



DIRECTIONS IN DEVELOPMENT

Trade

# Pathways to African Export Sustainability

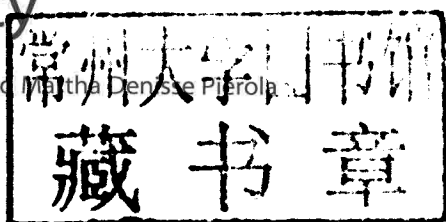
Paul Brenton, Olivier Cadot,  
and Martha Denisse Pierola



THE WORLD BANK

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## Abbreviations

ACP	African, Caribbean, and Pacific
ASEAN	Association of Southeast Asian Nations
ASYCUDA/SYDONIA	Automated System for Customs Data/ Système Douanier Automatisé
CACM	Central American Common Market
CMT	cut, make, and trim
COMESA	Common Market for Eastern and Southern Africa
COMTRADE	United Nations Commodity Trade Statistics Database
CPC	crop-protection chemical
DID	difference-in-difference
ECA	Europe and Central Asia
ECOWAS	Economic Community of West African States
EMIC	exporter country migrants in importing country
EPA	Environmental Protection Agency
EU	European Union
EU-REP	Euro-Retailer Produce Working Group

FDA	Food and Drug Administration
FD&C	Food, Drug and Cosmetics Act
FFV	fresh fruit and vegetables
FSIS	Food Safety and Inspection Service
GAP	good agricultural practices
HACCP	hazard analysis and critical control points
HS	Harmonized System
ICM	integrated crop management
IPM	integrated pest management
IT	import tolerance
KM	Kaplan-Meier survivor functions
LAC	Latin America and the Caribbean
LPI	Logistics Performance Index
MENA	Middle East and North Africa
MERCOSUR	<i>Mercado Común del Sur</i> (Southern Cone Common Market)
MRL	Maximum Residue Levels
NAFTA	North American Free Trade Agreement
OECD	Organisation for Economic Co-operation and Development
PIP	Pesticide Initiative Program
PPP	Purchasing Power Parity
RASFF	Rapid Alert System for Food and Feed
RFII	Revealed Factor Intensity Indices
ROO	rules of origin
RPED	Regional Program on Enterprise Development
SACU	Southern African Customs Union
SADC	Southern African Development Community
SITC	Standard International Trade Classification
SPS	sanitary and phytosanitary measures
SSA	Sub-Saharan Africa
TFP	total factor productivity
UAE	United Arab Emirates
UEMOA	Union Economique et Monétaire Ouest Africaine (West African Economic and Monetary Union)
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
U.S.	United States



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# Introduction

*African exporters suffer from low survival in international markets. This means that they fail more often than other exporters, undermining their reputation with foreign buyers and condemning themselves to incurring again and again the setup costs involved in starting new relationships. This high churning is a source of waste, uncertainty, and discouragement. Can something be done about it?*

Is this really the case? The paragraph above had the pessimistic overtone of most of the literature on African economic performance, whether on export markets or otherwise. But does this pessimism withstand scrutiny? This report will show that the answer is “no.” When survival performance is controlled for by observable country characteristics such as—among other things—the level of income, Africa is no outlier. African exports have short life expectancies, but not any shorter than comparable countries. Beyond income levels, short export survival is largely explained by the difficult business environment in which African exporters operate. Once measures of this environment are taken into account, African countries are by no means “below the regression line” in terms of export survival.

There is more to dispel the dismal tone of our opening paragraph. African exporters, like those in other low-income countries, show extraordinarily vigorous entrepreneurship. Entry rates into new products and new markets are high in spite of the formidable hurdles created by

poor infrastructure and landlockedness for some or limited access to major sea routes for others. African exporters experiment a lot, and frequent failure is a price to pay for a chance to succeed. In fact, it is the basic mechanism through which populations improve, through what biologists call "Darwinism" and economists call "creative destruction." In that sense, low survival is good news.

Why should we worry, then? We should be concerned about low export survival for the same reason we are concerned with high infant mortality. Every failure has a cost, and the very high failure rates that we observe suggest, beyond experimentation, that the environment must be so rough that it is bound to entail a large proportion of "accidental" deaths. It is those deaths that we want to reduce through better policies.

Lessons from empirical evidence gathered in background papers to this report and from a recent survey of African exporters carried out by the World Bank, also as background to this report, suggest that the environment in which African exporters operate can be improved through traditional prescriptions to improve trade facilitation, the legal environment of business, better access to credit, and also through more proactive interventions targeting the firms themselves, provided that those interventions are well designed.

This report provides tentative leads toward such policy prescriptions, based on an overview of the empirical evidence. Chapter 1 sets the stage by putting Africa's export-survival performance into perspective and proposing a framework that will guide the interpretation of empirical evidence throughout the report. Chapter 2 covers country-level determinants of export sustainability at origin and destination, including the exporting country's business environment. Chapter 3 explores some of the firm-level evidence on what drives export sustainability, including uncertainty, incomplete contracts, learning, and networks. Finally, chapter 4 offers tentative policy implications.

The main conclusions from this overview of the causes of Africa's low export sustainability should be taken with caution both because of the complexity of the issue and because of the very fragmentary evidence on which the overview is based. We should be more cautious in drawing policy implications, as hasty policy prescriptions are the most common trap into which reports of this kind can fall. A first, solid conclusion is that we need substantial additional work on the nature and causes of low export survival rates in developing countries to determine the path to high export sustainability. We close the report with some suggestions of where new work is most needed.

Yet, before that, we do propose a number of additional tentative remarks linking this work with recent analysis on barriers to trade in Africa presented in the World Bank report *De-Fragmenting Africa: Deepening Regional Trade Integration in Goods and Services* (<http://go.worldbank.org/MKK5U1Y2D0>). First, Africa suffers from a low-survival syndrome because its business environment is a difficult one. Trade costs are high, directly—because of high freight rates and long inland routes; and indirectly—because of burdensome customs and administrative procedures and substantial non-tariff barriers. Productive capacities are constrained by many factors, prominent among which is the lack of access to critical services, including credit from financial services providers, which prevents African exporters from responding in time to escalating buyer demands.

As a result of this difficult environment, Africa may find it difficult to nurture the kind of midsize exporters that have proved, in other environments, to be the most adaptable and resilient to changing competitive situations. Because of the continent's small and fragmented domestic markets and low levels of intra-regional trade, African exporters have little opportunity to gain local experience before being approached by larger buyers, often resulting in mismatch and premature failure.

However, there are grounds to be optimistic. Intra-regional trade is growing but remains a small fraction of its potential. Although tariff barriers have been reduced or removed in many regional communities in Africa, non-tariff barriers remain a major constraint to trade in goods while limits on market access and restrictive regulatory regimes limit trade in services. While still a major issue, the infrastructure deficit in Africa is coming down—but here it is important to coordinate investments in infrastructure with policy reforms that deliver competitive services. In addition, as African diasporas abroad gain in economic status, they are posited to help the continent's exporters reach out to new markets with which they have little familiarity, like other—especially Asian—diasporas have long done for their home countries.

Governments can help secure and accelerate these positive trends. They can help, first, by vigorously pursuing trade-facilitation agendas and by working to improve the business environment in which exporters operate. They can also work to improve the performance of export-promotion agencies with a view toward better sustainability of results and more strategic assistance on optimal long-term export-expansion paths.

Efforts to promote the deeper integration of African markets through more effective regional agreements will help African exporters accumulate

experience on markets with which they can rapidly gain familiarity and where consumers have similar preferences. These efforts should focus on providing transparent, predictable, and stable trade policy environments and avoid abrupt changes in non-tariff barriers as a response to temporary market disruptions or to lobbying demands. They should also target the simplification and relaxation of rules of origin so as to foster the emergence of regional supply chains populated by firms of similar size and outlook, as this has been shown in other contexts to be a factor in long-lasting relationships.

Finally, African countries and international organizations should engage in dialogue with industrial countries to reduce the current degree of discretionarity in the application of sanitary and phytosanitary standards for agri-food products, as is current practice in some Organisation for Economic Co-operation and Development countries, based on reputation as much as evidence. This tends to penalize new exporters with no established records, creating uncertainty through a constant risk of rejection.

Since this is an early report in the analysis of export survival in Africa, there is clearly much scope and need for further research. The following are a number of areas that stand out for additional analysis:

- There is a need to understand the role of export intermediaries. For a number of products, especially raw agricultural products, exports are not undertaken by firms that produce products but rather by export agents that sell overseas the output of a large number of smallholder producers. These intermediaries may be making strategic decisions on where to sell such produce according to prices in particular markets. As such, they may shift exports from one market to another in a way that suggests regular entry and exit from particular markets in the customs statistics.
- The analysis thus far has used official customs statistics and information from firms that are exporting officially. A vast number of traders in Africa operate in the informal sector, in large part because of the hostile business environment and the high costs of formally crossing borders. Part of the pathway to export sustainability will be to facilitate the movement of exporters from the informal to the formal sector, an effort that will have to include addressing the key factors that may undermine their survival as formal exporters. Identifying success stories of exporters that have successfully migrated from the informal to the formal arena can provide important information in this regard.

- The analysis here has focused entirely on trade in goods. An increasingly important feature of the global economy and regional markets in Africa is trade in services. Trade in services holds enormous potential for regional integration in Africa, especially for landlocked countries whose opportunities to trade in manufactures are limited relative to large coastal countries. It would be very useful to look at the survival rates of services flows across borders and their determinants and to see if and how they differ significantly from the situation regarding the survival of goods exports flows.
- More studies are needed that carefully assess the impact of trade promotion and other efforts to encourage exporters, and to include in the analysis not only the impact on export volumes but also on the survival rates of the underlying export firms. Of particular use would be studies looking at impacts of programs that have supported greater participation in regional trade on the subsequent entry of beneficiary firms into global markets.



