DETERMINANTS OF PRODUCT EXPORT DIVERSIFRICATION AT THE EXPORT MARGINS IN DEVELOPING AND TRANSITION COUNTRIES

Merima Balavac, University of Sarajevo, Bosnia and Herzegovina
merimabalavac@efsa.unsa.ba

Abstract

This paper investigates investigates what determine product export diversification at the extensive and intensive margins in developing and transition economies in 2005-2011 period. Our results indicates that it is important to distinguish between the sources of export diversification at both margins in order to develop correspondingly differentiated policy measures. In order to account for dynamics of export diversification process, time invariant and slowly changing variables (distance, entry and export costs) and country heterogeneity we opt for the System Generalised Method of Moments (SGMM). The analysis is comprised of two parts: first, we estimate a model for a full sample of aid recipient developing and transition countries; and then we proceed to analyse transition countries only.

The estimated results suggest that:

- that estimating one model for diversification may not be adequate and that more insights can be obtained if diversification is analysed at both export margins
- domestic market entry costs discourage diversification at both margins
- trade facilitation costs appear as diversification impediments only at the intensive margin
- diversification of exports at any margin is not affected by purely variable costs (such as tariffs) and international trade costs (such as distance
- aid for production capacity increase export diversification at both margins in full sample of developing and transition countries
- aid for production capacity increase export diversification at the extensive margin in sample of transition countries
- the large long-term effect of aid, donors should consider aid sustainability over a certain time period prior to their assessment of aid effectiveness and corresponding decisions on aid allocation
- the reported findings remain robust to inclusion of additional independent variables, alternative definitions and measurements of diversification, entry and export costs and aid.

The general conclusion is that costs of domestic market entry (fixed costs – i.e. of setting up the business) and trade facilitation measures (with elements of fixed and variable costs) rather than tariffs and distance are significant for export diversification in developing and transition countries. This finding is in accordance with discussion in the recent literature suggesting that the effect of trade facilitation and removal of non-tariff barriers on trade exceed the effect of lowering tariff barriers. This suggests a quest for complementary policies such as implementation of institutional reforms and trade facilitation measures. In addition, the results highlight the effectiveness of aid for production capacity for export diversification in the recipient countries.

Keywords: Export diversification, Extensive and Intensive margins, Aid for production capacity