

Abstract

This study argues that one of the fundamental causes of Africa's structural problem was precisely lack of diversification and excessive dependence on a narrow base of a few commodity production and exports. On the other hand, the success of East Asian countries to shift from producing low productive primary commodities to producing more productive and diversified manufactured products reflects the fact that even latecomers are able to diversify into high growth areas if some of the pre-conditions are fulfilled. Based on these facts, this study conducts a two-step hierarchical empirical investigation that first identifies the key factors explaining vertical and horizontal export diversification, using FGLS estimation; and thus examines the impacts of diversification on economic growth, using a SURE estimator as well as a three-stage least squares regression with instruments for balanced panel data of 41 countries from SSA and East Asia over the period 1975-2004. The results reveal that investment in human capital and physical infrastructure through foreign investment as well as domestic capital formation, a fair and an open trading framework, efficient institutions, and stable macroeconomic and political environment are key differentiating factors in explaining vertical and horizontal export diversification and thus contribute significantly to the observed differences in growth performance across countries and between the two regions. The study also indicates that the effect of natural resource endowment on diversification depends on the type of resources, and if properly managed it is a blessing and can be used as a source of capital formation and growth. While vertical and horizontal export diversification can both stimulate growth to different degrees, it is notable that vertical diversification is the principal engine of structural economic transformation and sustainable economic growth through its dynamic spillover effects and in facilitating forward and backward linkages within various economic sectors. Thus, SSA should make more effort to diversify vertically and gradually shift production and exports from customary conventional land-based products into higher value-added manufacturing products. While the study confirms convergence in economic growth for East Asian countries to catch up with the developed world as predicted by traditional economic theory, there is no however a sign of convergence in SSA economies, particularly in low income SSA countries. Thus, this study argues that the gap between East Asia and SSA's diversification and economic performance was mainly because of policy and commitment differences. The role of the government, in this context, should be broad based in pursuing sound macroeconomic policies, establishing an open economy, providing the basic social, legal, political and economic infrastructure and institutions, creating a suitable climate for private enterprise, and ensuring a high level and appropriate composition of human. The findings have wide implications especially for SSA countries for which export diversification is a necessity, not an option.

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The findings, interpretations and conclusions expressed in this thesis are entirely mine and I solely take responsibility for any errors and omissions in this study.

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List of Abbreviations and Acronyms

AGOA-----	African Growth and Opportunity Act
ASEAN-----	Association of Southeast Asian Nations
CFA-----	Communauté Financière Africaine
DOMINV-----	Domestic Investment
DWH-----	Durbin-Wu-Hausman
ECA-----	-Economic Commission for Africa
EU-----	-European Union
FD-----	-First Differencing
FE-----	Fixed Effect
FGLS-----	Feasible General Least Square
GDP-----	Gross Domestic Product
GDP/C-----	-Gross Domestic Product per Capita
GFCF-----	Gross Fixed Capital Formation
HEDIV-----	-Horizontal Export Diversification
HHI-----	Herfindahl-Hirschmann Index
HUMCAP-----	Human Capital
IFAD-----	International Fund for Agricultural Development
IFPRI-----	International Food and Policy Research Institute
IMF-----	-International Monetary Fund
IOM-----	--International Organization for Migration
ISI-----	--Import Substitution Industrialization
JV-----	-Joint Venture
LDC-----	Less Developed Countries
MDGs-----	Millennium Development Goals
MITI-----	Ministry of International Trade and Industry
MNC-----	Multi-national Corporations
NIEs-----	New Industrializing Economies
NEPAD-----	New Partnership for Africa's Development
NTM-----	Non-tariff Measures
OECD-----	Organization for Economic Co-operation and Development
OLS-----	Ordinary Least Square
PHYSCAP-----	Physical Capital
PPP-----	Purchasing Power Parity
R & D-----	Research and Development
RE-----	Random Effect
SEM-----	-Simultaneous Equation Model
SITC-----	Standard International Trade Classification

SME-----	-Small and Medium-sized Enterprises
SSA-----	-Sub-Saharan Africa
SUR-----	-Seemingly Unrelated Regressions
SURE-----	-Seemingly Unrelated Regression Estimation
TFP-----	-Total Factor Productivity
3 SLS-----	-Three-Stage-Least Squares
TMX-----	-Total Manufacturing Exports
TX-----	-Total Exports
UNCTAD-----	-United Nations Conference for Trade and Development
UNDP-----	-United Nations Development Program
UNECA-----	-United Nations Economic Commission for Africa
USD-----	-United States Dollar
VEDIV-----	-Vertical Export Diversification
WB-----	--World Bank
WDI-----	-World Development Indicator
WTO-----	-World Trade Organization