 years.
- They have not managed to achieve deep horizontal diversification that encompasses high-value export commodities.
- Exemple: Kenya and Mauritius

Deepened diversification process

- Potential to be sustainable
- Characterised by both horizontal and vertical diversification.
- Incentives of the macroeconomic framework
- Countries that have managed to move beyond their situation 20 years ago to reasonably deepened diversification.
- Example: Tunisia and Mauritius

Normalized-Hirschman Index: Africa, Mauritius and Tunisia



Backsliders in the diversification process

- Countries that started well and were registering positive diversification gains but later fell back
- Regime characterized by countries that after the economic crises of the early 1980s responded by concentrating on an internal focus
- The Dutch-disease might have played a major part in the characterization of the countries under this regime
- Example: Niger

Conflict and post-conflict countries

- African economies is the one that captures conflict and post-conflict countries
- Liberia
- Sierra Leone, Congo

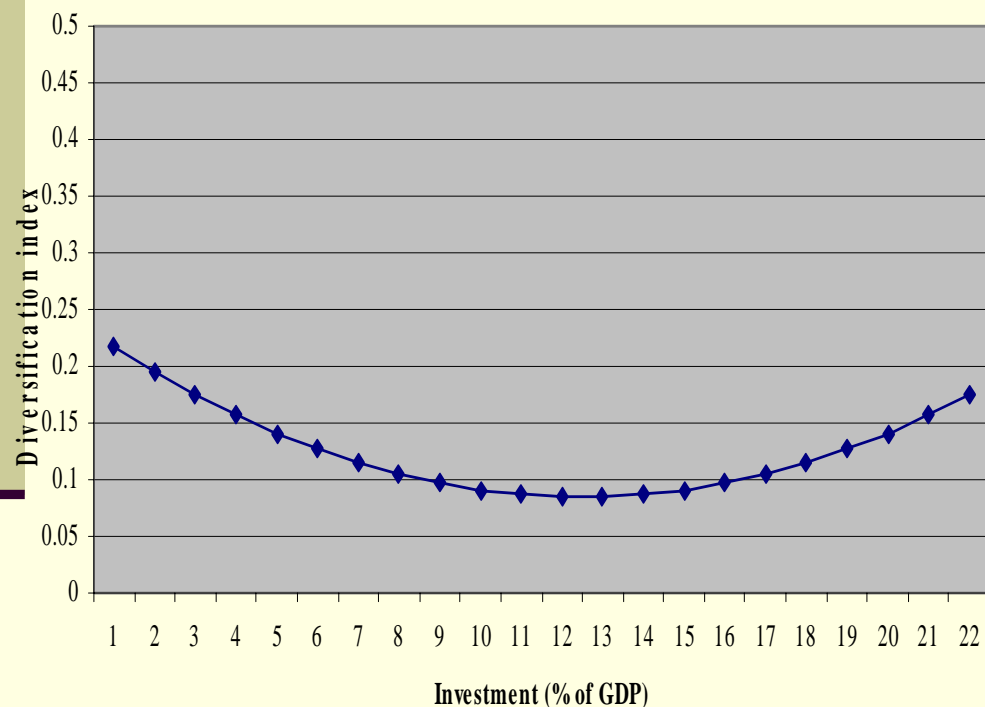
Determinants of Diversification in Africa

- Diversification is a function of different variables
- As economic and non-economic variables.
 - Physical, policy, macroeconomic, and institutional variables.

$$\begin{aligned} \Pi_t = & \beta_0 + \beta_1 GCF_t + \beta_2 GDPca_t + \beta_3 Indprod_t + \beta_4 Trade_t + \beta_5 Inflate_t + \beta_6 Exrate_t \\ & + \beta_7 Fbalance_t + \beta_8 Govern_t + \beta_9 Conflict_t + u_t \end{aligned}$$

Investment is vital for an economy to diversify

Investment and diversification



- ***Key role of Investment***
- The inverse relationship between investment and the diversification index indicates that as the level of investments increase, there is a tendency for economies to become more diversified.

Income level

- The ***income level*** is a significant determinant of diversification in Africa (Imbs et Wacziarg, AER, 2003)... But
- Dynamic Process...
- Poor countries tend to diversify at first as their incomes rise; before they later begin to become more specialized.
 - Singapore, 2500 US \$,
 - Cyprus 5800 US \$,
 - Ireland 7000 US \$
 - Africa: Our estimations, 1600 US \$

The relevance of an optimal trade policy

- Trade openness and growth (Rodrik 1997 ; Rodriguez et Rodrik 1999 ; et Rodrik 2002)
- ***Trade openness does not necessary means growth and better diversification*** (ECA, 2006)
- Rationality of an optimal Trade Policy...
- Diversification of export values among actives products, low and medium countries extensive margins (Carrere et ali, 2007)

And the macroeconomic variables?

- Inflation and exchange rate consistently emerged as significant explanatory variables to the level of diversification
- The positive but weakly significant result between **fiscal balance** and **diversification** might be seen as contradicting the argument that macroeconomic stability as measured by inflation and the exchange rate are critical to how deep a diversification process gets.
- Fiscal Space

The role of governance and Institution

- Positive relation between diversification and Institution (Klinger and Lederman, 2004)
- *Governance and* diversification.
 - Link to Economic growth
 - Wars and Economic instability

Conclusion

- 5 diversification regimes
- Washington consensus versus Washington confusion, (Rodrik, 2006)
- Diversification is linked to growth via TFP
- Reinforce the coherence between all the sectoral policies
- Ongoing works on this important question
 - **Diversification as a way to increase economic growth, reduce poverty and income inequalities**

Recommandations

- *Macroeconomic policies for diversification – the need for pragmatism over orthodoxy*
- *New economic policies for diversification – returning to the basics*
- *Strengthening of institutions is a prerequisite to positive diversification outcomes*

Agenda for Reserachers

- Revisit the analysis of the gains of diversification in the light of new trade theory analyses *to positive diversification outcomes*
- Study the factors that determine diversification, in a cross-section econometric framework based on data collected for emerging and transition economies.

Agenda for Researchers

- Relation between economic development and diversification, which has been explored earlier in the literature,
- Analyse the link between economic diversification and new forms of trade specialisation (intra-industry trade and the international segmentation of production processes)
- Successful diversification policy needs therefore to be based on an active participation in globalisation
- Diversification, TFP and economic growth (Ben Hammouda et alii, JPA, 2007)



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AIMABLE ATTENTION