EXPORT SUPPLY CAPACITY CONSTRAINTS, EXPORT EXPANSION AND DIVERSIFICATION IN AFRICA: THE ROLE OF EXPORT DEVELOPMENT STRATEGIES.

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1 Introduction

- Can Africa Claim the 21st Century?
  - Yes, Condition upon movement along four broad fronts
  - One of these is Trade Policy
    - re-orientation
    - export diversification
    - pursuit of regional integration
Trade policy challenges

- Regain lost ground with traditional exports
- Build new comparative advantage in non-traditional exports
“Pressing policy actions

- Anchoring export-orientation on competitive and stable currencies.
- Making trade policy more credible and effective.
- Eliminating remaining anti-export bias.
- Providing effective compensating mechanisms for exporters.
- Integrating trade policy reforms with national development strategies.
- Implementing open regionalism.
Creating a platform for effective African participation in trade negotiations

Introducing complementary measures, beyond trade reform, for lowering costs and risks.

Increasing consultation with business and labour.
An activist (?) role for government.

- Efficient delivery of stable macroeconomic policy, strong incentives, rule of law, and basic infrastructure.

- Dealing with problems arising from market imperfections (subsidizing activities associated with export-related information gathering and dissemination, technology acquisition, compliance with export-standards, export-related training).
Where are we now?

- How much of the recommendations have been adopted, and implemented?

- What are the effects?
2. STRUCTURE AND GROWTH OF AFRICAN EXPORTS.

- Return to the ultimate trade policy challenge:
  - Export expansion and diversification.
  - What has happened during 2000-2004 period?
Table 5 shows:

- Africa fell behind Asia and Latin America in export growth performance during 1980-95.

- Africa’s export growth rate caught up from 1995 and maintained the momentum through 2004.
Table 6 shows the following comparative growth rates (annual average) for Africa’s major export product groups:

<table>
<thead>
<tr>
<th>Product Group</th>
<th>Annual 1990-01</th>
<th>% Change 2000-04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Merchandise export</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>Fuels and Mining</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>Manufactures</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Agric Products</td>
<td>2</td>
<td>10</td>
</tr>
</tbody>
</table>
Table 7 shows that sub-regional real export performance improved between 2000/03 and 2004.

- Central Africa: 3.1% vs. 18.7%
- Eastern Africa: 7.2% vs. 7.9%
- Northern Africa: 5.0% vs. 5.5%
- Southern Africa: 2.9% vs. 3.3%

except for

- Western Africa: 4.9% vs. 1.2%

and the sub-regions with the most rapidly growing exports contributed relatively little to total African exports (central Africa 7.4%; Eastern Africa 5.2%)
Table 8 shows that the countries with very high real export growth during 2000-2004 were mostly small in size.

Chad: 218.1% (2004)
Gambia: 42.3% (2004)
Mozambique: 35.2% (2000-03); 41.4% (2004)
Equatorial Guinea: 29.9% (2000-03)
Lesotho: 28.9% (2000-03)
Ghana: 20.8% (2000-03); 32% (2004)
Most export-intensive (export per capital: $) countries in 2004 were:

<table>
<thead>
<tr>
<th>Country</th>
<th>Export per Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equatorial Guinea</td>
<td>$8,540</td>
</tr>
<tr>
<td>Seychelles</td>
<td>$7,112</td>
</tr>
<tr>
<td>Gabon</td>
<td>$3,266</td>
</tr>
<tr>
<td>Libya</td>
<td>$3,148</td>
</tr>
<tr>
<td>Mauritius</td>
<td>$2,732</td>
</tr>
<tr>
<td>Botswana</td>
<td>$2,056</td>
</tr>
<tr>
<td>Swaziland</td>
<td>$1,512</td>
</tr>
<tr>
<td>Tunisia</td>
<td>$1,235</td>
</tr>
<tr>
<td>South Africa</td>
<td>$1,067</td>
</tr>
<tr>
<td>Algeria</td>
<td>$1,041</td>
</tr>
</tbody>
</table>
Table 1 shows little change in Africa’s export structure during 1990-2004

- Share of primary commodities was 78.1% in 1990 and 74.4% in 2004.

- By comparison; in L. America, share of manufactures was 38% (1990) and 39.5% (2004); in Asia, share of manufacture was 80.5% (1990) and 87.5% (2004).
Table 2 shows that, during the 1990’s

- SITC 3: mineral fuels, lubricants and related materials grew fastest (annual average of 10.45%).

- SITC 8: Miscellaneous manufacture articles grew second fastest (8.72%)

- but other manufactured export product groups did not do so well: SITC 6 (-0.83%); SITC 7 (3.25%)
Table 3 shows that:

- SITC 3 (mineral fuels, lubricants and related materials) not only dominated total African exports (47.96%) but also that of three sub-regions; i.e., central Africa (63.47%), Western Africa (66.72%), and Northern Africa (61.57%).

- by comparison, Eastern Africa’s export structure is dominated by SITC 0 (food and live animals) (41.56%)

- while Southern Africa is not only the most diversified sub-region (no single SITC contributes more than 30% of total exports), it is also the sub-region where the main manufactured export product groups SITC 6,7,8 together account for as much as 42% of total exports.

- second in this respect is Northern Africa (24%).
3. BUILDING EXPORT SUPPLY CAPACITY.

- Necessary but not sufficient conditions for promoting export expansion and diversification.

  - maintaining macroeconomic stability, eliminating anti-export bias in the trade regime and ensuring a stable and realistic exchange rate.

  - eliminating the key export supply response capacity constraints: deficiencies of trade-related infrastructures, and inefficiencies of trade-related inputs and services.
use of special export development strategies as more focused and complementary measures for building export supply capacity.

- **national export strategy**
  - identification of priority export sectors and priority external markets
  - strengthening market positioning of the priority export sectors and products.
  - policy reforms (trade, investment and private sector development) to enhance incentives for exporting activities and to improve external market access.
  - export-related business services for eliminating constraints to exporting activities.
  - specific assistance programmes for enhancing export competitiveness and exploiting export market opportunities.
- exploitation of production sharing opportunities
  - under inward-oriented regime
  - under outward-orientation
  - current situation
  - potentials and challenges

- production clusters and marketing Networks
  - positive agglomeration externalities and advantages
  - export-orientation: linkage to international distribution networks
  - increased competitiveness and productivity advantages
Moving up the value chain

- key requirement of export development
- mechanisms
  - downstreaming
  - market positioning and branding
  - niche marketing
  - product innovation

- Supply management
  - shortening the supply chain
4. ENHANCEMENT OF EXTERNAL MARKET ACCESS

Table 6 shows the following trends with respect to the main destinations of Africa’s merchandise exports during 1990-2004.

- Declining share of Europe in total exports (57.6% in 1990 and 42.8% in 2004); in fuels and mining exports (61.5% to 35.5%); in manufactured exports (62.1% to 56.8%) and in agricultural exports (61.2% to 49.3%).

- Increasing share of Asia in total exports (7.7% to 16.8%), fuels and mining (5.9% to 18.6%), manufactures (5.9% to 8.8%), and agric (15.1% to 18.0%).

- Increasing share of intra-African trade in fuels and mining (3.2% to 5.8%), manufactures (8.0% to 11.4%) and agric (11.8% to 18.6%).
But there are constraints to the expansion and diversification of African exports to Asia.

- high tariff rates, especially on food and live animals (11.65%), beverages and tobacco (18.59%), animal and vegetable oils and fats (24.97%), chemicals and related products (22.22%) and other commodities (34.14%).

- substantial tariff escalation for example raw cotton (2.73%) versus cotton fabrics (19.21%) oil seeds (0.88%) versus vegetable oil (42.59%), cocoa beans (4.07%) versus cocoa powder (15.77%) and unroasted coffee (0.06%) versus roasted coffee (8.12%).
enhancing Africa’s market access in Asia may require mutually beneficial south-south trade negotiations.

recent Chinese decision to grant tariff preferences to African countries is a good start.

as in the case of Asia, there is need for concerted effort to complete the process of eliminating all remaining barriers against intra-African trade.

non-reciprocal preferential trade arrangements have largely determined the access of African exports to the markets of high-income countries.
But only a few African countries appear to have used this opportunity effectively to expand and diversify their exports due to;

- limited export supply response capacity
- restrictions associated with the preference schemes (rules of origin, high access costs, e.t.c.)

Benefits of AGOA are concentrated in two groups of countries.

- Oil exporters (essentially Gabon and Nigeria)
- Clothing exporters consisting of Lesotho, Malawi, Madagascar, Swaziland, Mauritius, Kenya and South Africa.
In the case of Cotonou, many African countries do not receive significant benefits because

- a large proportion of their exports to the EU has zero mfn tariff rates; these include Congo (96%), Nigeria (95%), Gabon (94%), Botswana (91%), Cameroon (79%).

- they export to the EU mainly products that are excluded from Cotonou preferences: Swaziland (73%).
The main Cotonou beneficiaries are African Countries with at least 30% of their exports eligible for preferences;

- Seychelles (86%), Senegal (73%), Zimbabwe (69%), Mauritius (67%), Kenya (53%), Namibia (51%), Ghana (44%), Cote d’Ivoire (37%), and South Africa (35%).

- Current Doha negotiations may erode much of these benefits significantly and, naturally, the main losers include the more significant beneficiaries.
Available estimates suggest that the following countries suffered the magnitude of preference erosion losses indicated in $million:

- Mauritius: -209.5
- Cote d’Ivoire: -80.2
- Swaziland: -58.3
- Kenya: -53.7
- Madagascar: -51.7
- Lesotho: -49.6
- Cameroon: -40.2
- Zimbabwe: -29.9
- Malawi: -27.8
- Namibia: -27.2
- Ghana: -25.2
- Senegal: -22.0
- Mozambique: -15.5
- Tanzania: -14.8
A different kind of preferential benefit erosion has already occurred.

- the phasing out of the quota system in the textile and clothing trade resulted in sharply increased competition.

- its implication is that between 2004 and 2005 overall AGOA exports of clothing fell by 17%.

- key affected countries suffered declines as well: South Africa (-45%), Lesotho (-14%), Madagascar (-14%), Swaziland (-10%), Kenya (-3%).
Hence, African countries must recognize the danger associated with long-term dependence on preferences for their export expansion and diversification.

The current EPA negotiations will transform Cotonou from a non-reciprocal to a reciprocal preferential trade agreement.

This is likely to have far reaching implications for the participating African countries.
Among these, at least two are particularly relevant for the expansion and diversification of African exports.

- The US may insist on a similar transformation of AGOA to avoid the inevitable trade diversion impact of the EPAs.

- EPAs will also lead to trade diversion against intra-African trade.
5. CONCLUDING REMARKS

The role of the ADB

- Use of its analytical work, policy dialogue and operational (lending and grant-making) activities in the regional member countries to assist them to:
  - more effectively mainstream trade in their national development strategies.
  - articulate and implement comprehensive national export development strategies.
  - identify and apply innovative export development tools.
  - aggressively work to enhance external market access wherever good potentials can be found.