

CAREC Regional Trade Group

EXPORT DIVERSIFICATION

Bangkok

June 25-26, 2018

Overview

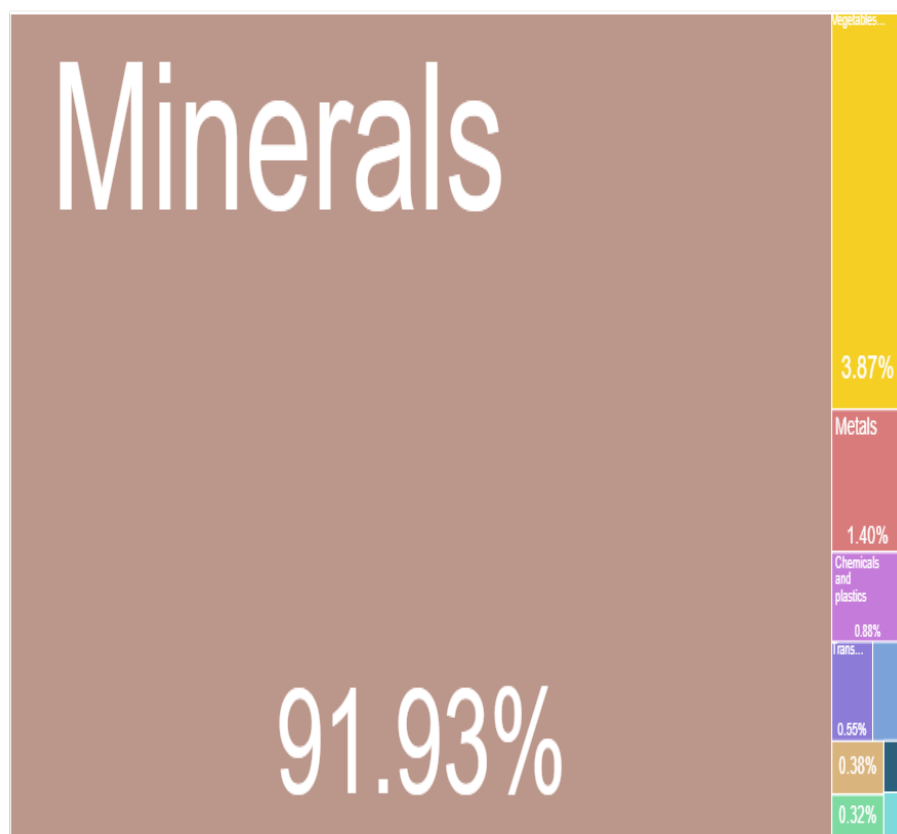
- Export diversification in CAREC
- Benefit of Diversification: Greater Per Capita Growth
- Stuck in a Middle Income Trap
- Standard Policy Prescription: Tackle Government Failures
- Diversification Strategies to Create Dynamic Export Sector
- Market Failures
- Importance of Innovation



Export Baskets in CAREC

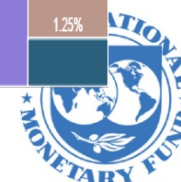
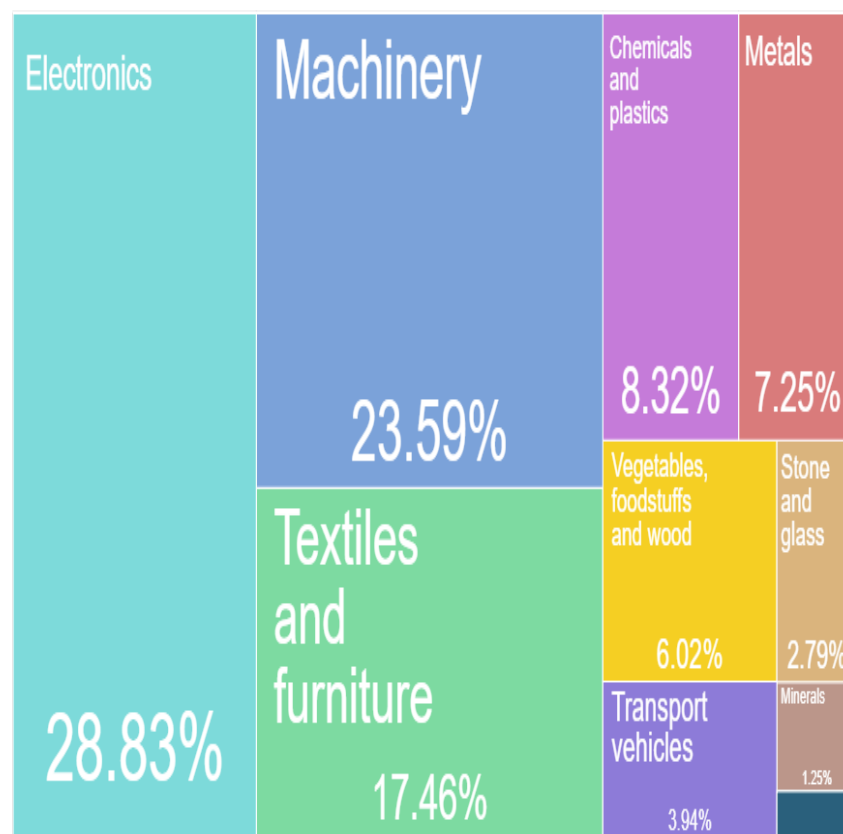
Azerbaijan: Concentrated Export Structure

\$13.3B



China: Diverse Export Structure

\$2.30T



Export Baskets in CAREC

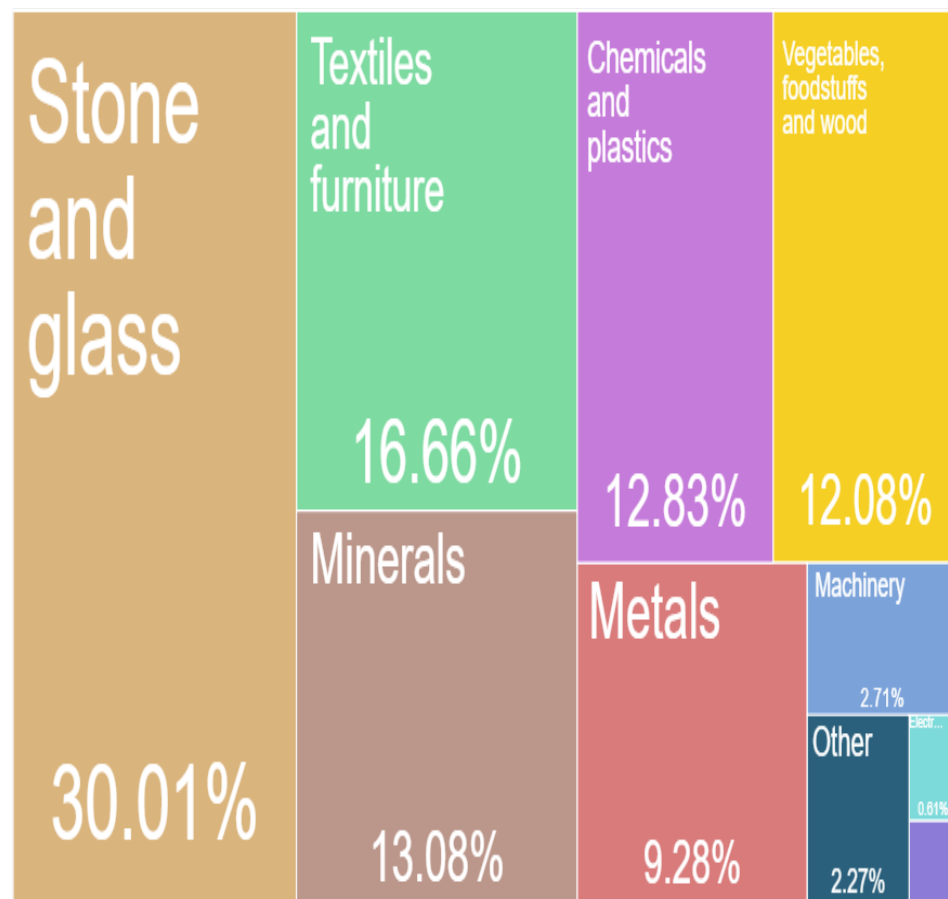
Pakistan: Concentrated in Textiles and Furniture

\$22.8B



Uzbekistan: Focused on Gold, Cotton, Copper, and Polymers

\$6.20B

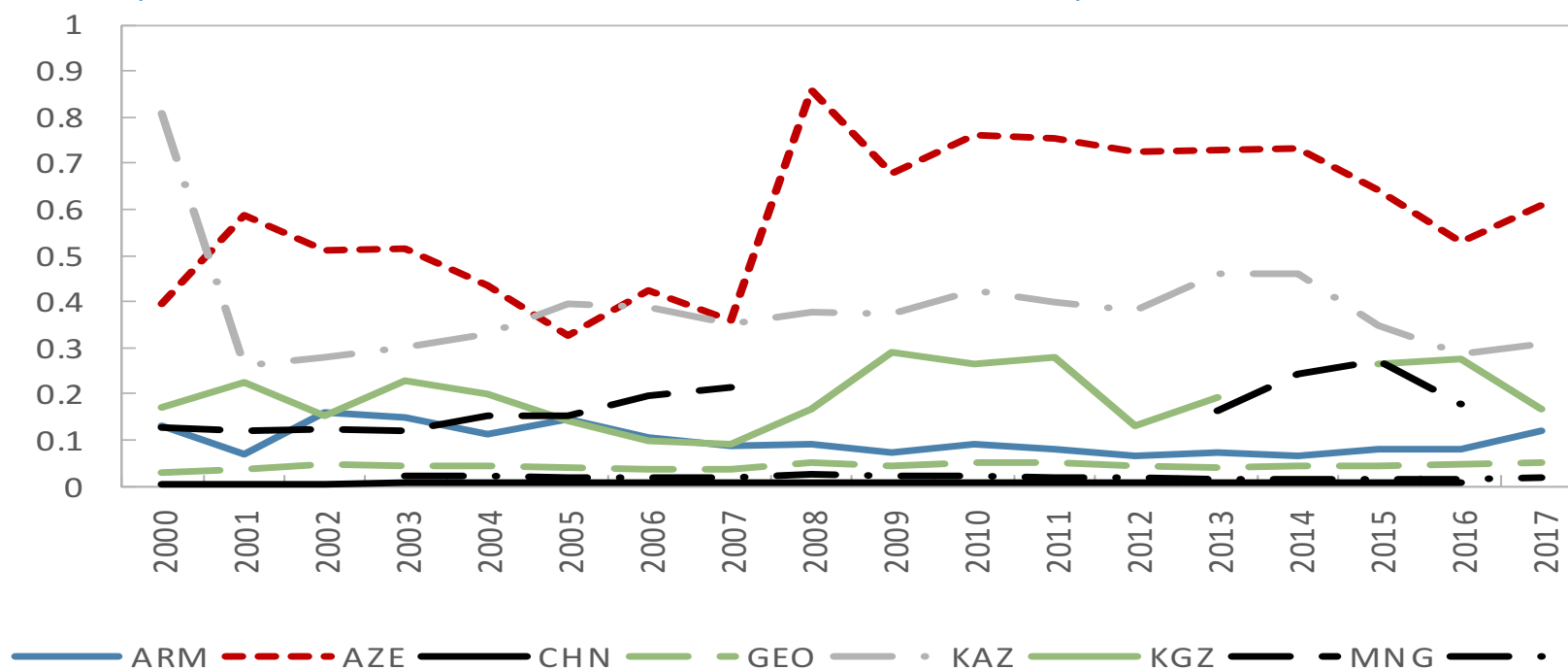


One Measure of Diversification: The HH Index: (Dispersion of Trade Values Across an Exporter's Products)

A country with a preponderance of trade value in a very few products will have an index value close to 1 (less diversified).

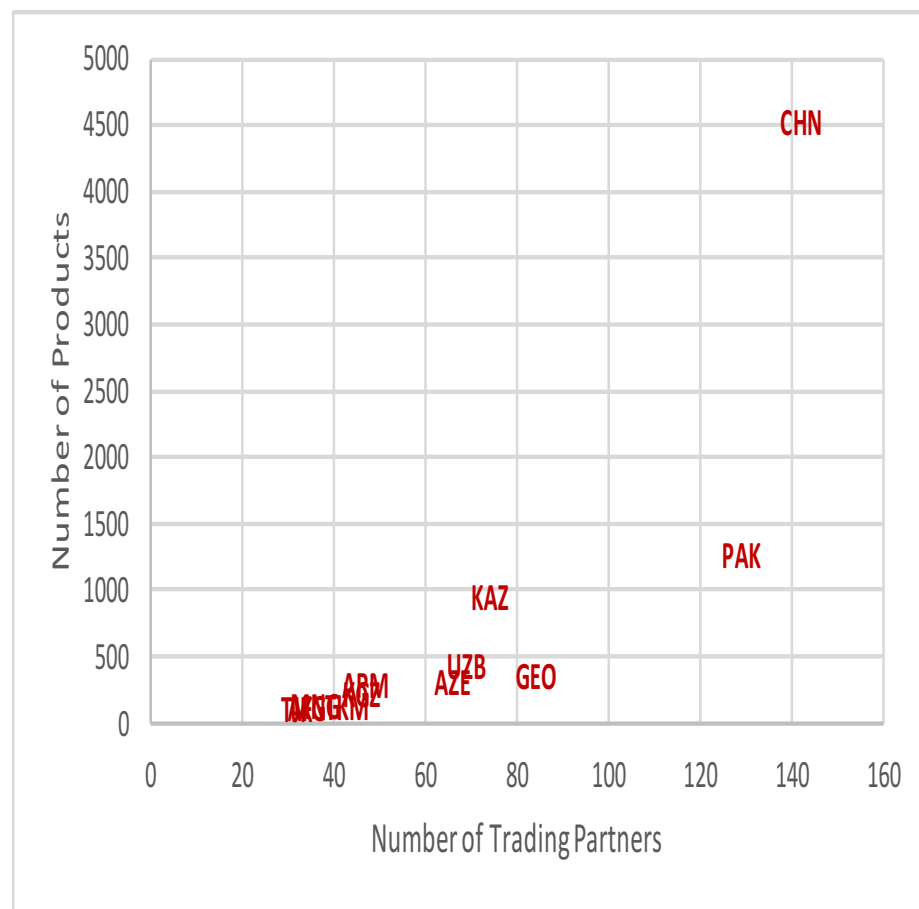
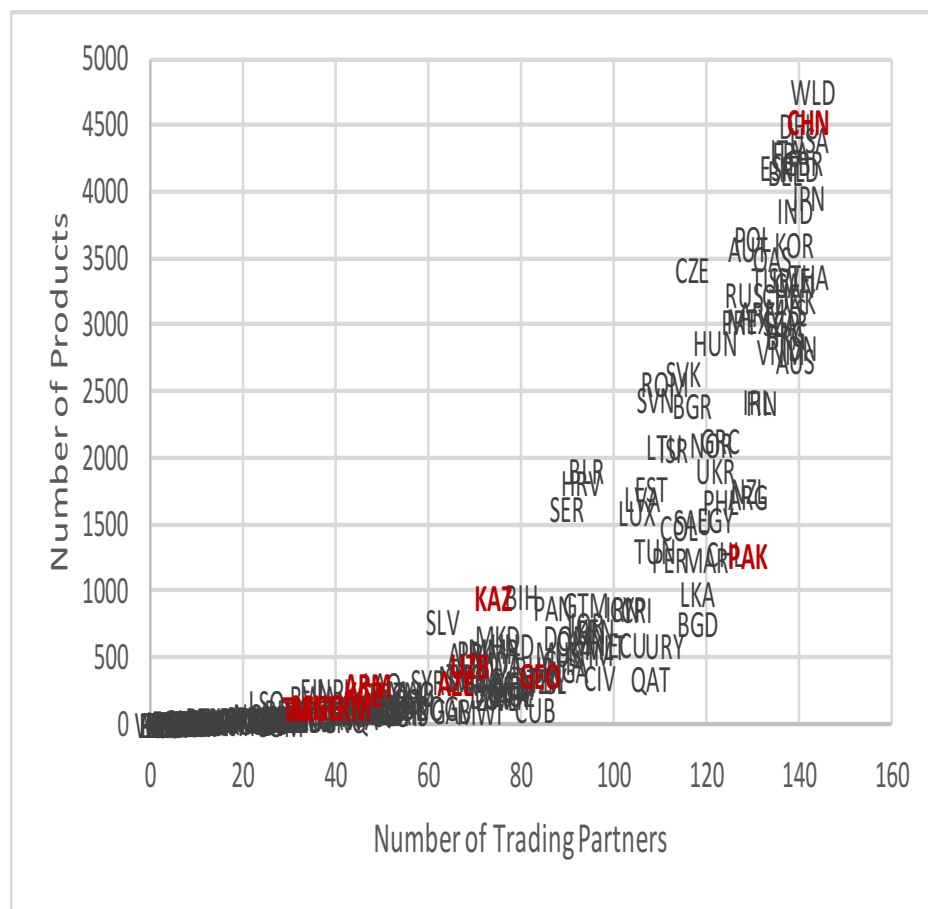
Trade Diversification

(Hirschman-Herfindahl Product Concentration Index)



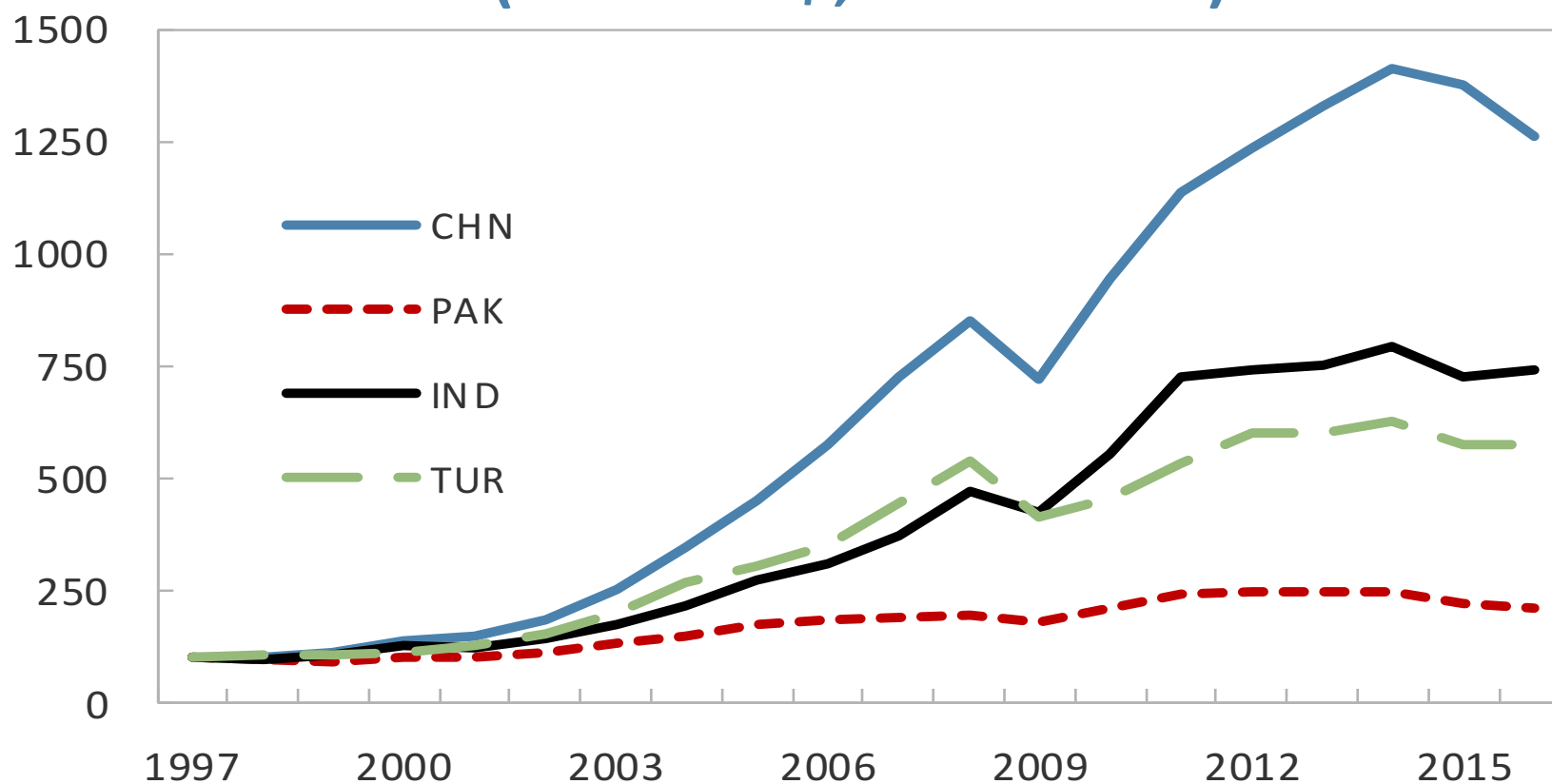
Another Angle on Export Diversification

Countries that export more products to a variety of countries have a more diverse export base.



However, More Trading Partners and Export Lines Does Not Guarantee Export Success.

Manufacturing Exports (Total US\$, 1997= 100)

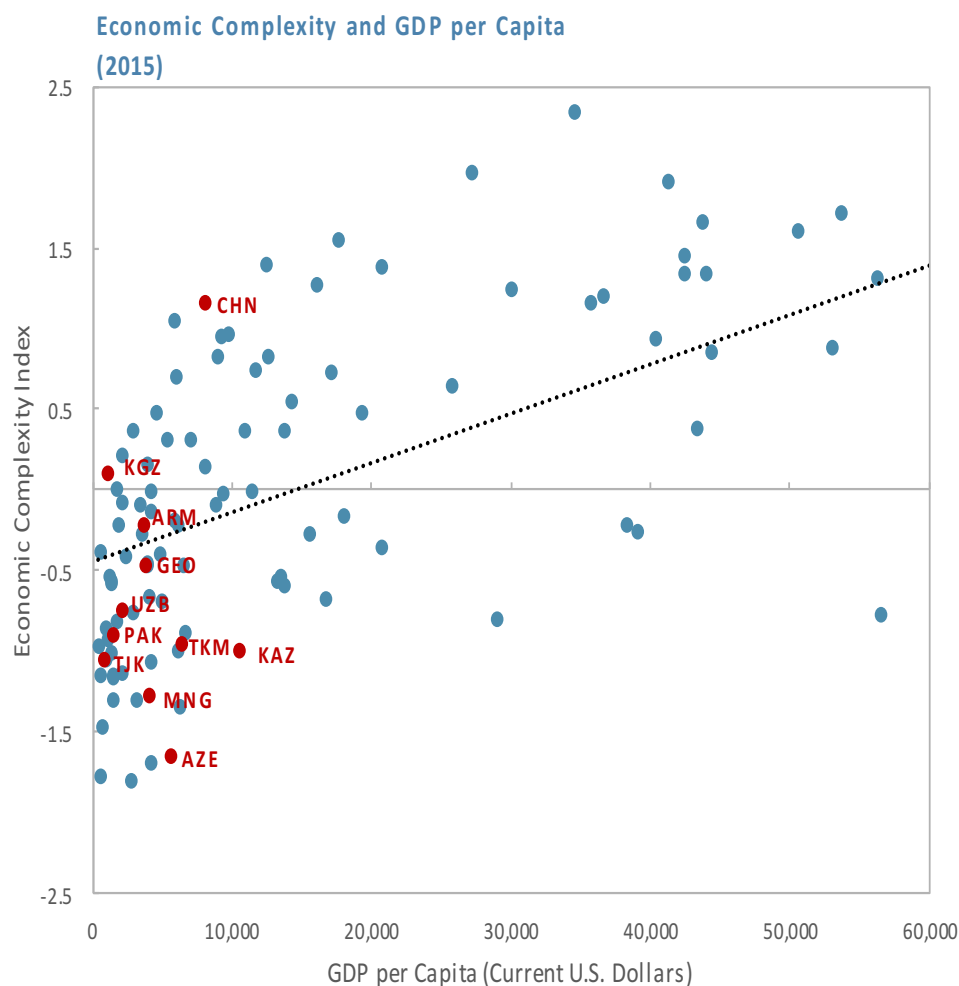


Substantial Body of Evidence on the Benefits of Export Diversification

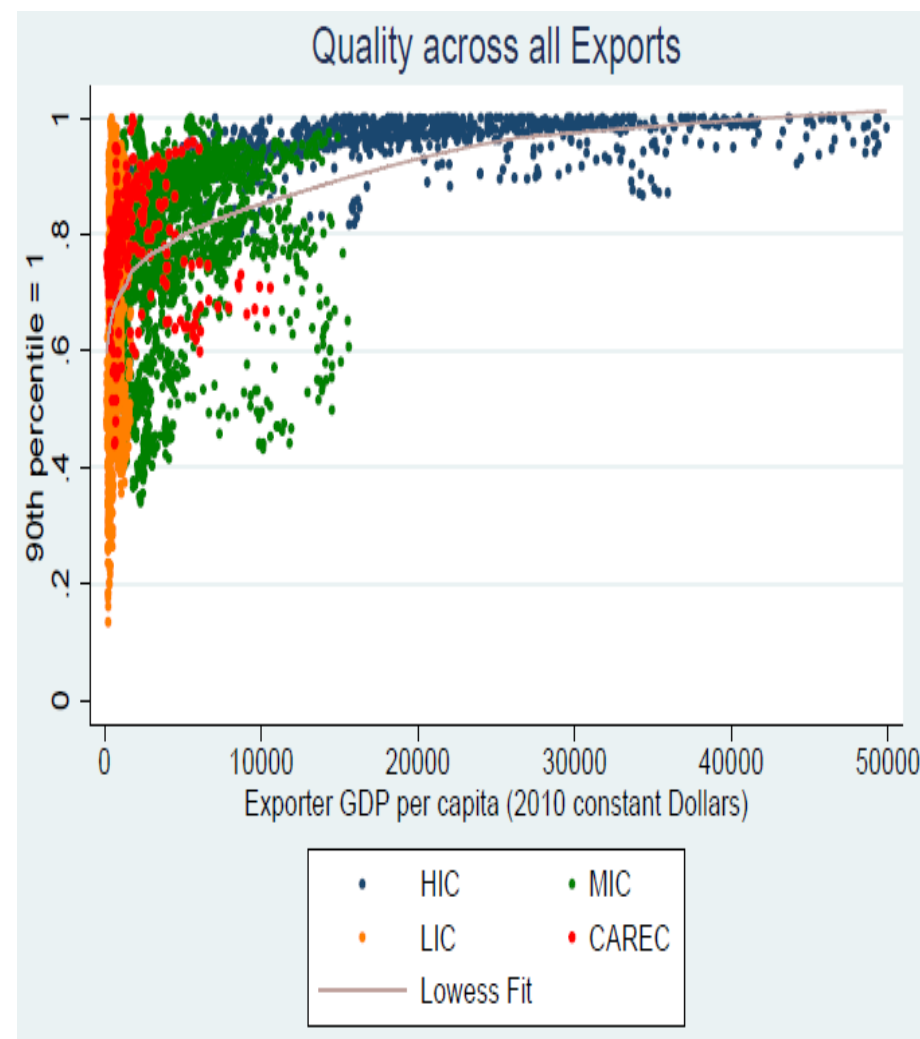
- More diversified export structures are associated with higher incomes, lower output volatility and greater macroeconomic stability (**development story**).
- High income countries tend to be more economically complex. They produce and export a wider variety of high quality, technologically sophisticated products, which generate innovation spillovers and increased productivity.
- Moreover, these products are at the center of global and regional trading networks, and deeply integrated in global value chains.
- Export structure of lower income countries tend to have limited diversification and a focus on low-technology, low-spillover primary products.



Export Complexity and Quality Go Hand-in-Hand with Higher Per Capita Incomes

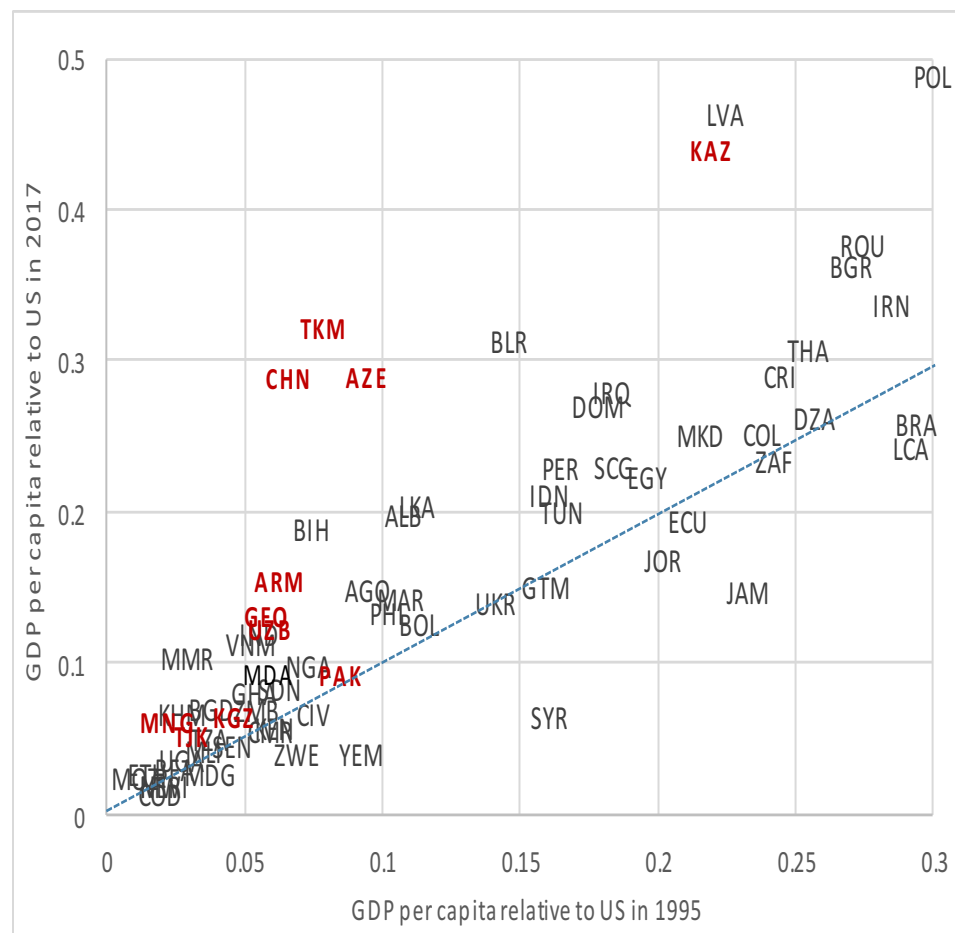
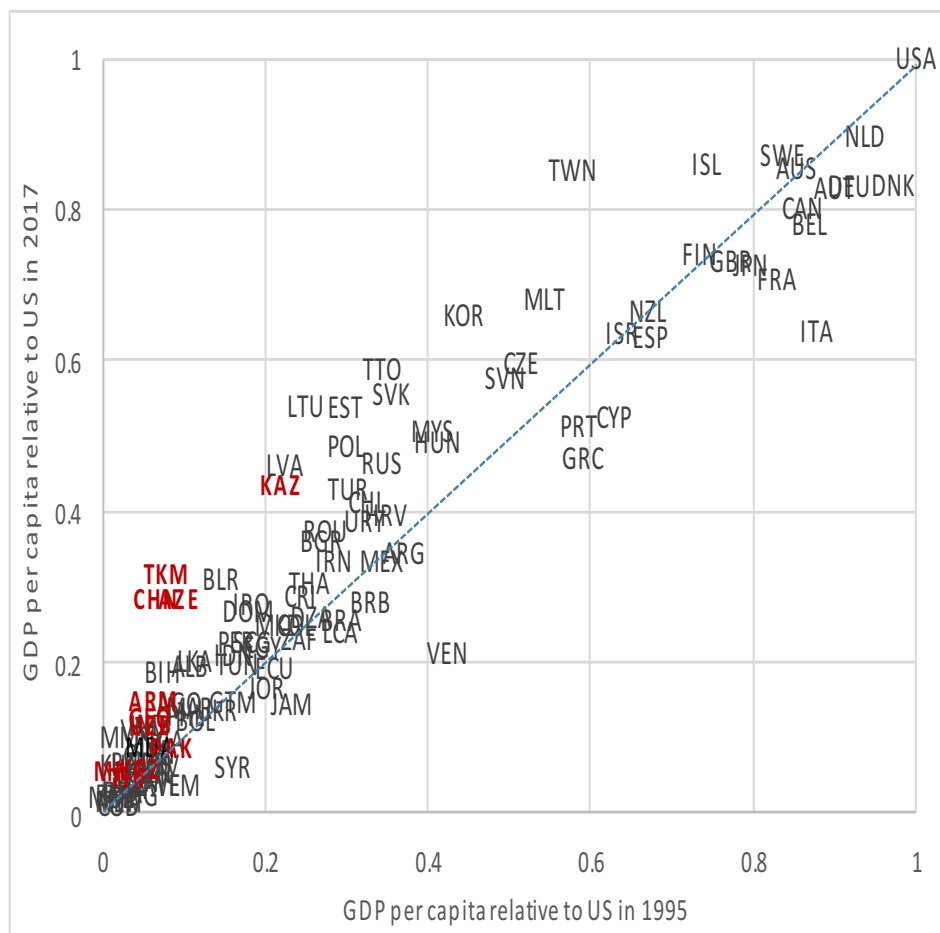


Source: The Observatory of Economic Complexity, and World Development Indicators.



Many CAREC Countries Are Caught in a Low-Middle Income Trap

Azerbaijan, Turkmenistan, Kazakhstan, (hydrocarbon exports) and China (manufacturing exports) have caught up the most, relative to the U.S.



Diversification Strategies to Create a Dynamic Export Sector

Existing Strategies

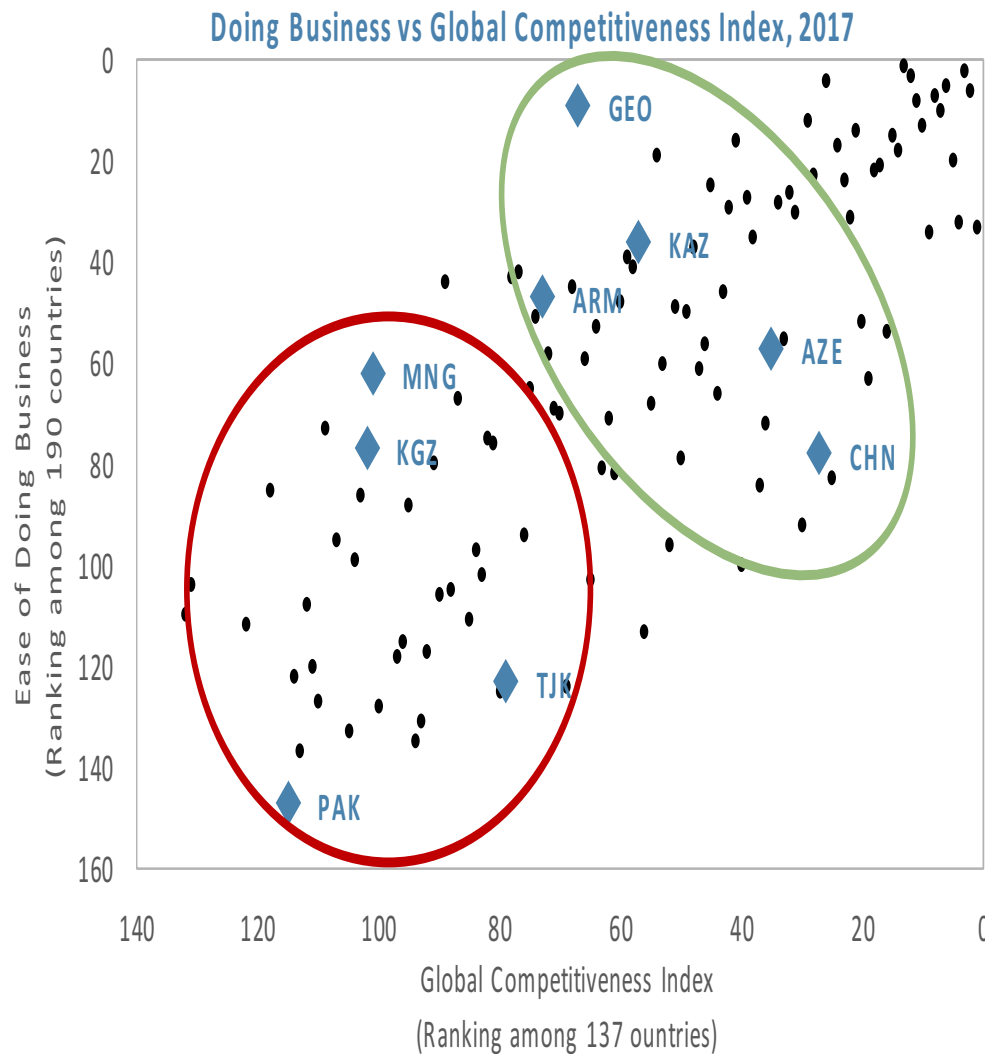
- Industrial policies which stress import substitution / export promotion strategies.
- Leverage comparative advantages (e.g., development of petrochemical and metal industries).
- Promotion of services (tourism, logistics, finance)
- Improvement of infrastructure to foster productivity gains.
- Creating clusters, technology parks, and manufacturing industries in free zones.

Recent Views

- IP created inefficient firms that relied on captive domestic markets. The focus should be on industries, not individual firms.
- Go beyond comparative advantage. Expand extensive as well as intensive margins.
- Room for improved business services to produce productivity gains
- Realization that provision of infrastructure and correction of government failures may not be enough. Need to address market failures as well.
- Provide nontradable firms incentives to export. But be very disciplined. A focus on innovation is required.

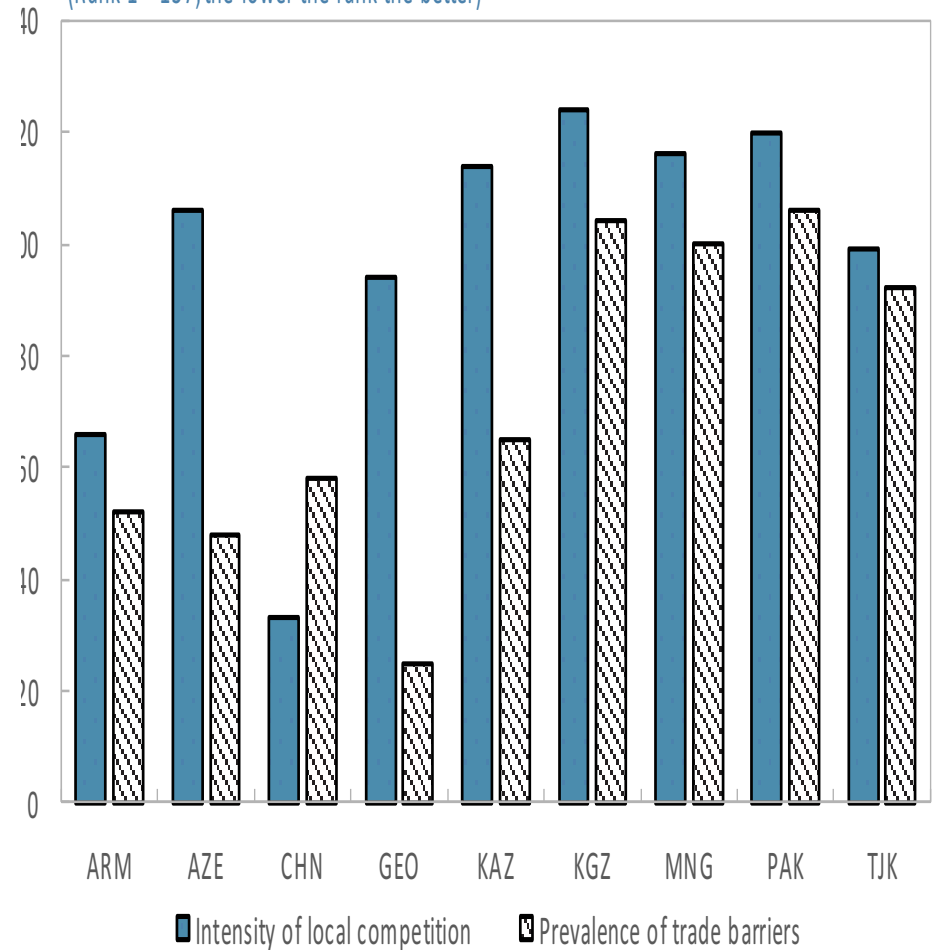


Standard policy prescription: Macroeconomic stability, limited state intervention, and an investment oriented enabling environment. Many countries still need to tackle “government failures”.



Monopoly Related Indicators

(Rank 1 - 137, the lower the rank the better)



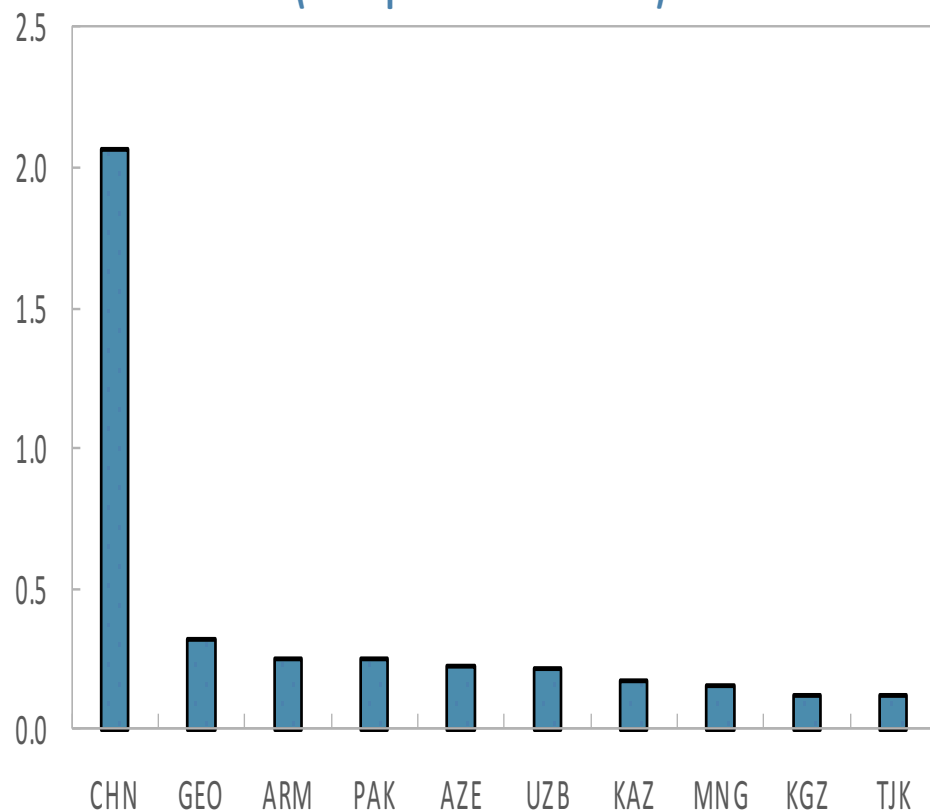
Market Failures and the Need for the “Leading Hand” of the State

- Economies face market failures due to “**learning externalities**” or “**coordination failures**” that impede industrialization.
- Learning externality: firms cannot internalize productivity gains, leading to lower allocation into high productivity sectors. Spillover effects, in which productivity in other sectors increases, but generating sector cannot extract the benefits (e.g., manufacturing impact on agriculture).
- Coordination failure: Market size needs to reach critical mass for firms to invest in it.
- State intervention may be needed. (Korea development model). Set incentive structure to encourage domestic firms to seek export opportunities.
- There may be a role for development banks, export promotion agencies, and venture capital funds.

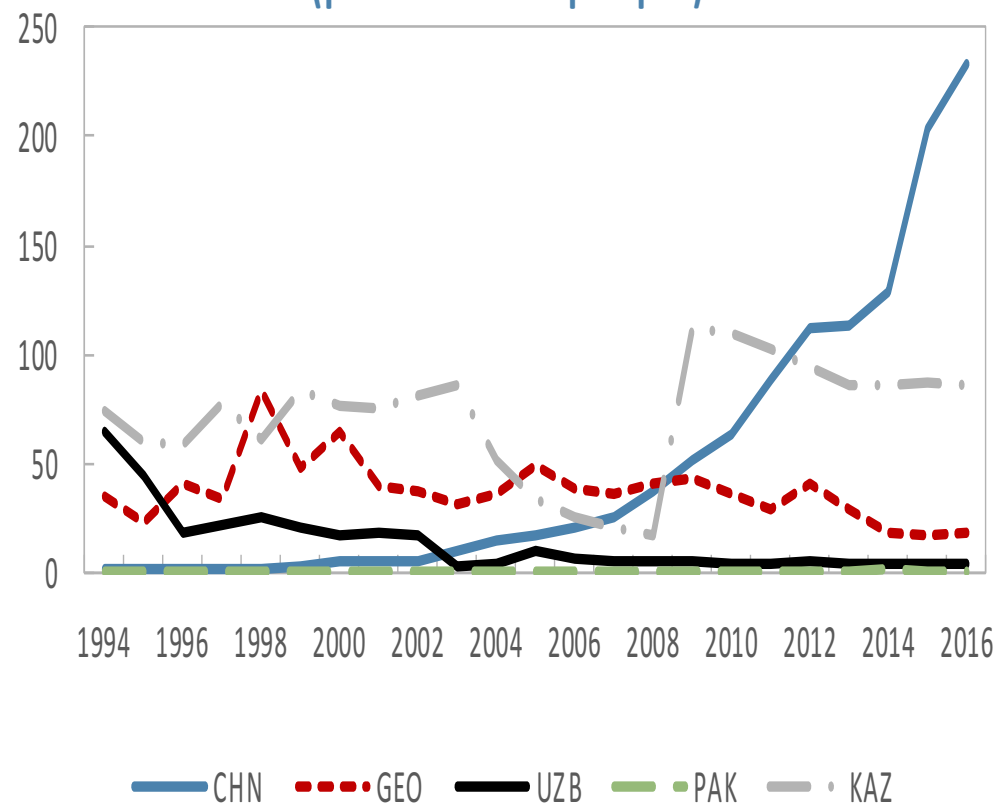


Innovation is Key

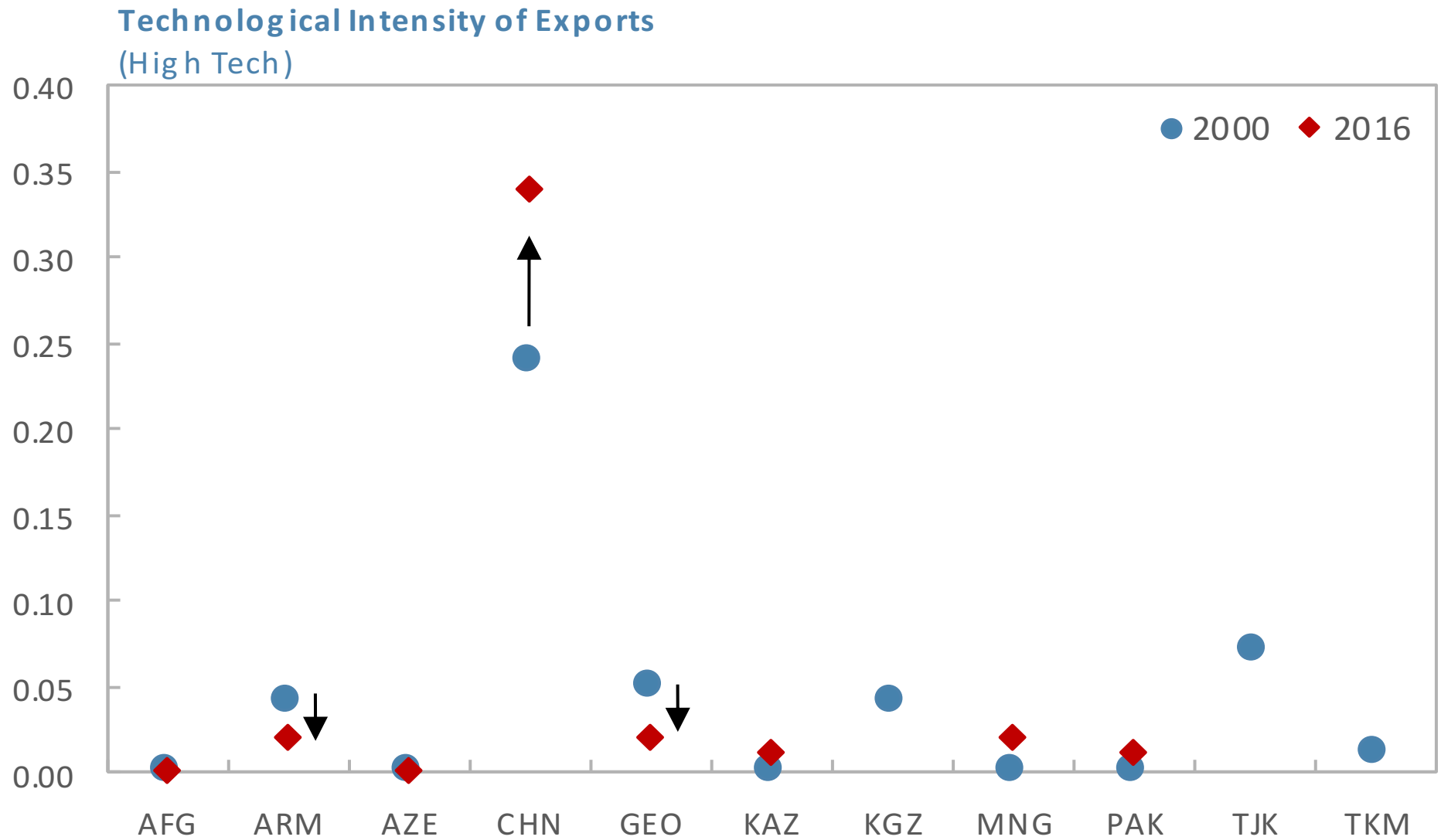
Research and Development Expenditures (as a percent of GDP)



Patents Granted (per a million people)



Innovation is Key



Conclusions

- There are a variety of export structures and experiences in CAREC.
- Diversification alone does not guarantee gains in growth (Pakistan). Growth enhancing diversification is linked to high quality sophisticated exports.
- The gains in RGDP per capita (relative to the US) have mainly accrued to oil exporters, China (due to manufacturing gains), and to a lesser extent Armenia and Georgia. Some countries appear to be stuck in a low-middle income trap.
- There is still a lot of work to do on creating an enabling environment and reducing “government failures”.
- Few countries have emphasized gains in innovation.

