Breaking into New Markets: 
Emerging Lessons for Export Diversification

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Despite past rapid export growth, about half of low-income countries lost market share in the last decade…

Source: Gamberoni and Newfarmer, 2009; authors’ calculation from World Bank, WTI  
Note: Quintile scale are from the entire sample of low and middle income countries
World trade is collapsing...

Annual growth of global trade volumes

Sources of export growth: competitiveness or demand growth?

Gaining competitiveness in slow growing markets:
- Azerbaijan, Bangladesh, Benin, Bhutan, Bolivia, Bosnia and Herzegovina, Burkina Faso, Cambodia, Chad, Comoros, Djibouti, Ghana, Haiti, India, Kenya, Kiribati, Laos, Mali, Mauritania, Mozambique, Rwanda, Samoa, Sierra Leone, Solomon Is, Sri Lanka, Tajikistan, Togo, Uzbekistan, Vanuatu, Viet Nam.

Gaining competitiveness in fast growing markets:

Losing competitiveness in slow growing markets:

Losing competitiveness in fast growing markets:
- Kyrgyzstan, Mongolia, Niger, Nigeria, Yemen.

Source: Gamberoni and Newfarmer, 2009; authors’ calculations based on International Trade Center, Trade Performance indicators.
One reason: Many low income countries have low levels of diversification

Concentration Index – Average 1996-2006

Low income countries

Source: Gamberoni and Newfarmer, 2009; authors calculation. from World Bank, WTI Note: Quintile scale are from the entire sample of low and middle income countries
Problems with export concentration

- Vulnerability to deterioration in terms of trade... secular declines or volatility
- ... cumulative investment exhausts economies of scale and productivity potential
- Reliance on a few mineral exports creates rents that are captured by elites and lead to corruption and slow growth (Pritchett, et al 2002; Collier, et al, 2002)

Whatever the mechanism...

- Export concentration associated with slow growth in per capita income (Hesse, 2009)
- Concentration, not dependence on natural resources, is cause of slow growth (Lederman, et al , 2009).
Dependence on a few exports exposes countries to terms of trade shocks

Developing Countries: Terms of trade volatility (1996-2006)

Volatility higher for low-income groups – Bacchetta, et al, 2009


Source: Gamberoni and Newfarmer, 2009 based on authors calculation based on World Bank, World Development Indicators and World Trade Indicators
Export Diversification: New literature

- Imbs and Warcziarg: Diversification of economies increase – but up to $9,000 per capita income – after which countries begin to specialize

- Cadot, et al (2008): Export portfolios tend to diversify – but up until $20-22,000 p.c. income – then specialization sets in

- Hausmann and Rodrik (2003): Diversification linked to “discovery process”
  - First movers’ advantage eroded by entry, so underinvestment in discovery
  - Policy: Need for industrial policy to encourage new exports

- Dissent:
  - Brenton and Newfarmer (2009): agglomeration effects outweigh negative entry effects


- Dissent:
  - de Ferranti, et al (2004): “Not what you produce, but how you produce it…”
  - Studies that test HWR controlling for quality show the relationship disappears (Xu, 2006; Minondo, 2007)
Key questions...

- What is the relationship between diversification and growth: does diversification cause growth – or happen automatically with growth itself?

- Does new entry depress diversification – and lead to underinvestment in “discovery”? Or is the lack of diversification owing to some other factors?

- Is there something inherent about a particular export bundle, and if so, should policy push exporters into a different bundle?

- What policies can governments adopt to spur diversification?
Export Diversification: Preview of conclusions

- Too much focus on simply adding new products to export portfolios – “discovery”... acceleration phase is more important

- A more comprehensive view of diversification is required. Look for opportunities from
  - improving the quality of existing exports,
  - breaking into new geographic markets,
  - increasing services exports,
  - expand output of goods and services that are inputs into export production

- A portfolio of policies needed... export promotion agencies, FDI regime, export financing, services up-regulation, and looking for new geographical markets
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