

Diversification as a Strategy for Intra-African Trade Expansion

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Introduction

Objective: Export diversification as a strategy for promoting intra-African trade expansion.

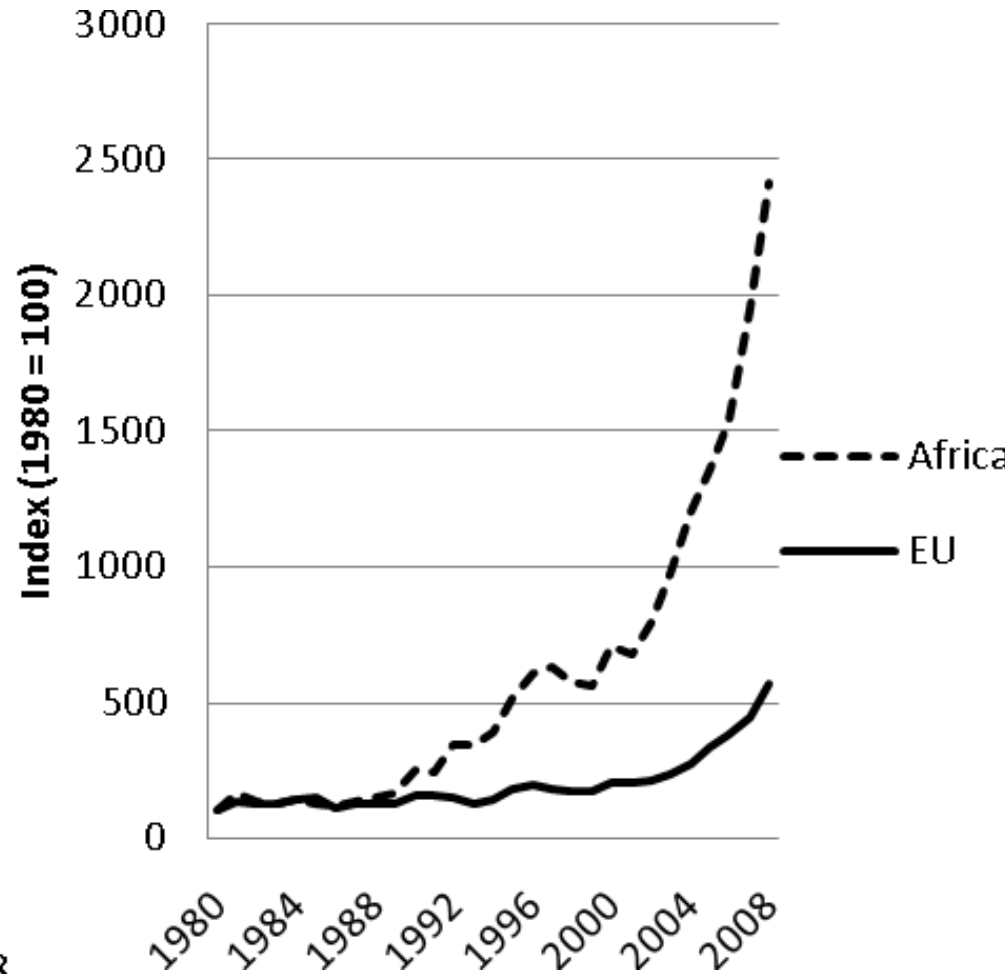
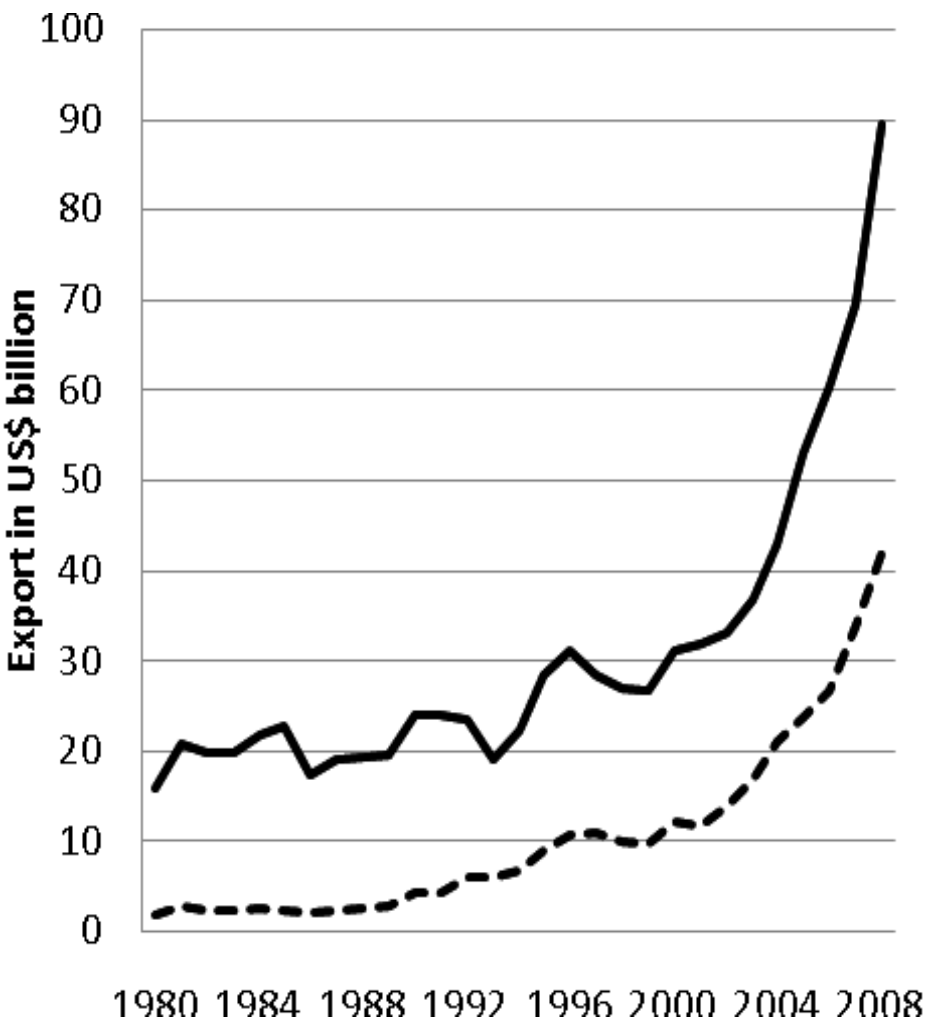
UNECA 2004 study, the benefits of intra-African trade include:

- Expanded intra-African trade should **generate faster growth** and income convergence in regional economic communities.
- Diversification of production structures from production and trade of primary commodity will ultimately **weaken the long-term dependence** of African countries on developed markets for manufactures.

High exports of primary commodities and need for **resource rich economies** to diversify their revenue base in order to avoid resource 'curse' - weaker long run growth, higher rates of poverty, and higher inequality than non mineral-dependent economies

Chile invested in knowledge based agro-industry (salmon; wine).

Trends in Export Destination



Export Diversification / Concentration Index (DXI)

$$DX_j = \frac{\sum |h_{ij} - x_i|}{2}$$

- Where h_{ij} is the share of commodity i in the total exports of country j and x_i is the share of the commodity in world exports. The related measure used by UNCTAD is the concentration index or Hirschman (H) index, which is calculated using the shares of all three-digit products in a country's exports:

$$H_j = \sqrt{\sum (x_i/X_t)^2}$$

- Where x_i is country j 's exports of product i (at the three-digit classification) and X_t is country j 's total exports. The index has been normalized to account for the number of actual three-digit products that could be exported. The lower the index, the less concentrated are a country's exports.

Successes of export diversification strategies

- **Kenya** has sought to diversify away from traditional commodities (i.e. tea and coffee) to processed products (such as preserved fruit and fish products), the production of new types of niche products (such as “off-season” and “specialty fresh vegetables” or cut flowers) and to manufacturing (apparel, clothing accessories and leather products).
- **Uganda:** the Lake Victoria fish industry exemplifies both opportunities and challenges with respect to commodity upgrading. Overall, this sector has experienced spectacular growth in recent years. Fishing activities have developed around the Lake since the 1990s, providing today some \$200 million per year in export earnings and employing around 200 thousand people.

Intra-regional trade expansion? Policy Options for Diversification

More diverse economies are better able to take advantage of opportunities in regional and global markets; thus higher incomes.

- The diversification pattern of each country reflects the types of public policies pursued by their governments.
 - Chile: knowledge and coordination policies for agr-industry
 - Malaysia: spatial and industrial policies for manufactured exports

❖ Strengthening institutions & providing an enabling inv. climate

❖ Investing in infrastructure

❖ Investing in agric & agro-allied prog to improve competitiveness:

If current productivity levels are maintained, Africa will probably have lost global competitiveness in all of its main agricultural products by 2050

Conclusion - Diversification strategy of investing in agriculture and promoting intra-African trade: critical elements

- Sustainable growth from subsistence farming to commercial farming.
- Funding and certifying the use of new GM technologies appropriate to their agro climatic conditions.
- Entering global value chains for processed agricultural and agro-industrial products – different exports routes; reducing post-harvest losses.

SC- If SSA is to strengthen its industrial capacities, its most promising market is intra-African, which absorbs the bulk of its manu. exports – **CAADP Pillar II** - increase market access through improved rural infrastructure and other trade-related interventions.

Appreciations.