

Can export promotion agencies stem deindustrialisation in Sub- Saharan Africa?

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Motivation

- Chor and Manova (2010): limited export opportunities ↔ manufacturing plants to ↓ production & employment
- Stein (1992): to augment living standards, the future of Africa will require some form of industrialisation
- Industrial/exporting firms, upfront costs, cash flows or reserves
Chor and Manova (2010) : for important investments, external finance needed
- Export promotion agency (EPA) – an agency implementing wide range of policies to promote manufacturing and exports – has gained credence in the policymaking arena, especially in SSA.
Their effects?

EPAs: What they do & do they have an effect?

28 v. 20 SSA adopted EPAs, can it help reverse the manufacturing decline?

EPA deals

- Lack of capital (markets tensions, pecking order)
- Afford guarantees & credit insurance (credit worthiness)
- Credit, political, country and legal risks insurance coverage
- Subsidise borrowing costs, direct financial assistance, market info, EPZs, facilitated credits; WK, TF, TC
- Marketing, opportunities, quality & costs control, and production efficiency
- Promote specific industries, mostly manufacturing

Highlights

- IVA \uparrow by 3.24% and 14.64%, three and seven years after the adoption of EPA
- Trade to GDP ratio \uparrow by 70.61% three years after EPA
- EZPs and EPAs \downarrow customs & trade regulatory burdens
- EPAs \downarrow collateral, \uparrow Private credit to GDP, \uparrow WK
- Facilitated credit \downarrow constraint for external finance

Questions

1. Have SSA's EPAs' policies of targeting the manufacturing sector been successful at stemming the progression of deindustrialisation in SSA?
2. Second, have these EPAs been successful in aiding manufacturing firms by removing some barriers to external finance?

Hypotheses

- H_1 : There is a positive relation between EPA and the share of manufacturing and industry value added to GDP as well as the trade to GDP ratio
- H_2 : If EPA facilitates access to external finance, then there is a positive relation between EPA and private credit, and a negative relation with the spread and the lending risk premium

Data

- 28 SSA countries with EPA
- Gabon (first): POMOGABON 1964 and South Africa (latest): TISA 2009
- Ghana, Burkina Faso and Nigeria in the 1970s
- 20 SSA without EPA
- EPA main source: International Trade Center [detailed info on TPOs]
- Lederman et al. (2010) offer comprehensive info on EPAs
- Macro variables: WDI [1960-2011] & Enterprise Surveys (2006-2011)
- WDI (IVA, MVA, macro vars)

Methodology

- Spence (2008), EPA cannot be evaluated for lack of CF
- We apply difference-in-differences technique (natural –trends)
- We match EPA country and non EPA country
- We compare IVA, MVA and T/GDP (based upon initial averages with insignificant t-tests of mean differences)
- Gertler et al. (2011) point that one important key criterion of the DD test is that the treatment and comparison groups do not necessarily need to have the same pre-intervention conditions

Methodology

- ES data (2006-2011)
- Sensitivity of the results: Placebo effects and ATEs
 - Performed before-and-after tests: (ATE)
 - As before, matching is based upon initial criterion of IVA, MVA and Trade
 - About 116 countries with EPA

Literature

- Belloc and Di Maio 2011; English and Wulf 2002; Gil , Llorca, and Serrano 2008; Lederman et al. 2010 and Pangestu (2002):
 - correct for market failures due to externalities
 - missing markets
 - potential spill-overs
 - Information asymmetries
- Kotabe and Czinkota (1992) : case for public assistance to exporters is limited by lack of empirical evidence

Literature

- Spence (2008) asserts that
 - export promotion programmes (EPPs) should be temporary;
 - evaluated critically and quickly abandoned if they underachieved the expected results;
 - agnostic about which industries to promote; and
 - concurs with [Bhagwati \(1988\)](#) and [Nogués \(1990\)](#) that EPAs are not a superior substitute for other key supportive ingredients such as education, infrastructure, and responsive regulations.

Literature

- English and Wulf (2002): export finance, inhibitor to exports in low-income countries
- Belloc and Di Maio (2011): weak financ'1 market, most important obstacle to industrial development
- Malouche (2009)
 - Sierra Leone commercial banks prefer to invest in government securities, and in Ghana exp. credit suppliers undercapitalised

Results

	Variable	Counterfactuals
Three Years	Industry, value added (% of GDP)	3.235* (1.426)
	Manufacturing, value added (% of GDP)	3.549 (5.103)
	Trade (% of GDP)	70.607*** (19.527)
Five Years	Industry, value added (% of GDP)	6.545 (4.129)
	Manufacturing, value added (% of GDP)	5.856 (7.137)
	Trade (% of GDP)	68.936** (23.030)
Seven Years	Industry, value added (% of GDP)	14.641** (6.569)
	Manufacturing, value added (% of GDP)	20.010 (11.951)
	Trade (% of GDP)	72.261 (44.055)
Ten Years	Industry, value added (% of GDP)	19.504 (11.278)
	Manufacturing, value added (% of GDP)	10.988 (11.118)
	Trade (% of GDP)	12.694 (25.849)

Results

	Variable	Counterfactuals
Three Years	Interest rate spread (%)	1.978 (5.748)
	Lending interest rate (%)	2.310 (5.977)
	Real interest rate (%)	-2.853 (2.080)
	Log Net domestic credit (million \$US)	8.321** (3.540)
Five Years	Interest rate spread (%)	0.468 (3.341)
	Lending interest rate (%)	-0.262 (4.609)
	Real interest rate (%)	-4.894** (1.768)
	Log Net domestic credit (million \$US)	10.684*** (2.962)
Seven Years	Interest rate spread (%)	-0.293 (3.906)
	Lending interest rate (%)	1.517 (4.033)
	Real interest rate (%)	-1.832 (3.691)
	Log Net domestic credit (million \$US)	6.532* (3.889)

Results

- Placebo and ATE tests confirms main results
- Also, auxiliary regressions' results show EPA
 - ↑ manufacturing firms' access to external finance
 - ↑ % of firms exporting directly
 - ↑ working capital for manufacturing firms
 - ↑ facilitated credits for manufacturing
 - ↓ collateral requirements for manufacturing
 - joint effect EPA/EPZ ↓ customs & trade regulations for manufacturing firms

Policy lessons

- Non EPA countries in SSA should
 1. adopt the policy
 2. subsidise credit, provide matching grants, proceed with public sector equity infusion
 3. offer fiscal incentives such as tax breaks, direct subsidies, and import tariff exemptions

Policy lessons

3. offer credit insurance for credit, country and other counterparty risks
4. facilitate manufacturing firms' access to export finance from banks, traditional FIs
5. both current and prospective EPAs may provide/increase guarantees to lenders making loans to exporters operating in the manufacturing sector
6. mainstreaming EPA, increase their funding, train their personnel, better their governance

Conclusion

1. EPAs have strong effects on manufacturing in as early as three years following their implementation
2. EPAs may assume certain tasks left out by financial intermediation in aiding manufacturing firms in overcoming certain hurdles to external finance
3. SSA countries without EPAs might have missed out an opportunity to boost their manufacturing sector
4. Counterfactuals suggest that the decline in industrialisation in the region marked by staggering economic losses could have been worse, absent EPA
5. In all, EPA may to be an effective tool for industrialisation

The End

Questions?

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Comments?

Thank you!!!