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# ISSUES AND CHALLENGES IN PROMOTING EXPORT DIVERSIFICATION IN AFRICA

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*...with an introduction by C.C.Edordu*

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Afreximbank Distinguished Lecture Series publishes important papers that address current issues in Africa's economic and trade development. The papers are normally commissioned by Afreximbank and are usually delivered at Annual Meetings of the Bank's Advisory Group on Trade Finance and Export Development in Africa.

# *Introduction and Foreword*

*by*
*C.C. Edordu.*

*Mr. Chairman*
*Honourable Ministers*
*Your Excellencies*
*Distinguished Ladies and Gentlemen.*

I am highly delighted and honoured by the opportunity to present a keynote address to this important gathering. We value the Meetings of this Group a great deal due to the enormous contributions they have made to the work of the Bank. This is why we are pleased with the growing interest the Group has attracted from within and outside Africa. In this regard, I am delighted to inform you that since November 1994 when the Group held its first meeting in Cairo, participation in its meetings has continued to grow. Today, distinguished Ladies and Gentlemen, we have amongst us top government officials, senior bankers from Africa and beyond as well as leading corporate executives from all over the world. This broad participation in the Group's meetings has ensured that the deliberations are incisive, producing useful conclusions for the Bank and the Continent at large. I will therefore thank all of you for coming and hope that as usual you will make useful contributions to today's debate.

Distinguished Ladies and Gentlemen, permit me now to dwell on the core issues of my keynote address. As some of us gathered here are aware, a careful review of development experience around the world in the last three to four decades would suggest that exports were crucial to development success stories. In this regard, it is well known that the development experience of successful East Asian economies was powered by strong export performance. Some of those East Asian countries were known to have achieved export values in the order of 40% of Gross Domestic Product (GDP) with significant composition of those exports being manufactures.

For many, such as South Korea that had export structures similar to Africa's in the early 1960s, the transformation was quite profound with manufactures and other high value exports dominating their export basket by the early 1980s. In contrast, Africa and some Latin American countries with poor development experience were characterized by poor export performances. A careful analysis will show that the link between exports and development is more than a mere coincidence. This is because a strong export base enables countries to reduce or manage their vulnerability to external shocks and brings macroeconomic stability to a country's development process. This is especially so where a country's export sector is well diversified and has enough flexibility for a rapid response to negative shocks. For example, the recent financial crisis in Asia was more effectively borne by those countries with capacity for rapid export response and adjustment, such as South Korea and Taiwan. The importance of exports in economic development process was well understood and appreciated by the Bank's Founding Fathers. In this regard, at the time of the Bank's establishment, African conditions compelled its Founding Fathers to mandate the organization to seek to:

(a) fill a static resource gap created by retreating international banks; and

(b) fill a dynamic gap required by export generative activities or in other words to conduct export development operations.

Faced with these two challenging broad mandates, and with limited resources, the Bank's Management had to make a strategic choice at the commencement of the Bank's operations. Accordingly, the Bank's strategic choice was to deal first with liquidity issues through filling the static resource gaps. After 10 years of existence close to nine of which had been used to deal with the static resource gap problem, and in line with the Bank's second Strategic Plan, it is now considered appropriate to turn attention to export development activities. This requires the creation of an export sector engineered to bring growth and economic transformation.

The question may be asked as to the difference between an export sector that promotes economic development and one that does not. To answer this question we only require to understand why Africa's export sector has not promoted development while that of Asia has. In this regard, it is pertinent to note that Africa's export sector was not designed for African development but to meet the needs of colonial authorities, or multinationals. This is evident in both export agriculture and export mining. The colonial masters promoted exports of raw commodities to feed their manufacturing plants at home. They did not think it necessary to process the raw exports as that would mean making huge long term investments in Africa. That was why where it was possible, they did not even promote the development of modern plantations preferring to encourage the gathering of produce from scattered farms, as with palm produce in west Africa. The notion of exports promoted by the colonial master was extractive and not regenerative. This notion influenced the nature of investments they made in Africa's export sector the consequence of which are the problems the African export sector faces today.

The above history enables us to understand why it is important to create a development-oriented export sector in Africa. In creating such an export sector, what critical issues do we need to consider?

Distinguished Ladies and Gentlemen, permit me to share my own thoughts with you regarding this important question.

In my considered opinion, one of the issues is that the new export sector that will be engineered will seek to remove the weaknesses that currently exist, namely:

(i) Low export values currently in the order of 20%-22% of GDP. This is about 50% of similar ratios for East Asian economies. These low figures are pointers to the weak export production base that Africa has, a weakness that needs to be addressed if the African export sector is to promote economic growth. It is important to note here that this ratio has remained static since the early 1980s;

(ii) Slow growth in exports. In this regard, African trade volumes rose by 0.1% in 2002 while Asia in contrast achieved a 7.5% growth in export volumes. The weak growth in export volumes is related to weak export production base discussed in (i) above;

(iii) Concentration in export production, markets and low technology content of export production. In this regard, about 80% of African economies depend on commodities for more than 50% of their export revenues; about 85% of the exports are destined to OECD countries, while the technology of production had remained rudimentary and static over the past four decades;

(iv) Poor regional integration, with share of intra-African trade in total African trade languishing at the 9% region over the years; and

(v) Market instability. In this regard, high concentration in commodities exposes Africa to high volatility in market prices. Sometimes, the coefficient of variation of price of some commodities exceed 30%.

In seeking to engineer the new export sector, what strategy should be adopted? My view of alternative Strategies are:

(i) Market Access Strategies: In the past, negotiations with OECD states for market access had been done which had failed to bring desired results because of lack of production capacity. ln this regard, many African economies failed to take advantage of the EU-ACP market access opportunities because they were unable to efficiently manufacture and export the items covered under the Agreement. Thus, it is obvious that such opportunities can only be optimized by creating export production capabilities.

(ii) Export production in enclave industries by multinationals supported by Direct Foreign Investment (DFI). This has also not created a development-oriented export sector due to the fact that the enclave nature of the export sector ensured limited linkages with the rest of the economy. Thus, skills and technology are not transferred and the export sector had little development effect on the economies concerned due to limited inter-industry linkages.

(iii) Production and exporting by poorly endowed indigenous enterprises. This approach has failed as those indigenous enterprises lacked the technology, the finance and knowledge to produce and trade exports. Exporting requires dealing with many variables at the same time, ranging from quality issues, trade policies both at home and that of the buyers, multiple currencies, etcetera. Few poorly endowed indigenous exporters can have the capability to deal with these issues efficiently.

(iv) Cooperation by all parties. This is in fact an optimal strategy. In countries where exports had promoted growth that approach was adopted. The cooperation that will work is one that brings a partnership of poorly endowed African exporters with foreign experienced exporting firms targeted at taking advantage of market access opportunities that exist for the Continent using appropriate financing to produce the needed exports.

What should be the role of banks in creating the new development-oriented export sector with rapid growth and diversity? The questions that arise here include:

(i) What kind of financing does export development require? This question arises because traditional export finance has limited scope for supporting export development. Export development financing requires specialized forms of credit that meet the requirement of all parties in the export chain, ranging from term financing for export creation, working capital financing for maintaining production, packing credit for preparing exports to export credit insurance to cover trading risks

(ii) Do capital markets tend to fail when they need to support export development hence the creation of EXIM banks to deal with market failure? The thinking usually is that export development requires longer term financing, especially for those activities that require lumpy investments and high unit volume products. Such lumpy investments calling for tenored financing may not find financing in the African markets . What then should be the role of local banks in addressing this challenge? What should be the role of macroeconomic policy? The options here include:

    (i) openness for export promotion; and
    (ii) regional integration.

A key question, however, is whether the Asian experience is replicable considering that it took place at a time of selective openness. Would export development occur in an environment of generalized quest for exports? What are the chances of success using Openness as a strategy under an international regime of generalized openness? Will the fallacy of composition halt export development under current international environment?

What should be the role of Afreximbank? What is Afreximbank's intended strategy and its preliminary thinking regarding how to create a growth-oriented export sector? Although, one of the papers will outline the Bank's thoughts, however, on a preliminary basis, the Bank believes in cooperation to deal with development and market access issues. The cooperation should be one that cuts across all parties that have interests in the Africa export sector, such as African Governments, African exporters, African banks, international banks and corporates with interest in producing in Africa and other multilateral institutions that provide market access opportunities for Africa.

The above rhetorical questions have been raised to whet our appetite and prepare us for receiving detailed presentations from a team of experts we have gathered here today. I am sure that their presentations will delve into details of the issues I have raised and provide much needed answers or provoke issues for further debate by all of us.

The first presentation we will be listening to today is titled “Issues and Challenges in Promoting Export Diversification in Africa”- that presentation will be delivered by Dr. Sylvester Ugoh, Managing Director at Skoup Nigeria Limited, a management consulting firm in Nigeria. Dr. Ugoh, who holds a Ph.D from Harvard University in the USA brings with him many years of experience gained in very senior positions in central banking, government and the private sector. He has at some point in time a distinguished career, a Minister of Science and Technology in Nigeria. He also has a deep understanding of issues of export diversification gained through years of work in that area. Skoup, which he heads, acted as consultants to the African Development Bank regarding a US$245 million loan to the Nigerian government aimed at stimulating the diversification of that country’s exports away from oil. We believe that Dr. Ugoh will bring deep theoretical and practical insight to the problem his paper will be addressing.

Mr. Venkat Subramaniam will be presenting the second paper of today titled ‘Promoting Export Diversification in Africa: Traditional Financing Techniques and Innovative Options”- Mr. Subramaniam is Managing Director at the Export-Import Bank of India and brings with him many years of experience in financing manufactured exports. As some of us may be aware, India is one country that has made tremendous progress in growing its manufactured exports. That progress owes a lot to the work of Exim India which has managed to provide much needed support for operators through the whole chain of exporting while maintaining excellent financial performance. The success of Exim India has made that bank a first port of call for developing countries trying to create financing schemes in support of export manufacturing. Given the above, we believe that Mr. Subramaniam’s paper will guide us in understanding the financing issues in promoting export diversification in Africa.

The last paper we will be listening to today titled ‘introducing Afreximbank’s Export Development Finance Programmes” will be delivered by Mr. J-L Ekra, Executive Vice President at Afreximbank. Mr. Ekra who has many years of banking experience oversees the credit operations of the Afreximbank. His presentation will be introducing an Export Development Finance Programme (EDFP) the Bank introduced on July 1, 2002. That programme is aimed at providing financing and other services considered essential for ensuring export diversification in Africa.

After the presentations, a Roundtable will be constituted to discuss issues around the theme "Export Diversification as a Vehicle for Accelerated Economic Development in Africa: Myth or Reality?" the panelists will include the above paper presenters who will be joined by other experts, namely Dr. Bwalya K.E. Nga'ndu, Managing Director at Development Bank of Zambia; Mr. Habib Sfar, Director at the Central Bank of Tunisia; and Mr. Chris Goromonzi, Executive Director at Trust Bank Corporation, Zimbabwe. We hope that the Roundtable will generate debates that may clarify the issues raised in my Keynote Address and by the paper presenters.

As a sub-component of our gathering, we will also be holding an Investment Forum. The Bank has introduced this Forum in order to optimize the value of our meetings for the host country and the business community. We thought that it was important to bring international investors to partner with local authorities and businesses to enhance the value of our gathering for mutual gains. To plant the seeds that these parties would need to nurture and fructify as investments, we have two speakers from the Government of Zambia who will be highlighting the investment opportunities as well as incentives for investors in Zambia. We hope that those two presentations will generate discussions and one-on-one meetings between prospective investors and Zambian businesses. We are taking this component of our activity seriously and therefore have created a follow-up mechanism to ensure that promising discussions are fructified.

Distinguished Ladies and Gentlemen, permit me now to thank the people and Government of Zambia for the excellent logistic arrangements they made in support of this event. I will, on your behalf, particularly like to thank the President of Zambia, His Excellency, President Mwanawasa for his unalloyed support for the Bank and this event. I will also like to thank the Honourable Minister of Finance of Zambia, Hon. Emmanuel G. Kasonde, the Governor of Bank of Zambia, Dr. Caleb Fundaga and other very senior Zambian officials who made today's event possible. I will further wish to thank all of you for traveling from far and near to be part of today's event. Our hope is that you will find the meeting fruitful. I will now like to close by wishing all of us a successful meeting.

# ISSUES AND CHALLENGES IN PROMOTING EXPORT DIVERSIFICATION IN AFRICA

*By*
*Sylvester U. UGOH*[1]

## *Introduction*

Most African countries have either a commodity or a group of commodities as their principal exports. These could be food items, such as cocoa, tea, coffee; agricultural raw materials, like cotton or rubber; solid minerals, fuels or manufactures. In the case of non-manufactured goods, they are mostly exported in their raw state with little or no value added through processing.

An analysis of Table 2.1 below reveals the structure of merchandise exports for some African countries as well as the share of each commodity group in the total export for the years 1990 and 1999. Except for countries like Tunisia, South Africa, Senegal, Morocco and Madagascar, which have up to 50 percent of their exports comprising manufactured goods, the others have their exports concentrated either in food, agricultural raw materials, fuels or ores and metals. The only exception to the above are Egypt, whose exports of fuels and manufactures in 1999 were 37 percent each of her total exports and Togo, whose exports of food, ores and metals and agricultural raw materials in 1999 were, 21, 27 and 34 percent of her total exports, respectively.

[1] *Managing Director, SKOUP & CO. Ltd., Nigeria*

| Table 2.1: Structure of Merchandise Exports of selected African Countries, 1990-99 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Country | Merchandise Exports (US$ Million) | | Food % of Total | | Agric. Raw Materials % of Total | | Fuels % of Total | | Ores and Minerals % of Total | | Manufact-ures % of Total | |
| | 1990 | 1999 | 1990 | 1999 | 1990 | 1999 | 1990 | 1999 | 1990 | 1999 | 1990 | 1999 |
| Algeria | 12,930 | 11,900 | 0 | 0 | 0 | 0 | 96 | 96 | 0 | 0 | 3 | 3 |
| Benin | 288 | 389 | .. | 15 | .. | 80 | .. | 1 | .. | 0 | .. | 3 |
| Egypt | 2,585 | 3559 | 10 | 9 | 10 | 8 | 29 | 37 | 9 | 4 | 42 | 37 |
| Ghana | 987 | 1,820 | 51 | 55 | 15 | 11 | 9 | 5 | 17 | 8 | 8 | 20 |
| Guinea | 671 | 880 | .. | 8 | .. | 1 | .. | 0 | .. | 71 | .. | 20 |
| Kenya | 1,031 | 1,850 | 49 | 58 | 6 | 8 | 13 | 8 | 3 | 3 | 29 | 23 |
| Libya | 13,877 | 9,090 | 0 | 0 | 0 | 0 | 94 | 95 | 0 | 0 | 5 | 5 |
| Madagascar | 319 | 243 | 73 | 36 | 4 | 6 | 1 | 2 | 8 | 4 | 14 | 50 |
| Mali | 359 | 536 | 36 | 5 | 52 | 94 | - | 0 | 0 | 0 | 2 | 1 |
| Morocco | 4,265 | 7,350 | 26 | 31 | 3 | 3 | 4 | 2 | 15 | 15 | 52 | 49 |
| Niger | 282 | 276 | .. | 29 | .. | 1 | .. | 0 | .. | 67 | .. | 2 |
| Nigeria | 13,670 | 11,300 | 1 | 0 | 1 | 0 | 97 | 99 | 0 | 0 | 1 | 1 |
| Senegal | 761 | 1,010 | 53 | 13 | 3 | 3 | 12 | 17 | 9 | 10 | 23 | 57 |
| South Africa | 23,549 | 26,707 | 8 | 10 | 4 | 3 | 7 | 10 | 11 | 21 | 22 | 55 |
| Sudan | 374 | 755 | 61 | 67 | 38 | 27 | .. | 0 | 0 | 0 | 1 | 3 |
| Tanzania | 415 | 575 | .. | 70 | .. | 13 | .. | 0 | .. | 1 | .. | 16 |
| Togo | 268 | 220 | 23 | 21 | 21 | 34 | 0 | 0 | 45 | 27 | 9 | 18 |
| Tunisia | 3,526 | 5,910 | 11 | 11 | 1 | 1 | 17 | 7 | 2 | 1 | 69 | 80 |
| Uganda | 147 | 517 | .. | 78 | .. | 18 | .. | 0 | .. | 1 | .. | 3 |
| Zimbabwe | 1,726 | 2,110 | 44 | 51 | 7 | 10 | 1 | 2 | 16 | 11 | 31 | 27 |

*(Note: Components may not sum up to 100 percent of unclassified trade).*
*Source: World Bank, World Development Indicators, 1999.*

Further analysis of Table 2.1 reveals that, in 1999, for countries like Ghana and Nigeria, which depend principally on one primary commodity for their export earnings, the shares of that commodity in their total export earnings were 55 percent and 99 percent, respectively. The concentration on one commodity is so high that if there is a fall in the world prices of those commodities, there would be an immediate and consequential fall in the foreign exchange earnings, which will affect their ability to pay for their imports, and/or meet their other foreign obligations and invariably adversely affect the levels of their domestic economic activities.

It may be argued that with cyclical fluctuations in world prices, a country should build up reserves during a period of boom with which it should cushion itself in the following period of burst[2]. However, the length and magnitude of the boom are hardly identical with those of the burst, and so one can never be sure that whatever reserves were built up during the boom would be enough to cushion the country during the burst. Moreover, during a cyclical fluctuation, there could be a secular decline in the demand for a particular commodity arising from such things as changes in taste and preferences. Also, if the demand for the product is income inelastic, with the per capita income in the importing country rising, the demand for the commodity would be falling or, at best, would not rise as much as the rise in income. This would also affect the foreign exchange earnings of the exporting country.

In addition, a secular decline in the demand for a primary commodity may arise from the technological development of synthetic substitutes for the particular commodity. A good example is synthetic rubber which is a substitute for natural rubber. The development of synthetic rubber led to a decline in the demand for natural rubber and, therefore, a fall in its price.

With respect to the distribution or direction of African exports, Table 2.2 below highlights the situation.

[2] *Ssemogerere & Kasekende, 1999*

| Table 2.2 : Direction of African Exports, 1994-2000 (US$ million) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
| INDUSTRIAL COUNTRIES | 52,100 | 58,100 | 65,600 | 67,000 | 58,100 | 65,400 | 83,800 |
| USA | 12,012 | 13,013 | 15,884 | 17,203 | 13,221 | 14,308 | 22,677 |
| Canada | 917 | 992 | 1,128 | 1,224 | 1,068 | 1,096 | 1,618 |
| UK | 3,804 | 4,765 | 5,819 | 6,195 | 5,841 | 6,478 | 7,202 |
| France | 7,691 | 8,484 | 8,854 | 8,904 | 8,558 | 10,491 | 10,764 |
| Spain | 3,583 | 3,928 | 5,100 | 5,368 | 4,281 | 4,979 | 8,016 |
| Germany | 4,732 | 4,783 | 5,349 | 4,936 | 4,456 | 5,518 | 6,387 |
| Italy | 4,786 | 6,201 | 6,509 | 7,180 | 6,131 | 7,414 | 9,334 |
| Others | 1,457 | 1,593 | 1,696 | 1,599 | 1,454 | 15,120 | 17,800 |
| DEVELOPING COUNTRIES | 17,710 | 23,053 | 28,273 | 29,241 | 26,013 | 31,115 | 36,146 |
| Africa | 769 | 10,157 | 11,494 | 11,717 | 10,626 | 12,533 | 12,358 |
| Asia | 5,775 | 7,663 | 9,695 | 10,249 | 8,539 | 10,875 | 14,375 |
| Europe[a] | 1,077 | 1,853 | 2,519 | 2,374 | 2,200 | 2,40 | 2,850 |
| Middle East | 1,386 | 1,469 | 1,766 | 1,747 | 1,618 | 1,762 | 1,904 |
| Western Hemisphere | 1,783 | 1,912 | 2,799 | 3,153 | 3,031 | 3,704 | 4,658 |
| Other Countries | 37 | 48 | 53 | 59 | 81 | 31 | 29 |
| Total African Trade | 69,847 | 81,201 | 93,926 | 96,300 | 84,194 | 96,546 | 119,975 |
| PERCENTAGE DISTRIBUTION: | | | | | | | |
| INDUSTRIAL COUNTRIES | 65.2 | 64.5 | 65.1 | 63.7 | 62.5 | 64.4 | 69.0 |
| DEVELOPING COUNTRIES | 22.2 | 25.6 | 27.6 | 27.8 | 28.0 | 30.7 | 29.8 |
| Africa | 9.1 | 10.7 | 10.7 | 10.6 | 10.9 | 11.8 | 9.7 |
| Asia | 7.2 | 8.5 | 9.5 | 9.7 | 9.2 | 10.7 | 11.8 |
| Europe | 1.3 | 2.1 | 2.5 | 2.3 | 2.4 | 2.2 | 2.3 |
| Middle East | 2.2 | 2.2 | 2.3 | 2.2 | 2.3 | 2.3 | 2.1 |
| Western Hemisphere | 2.2 | 2.1 | 2.7 | 3.0 | 3.3 | 3.6 | 3.8 |
| Other Countries | — | 0.1 | 0.1 | 0.1 | 0.1 | — | — |

[a] *Include; Albania, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus Czech Republic, Czechoslovakia, Estonia, Foerce Islands, Georgia, Gibraltar, Hungary, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Macedonia, FYR, Malt, Moldova, Poland, Romania, Russia, Slovak Republic, Slovenia, Tajikistan, Turkey, Turkmenistan, Ukraine, Yugoslavia, Federal Republic, Yugoslavia N.A. and other European countries not specified.*

*Source: IMF – Direction of Trade Statistics Yearbook, 2001*

From Table 2.2, it is evident that between 65 and 70 percent of African exports went to the industrialised countries during the years 1994 to 2000, while about 22 - 30 percent of the exports went to developing countries during the same period. Intra-African trade accounted for only about 10 percent of total African exports. In other words, about 90 percent of African exports went to countries outside Africa in the years 1994 - 2000.

Within the industrialised countries, the most important importers of African exports were the United States and France, who accounted for 17 and 19 percent of African exports during the period under review. The implication of this direction of trade is that once there is an economic recession in the industrialised countries, it is transmitted immediately to Africa, and since inter-African trade is so insignificant, African countries cannot be of help to one another when such a situation arises.

## The Causes of Commodity Export Concentration in Africa

The causes of export concentration in Africa include:

- Resource endowment; and
- Public policy.

With respect to the former, for many African countries, the cause of the concentration in their export trade is the resource endowment they have. In the first place, many of them have a small population and produce only one agricultural commodity. Their export revolves around that commodity whether it is exported in a raw form or in a semi-processed form. This is due to colonial legacy. During the colonial era, some cash crops, like cocoa, coffee, tea, oil palm products, cotton, rubber, groundnuts, sisal, etc. were developed for export. The type of crop developed for a country depended on the type of its soil, which varied from country to country. To encourage the development of these crops, the colonial authorities designed elaborate policy packages to nurture, sustain and expand these export crops.

Further, Agricultural Research Institutes were established to help develop these crops, with attendant extension services to link the farmers and the Research Institutes, which acted as the sources of new technologies. The extension workers were well trained, equipped and motivated. The extension services were so designed that practically every farmer was reached by an extension worker and so information on the new technologies developed at the Research Institutes was diffused to the farmers who needed them.

In addition, the problem of marketing and export was not left to the individual farmers to solve. The colonial authorities established Commodity Marketing Boards to buy the commodities from the farmers for export. The Marketing Boards often advanced money to the farmers during land preparation and planting periods to enable them purchase some of the farm inputs they would need for their planting. In purchasing the crops from the farmers, the Marketing Boards would then recoup the advances they had given to the farmers. All these were responsible for the growth in African exports during the colonial period. For most countries, there was only one major cash or export crop because that was all the land could profitably support. Such a country is thereby saddled with one export commodity with its consequences. There were a few countries which were the exceptions, such as Nigeria and Cote d'Ivoire, which produced and exported multiple commodities. Nigeria exported cocoa, rubber, oil palm products, cotton and groundnuts, while Cote d'Ivoire exported cocoa, forest products, coffee and oil palm products. Another exception is South Africa which is in a category of its own.

As regards public policy, or lack of it, this was responsible for many Africa countries not to diversify their export base. For instance, those countries that started with only one export crop could have, through research, developed other crops for export. If there had been policy commitment to develop other crops, this would have been possible. Unfortunately, with the departure of the colonial authorities, most of the nationalist Governments which succeeded the former merely retained the policies and programmes which they had inherited.

In other cases, the African Governments allowed these policies and programmes to slip; leading to disastrous consequences on the countries' export and economic performance. Using the Nigerian case as an illustration, the discovery and exportation of crude oil from Nigeria from the early 1970's did havoc to Nigeria's traditional agricultural exports. This is shown below in Table 3 which gives the relative contribution of oil and non-oil exports to Nigeria's total export over some selected years.

Table 2.3: The Structure of Nigerian Merchandise Exports

| YEAR | OIL (N'million) | NON-OIL (N'million) | TOTAL (N'million) | OIL as % of Total |
|---|---|---|---|---|
| 1970 | 510.0 | 375.4 | 885.4 | 57.6 |
| 1975 | 4,563.1 | 362.4 | 4,925.5 | 92.6 |
| 1980 | 13,632.3 | 554.4 | 14,186.7 | 96.1 |
| 1985 | 11,223.7 | 497.1 | 11,720.8 | 95.7 |
| 1990 | 106,626.5 | 3,259.6 | 109,886.1 | 97.1 |
| 1995 | 927,565.3 | 23,096.1 | 950,661.4 | 97.6 |
| 1997 | 1,212,499.4 | 21,495.3 | 1,233,994.7 | 98.3 |

*Source: Central Bank of Nigeria, Statistical Bulletin, Vol. 8, No. 2, December 1997*

Table 2.3 reveals that the export of non-traditional commodities has been declining; leaving Nigeria as a mono-commodity exporter. This is because with the entry of crude oil into Nigeria's export basket, the incentives and special attention that used to be paid to agriculture were neglected. Although the Research Institutes continued with their activities, extension services which were the means by which information on new technologies was passed on to the farmers was allowed to disintegrate. In cases where extension workers were still employed, they were neither trained, equipped nor motivated. Farmers were left to fend for themselves.

The Commodity Marketing Boards which had been the link between the farmers and the external market lingered on until the Structural Adjustment Programmes of 1986 which swept them away. It has been argued that the marketing boards, which were Government parastatals, were used by Governments to impose undue taxes on farmers. Such taxes had disincentive effect on agricultural production. Their abolition was, therefore, justifiable. But one expected that some other instrument should have been established to intermediate between the farmers and the external market. Gone with the Commodity Boards was also the advance which the latter used to give to farmers during land preparation periods. The withdrawal of these facilities adversely affected the growth of traditional agricultural export commodities thus making the dominance of crude oil in Nigeria's export, an obvious outcome.

Further, in most African countries, industrialisation policy was not geared to the promotion of exports. If export promotion had been an explicit objective of industrialisation, it would have called for policies that would have made the objective realisable. Instead, the explicit objective of industrialisation was import substitution. In this regard, the local industries were protected through the imposition of high tariffs. Meanwhile, their inputs were imported and the local value added to the finished products was minimal. In addition, because of the high tariffs, even inefficient local companies thrived. Therefore, following the introduction of the Structural Adjustment Programme (SAP), many of these companies closed down because they could not effectively compete with imports. Further, coupled with the policy of import substitution, most African countries overvalued their domestic currencies. This made exports uncompetitive while, at the same time, encouraging imports. With SAP, the fixed exchange rate regimes were decontrolled; leading to another problem of depreciations of the local currencies.

Export Diversification Success Story

Although most African countries depend on one commodity for their export, there are three African countries which have successfully diversified their export bases. These are: South Africa, Tunisia and Morocco. Of these, South Africa is the most successful. From Table 2.1, it is clear that in 1999 South Africa's exports of food formed only 10 percent of its total exports, while those of agricultural raw materials accounted for 3 percent. The shares of these two sectors are relatively small because most of the food and agricultural raw materials produced are processed and then exported as manufactures. Further, it is important to note that manufacturing alone constituted 55 percent and ores and metals, 21 percent of South Africa's total exports. No other African country has reached that level of diversification in exports. Likewise, Tunisia has also diversified its export base. For example, in 1999, food exports accounted for 11 percent, while fuel exports were at 7 percent and exports of manufacturing products stood at 80 percent of its exports. This implies that food and agricultural raw materials were processed and exported as part of the country's manufactured exports. Similarly, Morocco's food exports constituted 31 percent of its exports in 1999; ores and metals formed 15 percent while manufactures stood at 49 percent. Given the relatively large size of food exports (31 per cent), it is obvious that there is still much room for further processing of those food items and, therefore, for more export diversification. Table 4 below shows the exports of South Africa, Tunisia and Morocco as a percentage of Africa's total manufacturing exports

Table 2.4: Exports of Manufactures by some African Countries (US$'million current prices)

| | 1990 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|
| ALL AFRICA | 16,426 | 22,721 | 22,213 | 23.490 | 26,645 | 21,960 |
| South Africa | 6,100 | 8,504 | 8,205 | 9,455 | 10,170 | 4,622 |
| | 37.1% | 37.4% | 36.9% | 40.3% | 38.2% | 21.0% |
| Tunisia | 2,621 | 3,749 | 3,742 | 3,759 | 5,128 | 5,244 |
| | 15.9% | 16.5% | 16.8% | 16.0% | 19.2% | 23.9% |
| Morocco | 2.246 | 3,754 | 3,673 | 3,802 | 3,932 | 4,082 |
| | 13.7% | 16.5% | 16.5% | 16.2% | 14.8% | 18.6% |

*Source: African Development Indicators, 2001*

## Challenges to Achieving Export Diversification

The preceding section showed that African countries that have diversified their export base are also those that are more industrialised. Industrialisation is, therefore, closely associated with export diversification. To this effect, it follows that the challenges to export diversification are similar to those for industrialisation.

As earlier stated, most African countries export unprocessed agricultural commodities, food items or raw materials. If these items could be processed before being exported, more value would be added to them and this could form the beginning of the manufacturing process. Unfortunately, some countries have not been able to take this first step, and where the step was taken, it was met with failure. The failure could be attributed to either one or a combination of factors, including lack of entrepreneurship, skills, management capacity, appropriate technology, market accessibility and inability to compete, as well as unavailability of appropriate project financing.

### Entrepreneurship

Of all the challenges listed above, the most important is entrepreneurship. It is the entrepreneur who will perceive and identify an opportunity as profitable and will start planning how to exploit it. The entrepreneur is the prime mover. He also has to interface with the government or the regulatory authority to take advantage of any assistance the latter has to offer to process the products for the export market.

Apart from entrepreneurial skills, opportunities for product creation and export also exist in other areas, especially in Information Technology (IT). This is a relatively new area, which African countries must embrace if they have to overcome some of the barriers to trade. This is knowledge based and African educational institutions must be organised along profitable lines to produce software programmes that could be used locally.

Software production has the potential to generate export earnings. In this regard, African countries should not allow the digital age to pass them by. As such, it is a development opportunity that African governments should support and exploit.

### Management Capability

The success or failure of the processing enterprise will, to a large extent, depend on whether there are management capabilities or not. In most African countries, people with managerial abilities and experience, particularly in the industrial sector, are few. In this regard, African countries must put much emphasis on the development of managerial capabilities of their human resources.

### Appropriate Technology

African countries must decide on the type of technology that is appropriate for their circumstances. That decision has to take into consideration several factors, such as the reliability and stability of electric power supply, the availability and competence of local personnel to repair the technology, the quality of the finished product that is to be produced, the relative costs of the different equipment and machinery, etc. In some cases, a balance has to be struck among the various considerations, and that is where capable and experienced leadership would be required.

### Market Accessibility/Ability to Compete

An export commodity has to have access to foreign markets. This is primarily to protect domestic employment and prevent underutilisation of capacity. Inaccessibility to foreign markets could also be as a result of a product not being competitive. Competitiveness is not only in the area of price. A commodity has to be packaged in a way that will appeal to consumers. This is necessary and important if it has to be effectively utilised. The problems of accessibility and competitiveness can be overcome if African exporters developed a good knowledge of the markets being targeted.

## Adequate Financing

Developing an export commodity requires a lot of funds and financing becomes crucial. If new processing plants will need to be set up, the cost of that will depend on the capacity of the plant, the kind of technology, the availability of infrastructural facilities, such as roads, electricity, telephone, railways, etc.

In addition to the capital investment, one has to consider the running costs which have to be met. When these facilities are not available or are not reliable, they become sources of additional costs to doing business, thus, making the products being produced less competitive. In addition to the above, producing for export has its own risks. Therefore, to assist exporters break into the export market, African countries must come up with packages of financial incentives designed to help the exporters. As Osuntogun, Edordu and Oramah[3] rightly observed, the introduction of schemes, like foreign currency retention; Duty Drawback; Export Credit Guarantee and Insurance, could go a long way to entice exporters to produce more for exports.

## Conclusions

In conclusion, African countries must diversify their exports baskets if they have to realize meaningful growth and development of their economies. Evidence from a few African countries that have diversified shows that these countries have achieved relatively economic growth and development. Currently, over 60 percent of the African exports go to the OECD countries. Only about 10 percent is accounted for by intra-African exports. This is unacceptable and must be addressed, urgently.

[3]*Osuntogun, Edordu and Oramah, 1997*

For many African countries, new agricultural commodities can be developed for export and the production of existing ones can be increased for more export. But to achieve this, more commitment has to be made into research and extension services. Most importantly, new marketing organisations, preferably cooperatives, have to be set up to replace the former Commodity Marketing Boards.

In this regard, to promote export diversification in Africa, the focus must be put on processing of raw materials and manufacturing. Whatever encourages the development of manufacturing will encourage the diversification of African exports. In this respect, entrepreneurial skills, management capability, appropriate technology and adequate financing are crucial to the development of manufacturing and export diversification. Production for export should, in some cases, be the objective of economic policy. Attracting foreign direct investment would definitely help the cause of export diversification.

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