

## **PATTERN AND DETERMINANTS OF EXPORT DIVERSIFICATION IN BANGLADESH: AN EMPIRICAL ASSESSMENT**

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***Abstract:** This paper analyzes the pattern and the main determinants of export diversification in Bangladesh. A large data set of Bangladesh export during the period of 1980-81 to 2006-07 has been used for this purpose. Three main indexes have been used to explore the trend of export concentration and these three indicators of export diversification were calculated to determine the trend of export from Bangladesh. The Hirschman Index, the Ogive Index and the Entropy Coefficient were used to analyze the diversification pattern of export from Bangladesh. From the analyses, robust evidence has been found across the specifications and indicators that the export basket of Bangladesh has continued to remain relatively undiversified and the country has not been able to translate its comparative advantage into competitive advantage. Further, this study reveals that the export growth and overall economic growth are highly correlated and a robust restructuring in trade policy is needed for gaining momentum in diversification of export in Bangladesh. The analyses show that exports at the intensive margin account for the most important share of overall trade growth. At the extensive margin, geographic diversification is more important than product diversification, especially for developing countries. Taking part in free trade agreements, thereby reducing trade barrier and costs, development of infrastructure and communication, extensive financing for export and policies emphasizing the development of human capital is now the need of time for improving diversification of export.*

***Keywords:** Export Diversification, Economic Growth, GDP, Bangladesh*

### **INTRODUCTION**

It is widely acknowledged that an economy's vulnerability to exogenous economic shocks is largely determined by its degree of exposure to the global economy— that is, by its degree of economic openness (Rodrik, 2010; World Bank, 2010 and Briguglio, 2009). Since economic openness is measured as the ratio of international trade to GDP, the transmission channels by which economic

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openness impact vulnerability can be import- or export-related. The contribution of export diversification in reducing the instability of export earnings is widely accepted in principle in this regard. If a country can judiciously foster a particular composition of exports, with the result that the variability of earnings from one subset of exports is wholly or largely offset by that from another subset of exports, then that country will tend to face less uncertainty in connection with its ability to finance a given, or higher, level of imports. Thus, policymakers in commodity exporting developing countries have frequently focused on trade, industrialization, and other structural policies for fostering greater exports of nontraditional goods, especially manufactures. Attempting, however, to achieve greater stability of export earnings through the adoption of specific policy measures raises some fundamental economic questions. One important set of questions relates to the comparative advantage of commodity dependent countries; namely, how do factor endowments influence the range of practical possibilities for diversifying the exports of these countries? Another set of difficult questions concerns why, without special government incentives to support trade or other sectoral policy objectives, the "invisible hand" of the private market might fail to promote greater export diversification.

Economies that are highly import-dependent— especially on strategic imports— appear to be more vulnerable to the availability and cost of such imports. “There is a tendency for small states to be more vulnerable [because of strategic import-dependence] than other groups of countries” (Briguglio, 2009). For economies highly dependent on exports, the volatility in both export earnings and economic growth associated with economic shocks makes them extremely vulnerable. Given that exports constitute a significant and growing share of GDP for most developing economies— over 66 percent of developing countries have an export share exceeding 20 percent— an increased dependence on exports results in significant fluctuations in export earnings. Furthermore, export revenue volatility is strongly linked to growth volatility, so significant fluctuations in export earnings result in fluctuations in economic growth.

From an economic perspective, a country’s exposure to external economic shocks generally depends on its reliance on exports because export earnings finance imports and also contribute directly to investment and growth. Production structures primarily oriented towards export-led growth expose countries to external shocks more than production structures reliant on domestic demand (Foxley, 2009).

## **LITERATURE REVIEW**

Derosa (1992) comments that the requirements for diversifying exports are more stringent yet, because the production of non-traditional goods must first exceed the domestic demand for these products. Thus, policies to promote export diversification pose the danger of expanding output beyond the locus of efficient possibilities for diversification, with the result— remarkably similar to the

outcome of an import-substitution policy— that full employment of relatively abundant natural resources in the economy can only be maintained by reducing the relative factors reward of these resources and thereby reducing the economic welfare of the country in general.

Comparative advantage should not be thought of primarily in static terms. The endowment of resources and skills can and does develop and change over time. In addition, there is a learning potential to acquire skills and productive capacity in new industries. A country's comparative advantage can be intentionally altered such that it is acquired in new fields. This is the role of industrial policy, but a number of current and proposed rules under the WTO severely curtail the use of interventions aimed at extending the comparative advantage of a country (Parris, 2005). In sum, blanket liberalization may not be optimal if it increases specialization beyond a certain point.

Pacheco and Pierola (2008) comments that, from a policy perspective, these results point quite clearly at some policy areas where policy-makers could engage in order to promote trade and diversification. The finding that most of the export growth takes place at the intensive margin could be used by governments with scarce resources to foster export promotion activities rather than to focus on innovation on the basis of a higher expected payoff. For instance, moving up the quality chain in the existing exports seems to be more important. Policy-makers should especially take into account that at the extensive margin, geographical diversification is more important than product diversification. In other words, focusing on product innovation may not necessarily always be the best course of action.

The policy implications from these findings suggest that an emphasis on diversifying exports in South Africa's trade and industrial policies— as is currently the case— can be justified. From the discussion of this paper the implication is that a prerequisite for export diversification would be to diversify the production structure of the domestic economy. As was stressed, this does not require a return to the infant industry argument for protection: trade policy has been found not to be the first-best policy to address this. Better ways that have been identified from the literature include financial sector development/credit market intervention coordination of investments between sectors and science and technology policy to raise the rate of creativity (innovation) and information spillovers in a country in order to find dynamic comparative advantages. Also, production diversification may be the result from a growing demand for a variety of goods as South Africa's GDP per capita increases which, in turn, would suggest that policies which would allow a broad sharing in the benefits of economic growth would by itself be better for diversification and even yet further growth. In this way South Africa's high income distribution may act as a brake on the diversification of its production and export sectors (Naudé<sup>1</sup> and Rossouw, 2008).

Agosin, et al. (2009) found the role of several factors and specify three different indicators of export diversification. First, we look at the effect of trade openness and financial development. We find robust evidence across specifications and indicator that trade openness induces specialization and not export diversification. In contrast, we find that financial development helps countries to diversify their exports. Second, we also analyze the effect of real exchange volatility and overvaluation. In general, our results suggest a more significant role for real exchange rate overvaluation than volatility. In only one of diversification indexes volatility seems to effect negatively diversification, but the negative effect of exchange rate overvaluation tend to be robust across the indexes. Third, we shed light on the effects of factor endowments looking at how human capital accumulation is associated with diversification. We find robust evidence that higher schooling helps to diversity exports. This could be consistent with the idea that factor accumulation moves countries across diversification cones going from primary exports to manufactured goods. In these last goods, the scope for diversification would be higher.

Ferdous (2011) concludes that export diversification had been almost steady over the years in East Asian economies and all the countries in the study have concentrated trade in manufacturing products. Furthermore, different factors help to create different degree of specialization. According to the findings of the study, exchange rates and tariff rates have significant negative impact on specialization. On the other hand, greater economic integration in East Asian economies leads to export diversification and GDP of the exporting country tend to be positively related with the trade specialization of that economy.

## **OBJECTIVES**

The broad objective of this paper is to determine the trend of export diversification in Bangladesh. Besides this broad objective, this paper also attempts to reveal few other specific facts of export diversification in Bangladesh as follow:

1. To assess the concepts of Export Development and Export Diversification
2. To evaluate what the theory says about Export Development and Diversification?
3. To find empirical evidence that shows on the links (correlates) between export diversification, exports growth, and overall growth.

## **METHODOLOGY**

Both exploratory and descriptive research designs have been used. The nature of this study is both quantitative and qualitative, but it is rooted in a qualitative analysis along with related data that recognizes the importance of locating the research within a particular export-import historical context. It also takes

seriously the socio-economic construction of these contexts and the identities participants construct within them.

The methodology used in this article requires gathering relevant data from the specified documents and compiling databases in order to analyze the material and arrive at a more complete understanding and historical reconstruction of the trend of export diversification of Bangladesh.

## **EXPORT DIVERSIFICATION: THEORY AND MEASUREMENTS**

### **The Theory of Export Diversification:**

Export concentration reflects the degree to which a country's exports are concentrated on a small number of products or a small number of trading partners. A country that exports one product to only one trading partner has a perfectly concentrated export portfolio. Conversely, a country whose exports are comprised of a larger number of products and that trades with a larger number of trading partners has a lower export concentration ratio i.e., has more diversified exports. It has been argued that, by providing a broader base of exports, diversification can lower instability in export earnings, expand export revenues, upgrade value added, and enhance growth through several channels.

The theory of export diversification can be explained with the help of statement stating *don't put all your eggs in a single basket*. Besedes and Prusa (2008), Carrère, et al. (2007), and Brenton and Newfarmer (2007) all describe export diversification as the export of new product varieties to existing or new destination markets, or the export of currently exported product varieties to new markets. In effect, there is a geographic and product level aspect of diversification. In many previous research on export diversification it was found that export diversification is variously defined as the change in the composition of a country's existing export product mix or export destination (Ali, et al., 1991), or as the spread of production over many sectors (Berthelemy and Chauvin, 2000).

For this study purpose we use pattern of diversification in two forms namely intensive margin and extensive margin. The concept of the margin is explained using the simple model of Product/Market Ansoff Matrix. The intensive margin of export refers to the expansion of export in goods currently exporting. We define this as "market penetration". The extensive margin includes the growth of export in at least one category i.e., in extensive margin at least any one of export item and export destination will be added with the present one. The figure shown below present the dimensions of export diversification considered for the study.

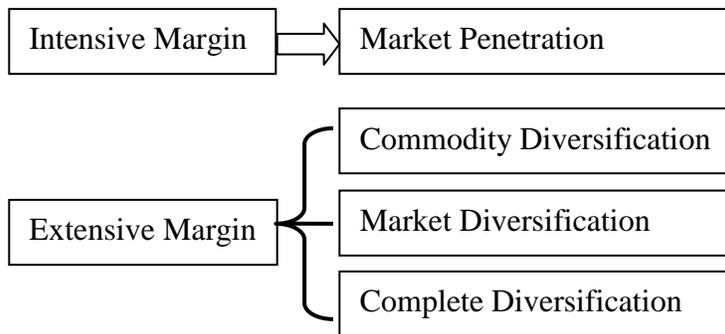
**Figure 01: The Dimensions of Export Diversification**

|                    |         | Export Items/Sector                |                           |
|--------------------|---------|------------------------------------|---------------------------|
|                    |         | Present                            | New                       |
| Export Destination | Present | Market Penetration                 | Commodity Diversification |
|                    | New     | Market/Destination Diversification | Complete Diversification  |

Sources: Adapted from Product/Market Ansoff Matrix

From the above figure we can present the dimensions as export diversification as:

**Figure 02: The Composition of Intensive and Extensive Margin**



Sources: Compiled by the Authors

Besides the traditional classifications, geographic diversification is explained as extensive margin at the country level. The geographic expansion means the development of new export destination or markets. The exporters include the business firms from different sectors of the economy of country.

**Measures Export Diversification:**

The existing literature on export diversification reveals that the degree of export diversification (concentration) can be measured in different ways. In the literature, there are various ways to measure export diversification. The most common measures used in export diversification are applied for the study as follow:

**The Hirschman Index** is one of the most widely used measures determining concentration. It is the index that would result if a country’s export receipts were divided evenly among different commodities. The normalized Hirschmann index can be calculated as follows:

$$HRI = \sqrt{\sum_{i=1}^n \left(\frac{x_i}{X}\right)^2}$$

where  $x_i$  is the export value of a specific commodity  $i$ ,  $X$  the country's total export. A higher HRI indicates greater concentration of exports on a few commodities.

**The Ogive (OGV) index** measures the deviation from an equal distribution of export shares among commodities. The index may be expressed as follows:

$$OGV = N \sum_{i=1}^n \left(P_i - \frac{1}{n}\right)^2$$

Where  $P_i = \frac{x_i}{X}$  is the actual share of the  $i^{\text{th}}$  commodity ( $x_i$ ) in total exports

( $X = \sum x_i$ ),  $N$  is the total number of export commodities in the export portfolio

and  $\frac{1}{n}$  is assumed to be the "ideal" share of export earnings for each commodity.

When the OGV index approaches 0, it means the economy is highly diversified. A larger OGV index indicates less diversification.

The third method of export diversification used for this study is **Entropy Coefficient** derived from the information theory. Hirsch and Lev (1971) used it to test that export diversification tends to stabilize the firm's sales. Soutar (1977) introduced it to investigate the relationship between export instability and geographic concentration as well as commodity concentration in LDCs. Its formula is as follows:

$$\text{entropy}_i = -\sum_k \left(\frac{x_{ik}}{X_i}\right) \ln\left(\frac{x_{ik}}{X_i}\right)$$

where  $N$  and  $P$  are defined as previously. The maximum is attained when all  $P_i$  are equal. It is an inverse measure of concentration in that it increases in value as concentration decreases. The maximum value of the entropy coefficient occurs when export share is spread evenly over all export commodities or export destinations. Also, its minimum value occurs when all exports are concentrated in one commodity or a single export destination (La, 2011).

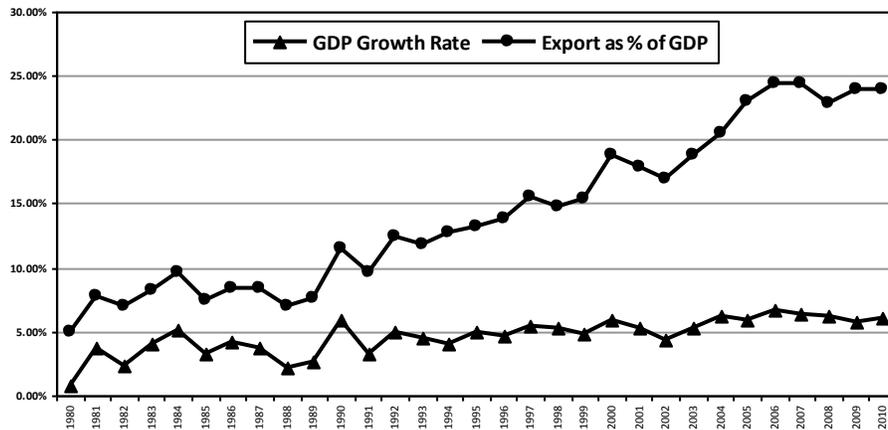
## **PATTERNS OF EXPORT DIVERSIFICATION: BANGLADESH CASE**

### **Economic Growth and External Trade in Study Period:**

**GDP Growth and Export:** Traditional trade theories in economics employ a static framework in the sense that the resources and technology employed in

production are exogenous to the models. Free trade is then seen to promote efficiency through the division of labor and redistribution of productive activity across countries, thereby moving the world economy towards the international production possibility frontier. Theories of economic growth are closely related to development and development economics. In fact, both terms have common origins in experiences of the early post-Second War World era. Decolonization meant that most of the countries that until then had been seen as 'backward' gained political independence, and a movement to advance their economies was set into motion. For understanding the significance of export diversification, in this part our study we will make an analysis of the relation between the economic growth and external trade for the study period. The economy of Bangladesh is witnessed a moderate growth rate of its GDP. In the figure below shows that the GDP has grown with stability in the study period. The GDP growth rate starts from 0.8% in 1980 and shows a noticeable trend in the said period.

**Figure 03: The GDP growth rate and contribution of export in GDP**

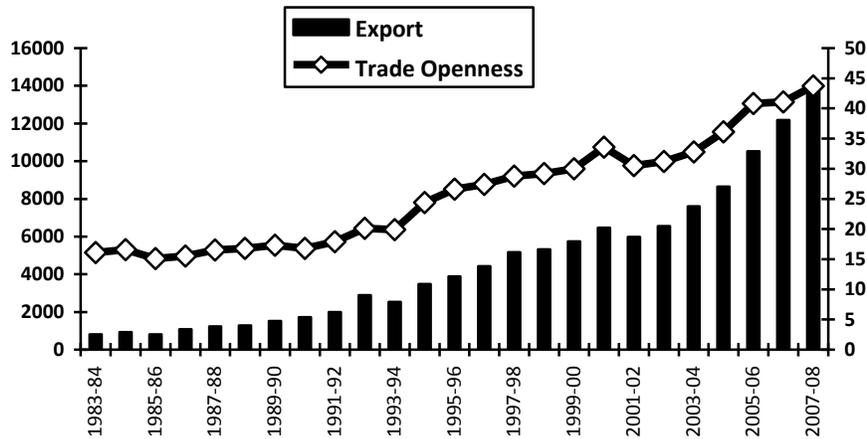


**Sources:** Compiled by authors from EPB, BBS, Bangladesh Bank, MOF

The growth of GDP is trend upward together with a growing contribution of export in GDP for the study period. The contribution of export in GDP in percentage form has grown from 9.5% in 1980 to 17.9% in 2010. Exporting goods and export destination has changed significantly during this period. In the study period the export sector of Bangladesh has found the RMG sector as the most growing sector for export from Bangladesh. At the early stage of industrialization, Bangladesh exported raw jute and jute goods with few other labor intensive products. From the mid-1980s, Bangladesh found itself as a country with immense potential for RMG export, especially because of the low cost labor.

**Trade Openness and Export from Bangladesh:** Large countries tend to trade less than small ones. States located far from large markets usually experience lower export shares. Geography, population, culture, and trade policy are only some of the factors that determine the trade volume of a given country— usually measured by the trade share to GDP. A development strategy captures the notion of policies implemented intentionally to improve welfare in a country. Economic growth (and thus income) is normally an important means to this end, and is used as a measure of how well a country is performing. GDP is a simple average; the distributional consequences are hidden in this measurement. A rich minority can raise GDP, with no effect on poverty reduction. Usually GDP is the most common and most used measure of economic growth of a country. From the theory of GDP, net export is one of the components of GDP that contributes on the GDP growth. The figure 04 shows a comparative view on the correlation between trade openness and total export of Bangladesh. The normal trend of the export and trade openness graph shown in the figure present that total export increases as the trade openness increases. In the study period it was found that the trade openness rises to 43.7% in 2007-08 from 16.3% in 1983-84 fiscal years. The total export rises from US\$ 811 to US\$ 14,110 in the study period with a significant emphasizes on export expansion.

**Figure 04: Total Export and Trade Openness in Bangladesh during the Study Period**

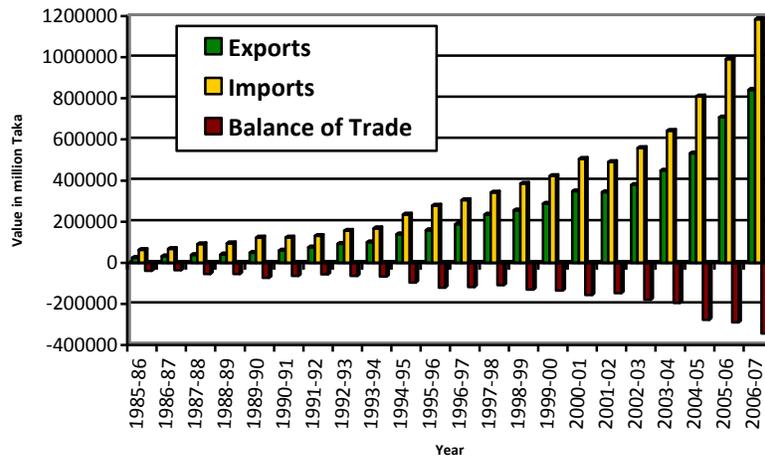


Sources: Compiled by authors from EPB, BBS, Bangladesh Bank, MOF

**Situation of Balance of Trade of Bangladesh:** Bangladesh has been experiencing deficits in her trade balance despite adoption of many export promotion measures during the 1980s and 1990s. The deficit in the trade balance of the country increased from 8.5% of the GDP in 1975-76 to 14.1% of the GDP in 1981-82, and then gradually declined to 6.6% of the GDP in 1991-92. The deficit remained at a moderate level during the 1990s and was 6.9% of the GDP

in 1997-98 and 5.5% of the GDP in 1999-2000. The decline in deficits in the trade balance was due to faster growth of exports during 1984-85 to 1994-95. During this period, there was a significant shift in the structure of the export sector from primary goods to manufactured goods and from traditional to non-traditional items of exports.

**Figure 05: Situation of Export, Import and Balance of Trade of Bangladesh during the Study Period**



**Sources:** Compiled by authors form EPB, BBS, Bangladesh Bank, MOF

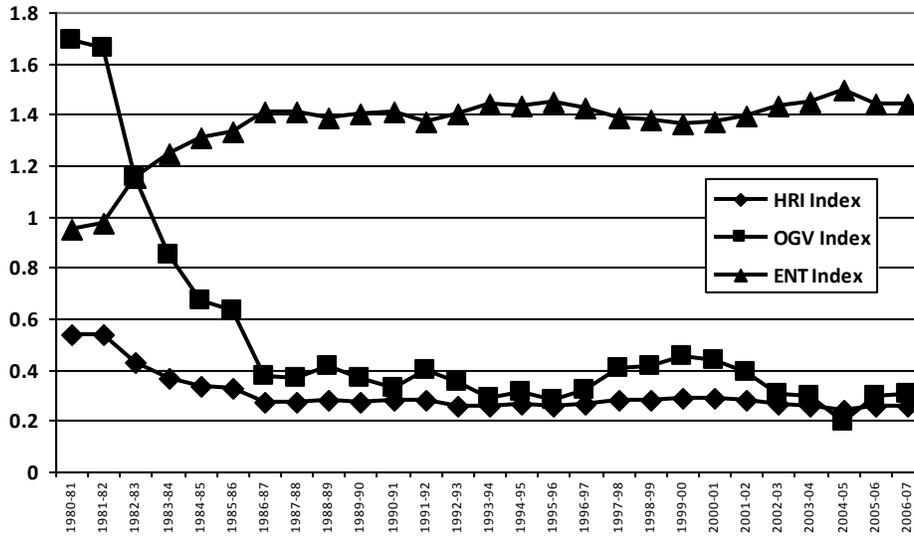
Along with the growth in exports, the import payments of Bangladesh also showed continuous increase as show in the above figure 05. From the fiscal year 1985-86 (Figure 05) export receipts as increased but the faster increase of import than export amidst fluctuations of balance of trade. Despite the steep rise in import payments, a corresponding rise in export receipts helped in restricting the growth of the trade deficit. The trade deficit in the fiscal year 1985-86 was BDT. 38615.6 million and roses to BDT. 343859.30 million in the fiscal year 2006-2007. The trend of the trade deficit implies that the growth of import is always bigger than the growth of export from Bangladesh. This faster growth of import results in a trade deficit in the study period in Bangladesh.

#### **Diversification of Markets:**

The contribution of major export destination is one of the most common indexes for measuring the export concentration of a country. For this study we categorized the destination of export from Bangladesh in five different major areas. The index calculated (shown in figure 06) shows that the share of export of Bangladesh to different export destination has diversified noticeably form the time around 1982-83 to present. Both the HRI Index and OGV Index fall significantly in the study period while the ENT Index rises for the time being.

The share of the top destinations of Bangladesh export is declined from the previous time of the study period.

**Figure 06: Indexes of Destination of export from Bangladesh**



Sources: Compiled by authors from Export Details of EPB

The improved diversification of export from Bangladesh is mainly due to the expansion of new export markets or destination. Initially the major export markets include the USA and UK that occupying the major shares of our export. But as the export of Bangladeshi products able to find out more export destination, the dependence of these few countries for export declined. Though still USA is occupying or considered as the major export destination, other contribution of other markets are in a positive pattern in development. This pattern is however mainly because of the expansion of Bangladeshi market for labor incentive products. For being a soil of low labor cost, the labor incentive products find it as a highly competitive exporter in this regard. And the competitiveness in labor cost Bangladesh export witnessed a major opportunity in the emerging markets. The successful execution and utilization of the labor cost competitiveness contributed a very significant part to the increase of export diversification.

Besides UK, other EU countries like Germany, France, Belgium, Italy, Netherlands etc. area the few other major markets Bangladesh find as its emerging market where Bangladesh was successful in export its products. The export markets of Bangladeshi products are diversifying given the fact that no decrease in the total export of existing markets. The successful diversifications incorporate with the fact that export in these new markets has incased the total

export of the country and simultaneously improve the level of export diversification. On this view it can be assumed that the market diversification of Bangladesh export has accompanied export growth.

#### **Diversification of Commodities:**

The next patterns of export diversification of the study include the diversification of commodities or exporting goods. The diversification of commodities means the diversification of goods in the export basket of the country. The export goods are categorized by EPB in the form of Primary Commodity Vs Manufacturing Commodity and Traditional Vs Non-traditional commodities. For this study purpose, we tried to conduct a preliminary comparison between the traditional and non-traditional commodity of the export basket of Bangladesh. For this purpose, let us show the goods that are considered as traditional and those considered as non-traditional. The box-1 shown below represents the list of traditional and non-traditional commodities of Bangladesh export basket.

#### **Box 01: The Composites of Traditional and Non-traditional Items of Export**

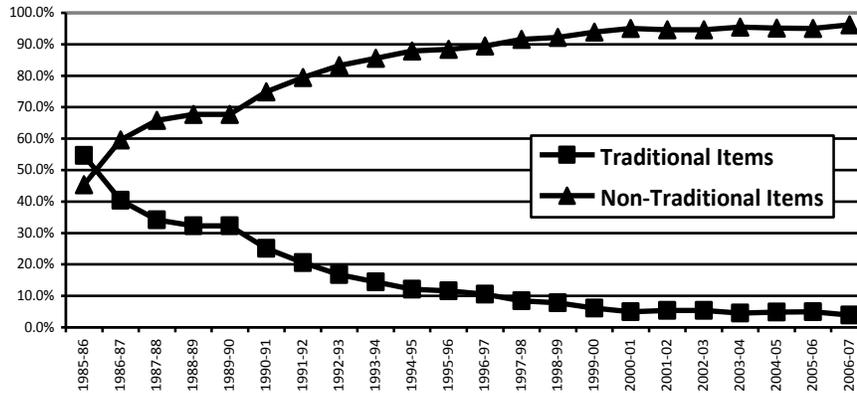
- \* **Traditional item:** Raw jute, Tea and Jute goods (excluding carpets) are considered as traditional items.
- \* **Non-Traditional item :** Other than traditional items all products are considered as Non-Traditional items like Woven garments, Knitwear, Frozen food, Chemical products, Leather, Home textile, Pharmaceuticals, Handicrafts, Footwear, Textile fabrics etc.

**Source:** EPB

Now if we look to the share of traditional and non-traditional items in total exports it was found that the contribution of traditional items declined significantly during the study period. At the time around 1985-86 the shares of these two categories are almost equal in the total export. But after that the contribution of non-traditional item rises with high level of intensity. During the year around fiscal year 2006-07 the shares of non-traditional items rises to more than 90% of the total export from Bangladesh. The pattern of change in share of traditional and non-traditional items can be visualized more clearly from the figure 08, that shows the contribution of these two categories in percentage form. During 1985-86 the contribution of traditional items was marginally higher than that of non-traditional items. But after that the contribution of non-traditional items starts overpasses that of traditional items. And with this growing trend the deviation between these two categories rises with a significant margin. As now the non-traditional items occupy more than 95% of total export of Bangladesh. This is mainly because of the rise of RMG sector at the late 80's to beginning of 90's. If we see the inner depth of the non-traditional items it would found that RMG is the sector that emerged as the sole players of the non-traditional items category. Because of the emergence of RMG the contribution of non-traditional

items gain its highest spectrum in this regard. The global market players found Bangladesh as a land of low labor cost, which causes a rise in the export of RGM products.

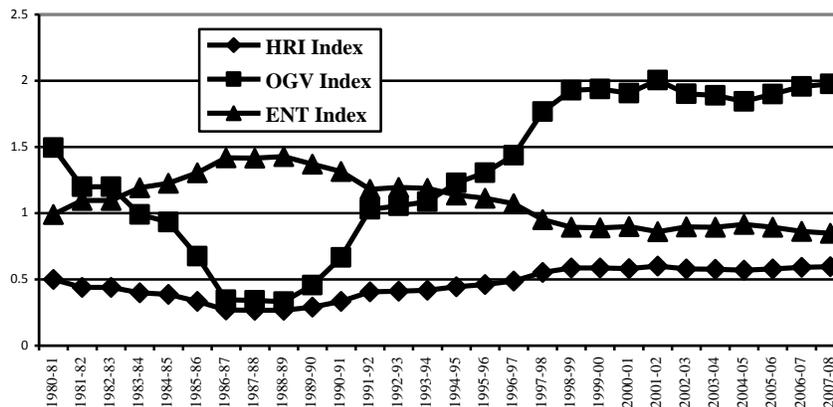
**Figure 07: The % Share of Traditional and Non-traditional Items in Total Exports**



Sources: Compiled by authors form Export Details of EPB

For index calculation of the commodity wise export diversification, the classification of commodity was a very complicated term to measure. Thus for this study purpose, we measured the ratio of export diversification index categorizing five different categories of the export basket. This pattern originates from significant changes in the composition of exporting goods.

**Figure 08: The Indexes of Export Diversification as of Exportable Commodity**



Sources: Compiled by authors form Export Details of EPB

As the export diversification indexes (Figure 08) indicates that the product diversification pattern is not developed in this study period. The index of export diversification shows that the HRI Index and OGV Index both are witnessed with a rising index value for the study period, which means that the level of diversification was not developed in this period of time. On the other hand, the ENT Index decline as against the export increases which indicates the less diversification of export commodities in the export basket. This pattern still continues with the evidence of significant contribution of RMG (Knitwear and Oven) in the total export value of Bangladesh. However, there are few goods patterns are still under development that potentially can help for more diversification of export in the export basket of this country. But till now the RMG dominated product composition seems to contribute significantly to the lower diversification of exporting goods from Bangladesh.

### **CONCLUSION AND POLICY IMPLICATIONS**

It won't be unjustified to state that Bangladesh's export sector has registered commendable success in the study period but fact is that the country has not yet been able to utilize her full potentials. The reasons behind underperformance of external trade are not single rather it is multifarious. The constraints associated with the export from Bangladesh are different in nature, origin and consequences. An analysis of the problems will enable us to understand the difficulties and guide us for taking corrective actions. However, the study reveals that the export basket of Bangladesh has continued to remain relatively undiversified and the country has not been able to translate her comparative advantage into competitive advantage. For sustaining our export growth, the strategy should focus primarily on improving the demand for our products in existing as well as new markets and on removing constraints. Market intelligence centers may be set up by the Export Promotion Bureau dealing with trade and market information for individual export products, compliance issues and advice on product development to face changing market tastes, etc. and monitoring market prospects.

It is already established that increased production and expansion of trade is one of the ways of increasing the wealth of the nation. Increased export earnings could lead to creation of employment opportunities which will encourage savings and facilitate investment resulting in the alleviation of poverty. And in order to ensure the expansion of external trade, the diversification of export is one of the most important government objectives is to strengthen the economy and make it vibrant. For sustaining our export growth, the strategy should focus primarily on improving the demand for our products in existing as well as new markets and on removing constraints. To do so, a rigorous restructuring in export promotion and infrastructural development is needed now. Policies to promote export diversification will clearly depend in the first instance on a comprehensive

analysis of the country's specific position in the international division of labour, its position in the global supply chain and the prospects of world demand. The policy reform suggested by the authors for achieving the targeted export diversification can be specified as follows:

1. Policy support to develop new areas of competitive advantages: Export diversification can be improved if a country could have competitive advantages in any particular area. The govt. should formulate the industrial and trade policy that are effective to develop new areas of comparative advantage and establish the conditions needed for local firms to access export markets. Increase market access is to be happened if the related factors such as export financing, infrastructure, communication facilities, institutional and regulatory support provided to the local producers.
2. Stimulus Package for export diversification: The selective measures to stimulate export diversification such as fiscal and direct credit incentives, selective subsidies and local content requirements. Such interventions can help firms improve their export competitiveness and can encourage a more balanced export mix. Many developing economies have used selective measures to stimulate export growth and diversification.
3. Measures for the Development of Human Capital: Since much research has shown that a diversified export portfolio (and high-value manufacturing) is correlated with a more educated work-force (Carrere, et al., 2007) the lack of skilled manpower is a key constraint on the ability of an economy to diversify its export basket (Gullstrand, 2000; Parketa and Massimo, 2008). Countries aiming to diversify exports need policies on technology assessment, technology acquisition, adoption, adaptation and development and technology diffusion to raise worker (and firm) productivity in potential export sectors. High worker productivity translates into efficient production and can give the necessary cost edge to succeed in the global market. Private and public sectors can fund skill development training programs.
4. Integration into Global Value Chains. Technological advances and organizational changes in the global economy and within transnational corporations (TNCs) have fundamentally altered the way goods and services are produced. Global value chains with a high degree of specialization of individual players have become the norm for the production of goods and ever more for services as well. TNCs are increasingly outsourcing parts of their value chains in order to increase efficiency and competitiveness and to avail themselves of the lowest worldwide price options.
5. Trade facilitation is essential for export promotion and decreasing the cost

of imports. Trade facilitation, as defined by WTO, is the simplification and harmonization of international trade procedures, where trade procedures are the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade. Excess trade procedures create additional transaction costs incurred by participants in trade.

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