

CHAPTER 1

SETTING THE SCENE

Contributed by the World Trade Organization

Abstract: *Economic diversification and economic empowerment embody the rationale for the Aid for Trade Initiative. This chapter discusses insights emerging from the joint OECD-WTO monitoring and evaluation (M&E) exercise which in 2019 focused on surveying these two themes. The starting point for the analysis is the divergence in the number of merchandise products and services exported by countries at different levels of development, at different levels of income and in different geographical circumstances. Against this background, economic and export diversification emerges from the M&E exercise as a core objective of the trade and development policies of partner countries, particularly least developed countries (LDCs) and landlocked developing countries (LLDCs).*

Progress in economic and export diversification is cited in the M&E responses by LDCs and other respondents—advances that are also reported in trade statistics. The progress reported is not however uniform, with countries falling in the UN Small Island Developing States category facing particular issues. Many of the 133 M&E respondents highlight how economic diversification is a gateway for economic empowerment. What also emerges from the replies is that the link between diversification and empowerment runs also in the opposite direction. Empowerment through skills and training can be an essential element in economic diversification, particularly when it enables youth, women and Micro, Small and Medium Enterprises (MSMEs) to engage in international trade.

INTRODUCTION

From six to more than four and a half thousand. This is the extent of the range of the number of merchandise product categories exported.¹ At the lower end of the scale, São Tomé and Príncipe and Comoros report exports in six and eight product categories respectively in 2017. At the high end of the series, the top three traders (China, United States and the European Union) report merchandise exports in over 4,500 product categories.

About half of countries classified by the United Nations (UN) in the least developed country category (LDCs) export in fewer than 100 product codes. This is below the median (or mid-point) value of 359 product categories, calculated using data classified using the World Customs Organization's Harmonized Commodity Description and Coding System (Harmonised System or HS). Among the UN category of Small Island Developing States (SIDS), the average number of HS product categories (236) is also below this median value.

No least developed country (LDC) exports in more than 805 HS code categories. Cambodia, Myanmar, and Bangladesh are the three most diversified merchandise exporting LDCs, trading externally in 542, 688 and 805 HS product codes respectively. No reporter in the UN category of landlocked developing country (hereafter LLDC) exports in more than 1,100 HS code categories. The Republic of Kazakhstan, North Macedonia and Moldova are the three most diversified LLDCs exporting in 604, 721 and 1067 HS codes respectively. On average, LLDCs export in 279 categories. Figure 1.1 overleaf illustrates the range of HS codes in which exports are reported for 157 reporters.

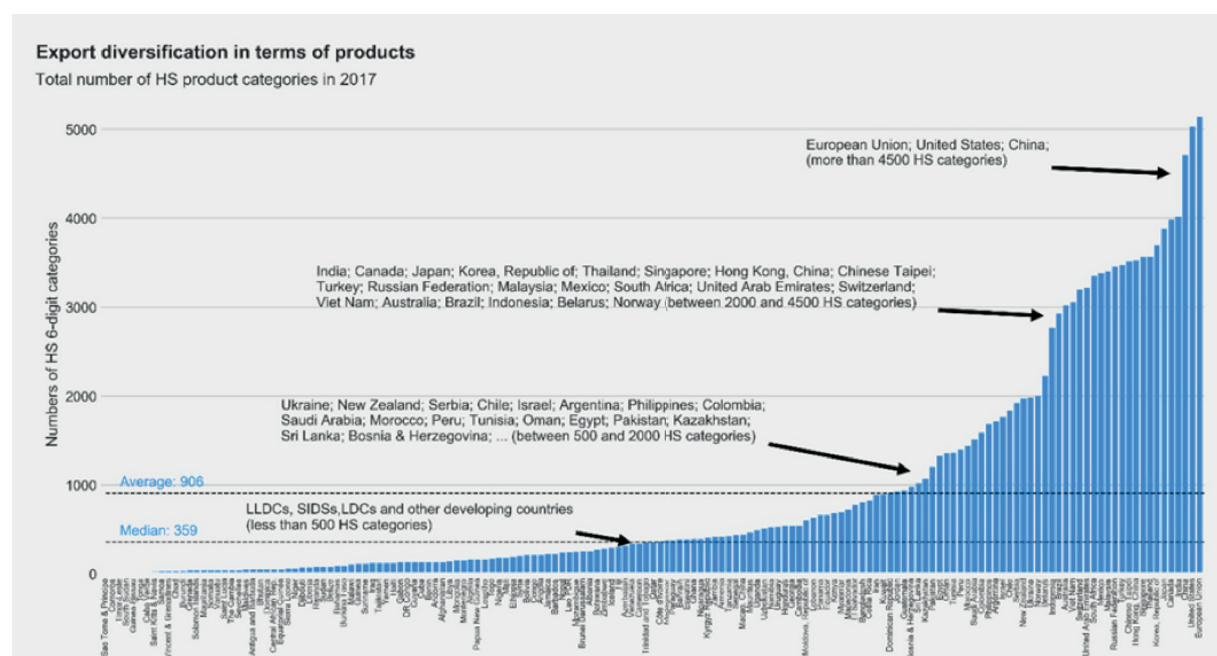
From seven to more than two hundred. This is the extent of the variety in the number of foreign markets reached. At the lower end of the scale, Cabo Verde exports to seven markets while Sao Tome and Principe, South Sudan, and Tonga each send their exports to nine foreign markets. The three largest traders by product category mentioned above (China, US, EU) reach more than 200 markets, along with seven other trading nations: Brazil, India, Japan, Republic of Korea, Malaysia, Switzerland and Turkey.

On average, LDC exports reach 46 foreign markets, below the median value of 73 for export market relationships. Bangladesh, the LDC whose merchandise exports go to the highest number of markets, exports to 106 foreign markets. Among LLDC reporters, the highest number of markets reached is 111 by Paraguay – a little more than twice the average value of 54 for foreign markets reached by other LLDCs. Among SIDS, Singapore exports to the highest number of export markets (116), followed by Dominican Republic (98) and Mauritius (91). The average number of markets reached by SIDS is 43, three fewer than LDCs. Figure 1.2 outlines the number of markets reached.

Calculating similar values on export diversification for trade in services is complicated by the absence of comparable data sets. A WTO experimental dataset on trade in services collates and estimates services trade statistics in thirty-nine (39) service categories.² A median value of twenty-six (26) categories of services' exports can be calculated using data from 198 economies in 2017. LDCs export in an average of 17.3 services' categories. Senegal and Bangladesh registered the highest level of services diversification, exporting in 35 and 33 categories in 2017 respectively. Among SIDS, the average number of services export categories is 19.4, lower than the average for non-SIDS at 26.6. Amongst SIDS there is considerable variation: Haiti and Timor-Leste (LDC SIDS) export in three (3) and six (6) service categories respectively, while Singapore exports in thirty-eight (38) service categories. On average, LLDCs export in 21 categories. Capacity constraints among reporters, particularly for LDCs and SIDS, however, prevent a more accurate picture of services' trade participation emerging.

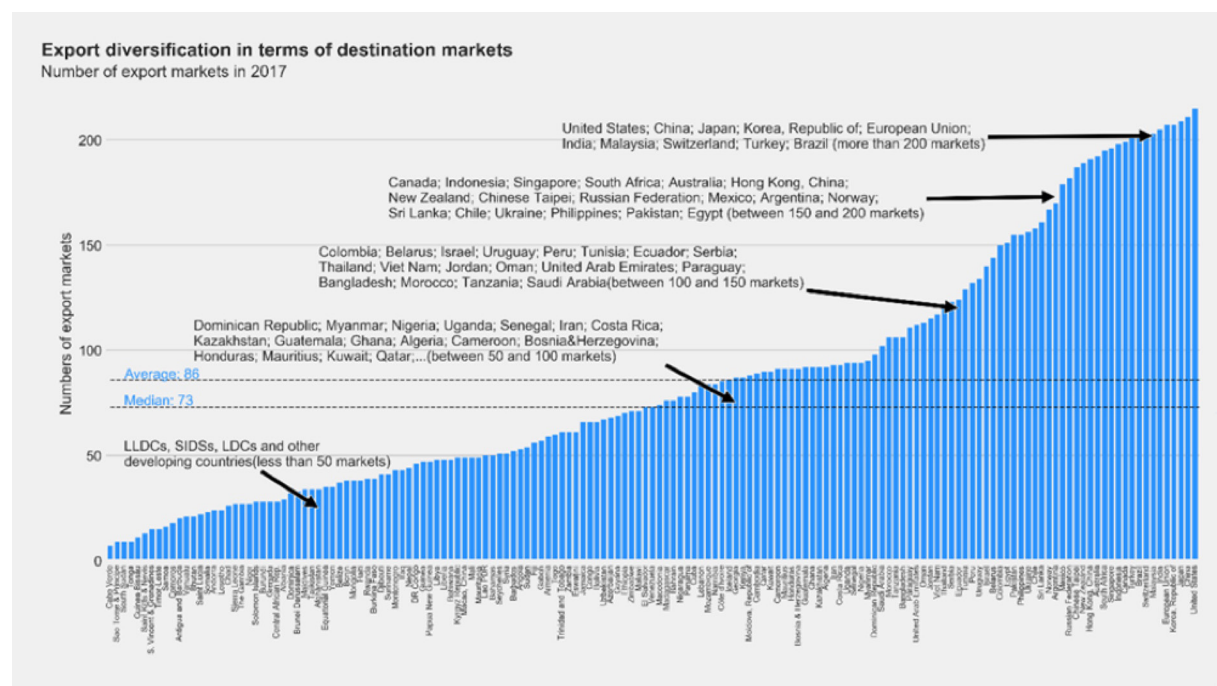
Increasing exports of goods and services was identified in 2006 by the Aid-for-Trade Task Force as part of the rationale for Aid-for-Trade.³ In turn, it was argued that effective Aid-for-Trade would enhance growth prospects and reduce poverty in developing countries. The 2018-2019 work programme identified "supporting economic diversification and empowerment for inclusive, sustainable development through Aid-for-Trade" as its central theme - one which encapsulated these two central concerns of growth and poverty reduction.

Figure 1.1. Export diversification by country and product category



Source: WTO Secretariat calculation based on the WTO IDB and UN COMTRADE.

Figure 1.2. Export diversification by markets reached and by country



Source: WTO Secretariat calculation based on the WTO IDB and UN COMTRADE.

Transparency engendered by monitoring and evaluation lies at the heart of Aid for Trade initiative. In the 2019 monitoring and evaluation (M&E) exercise, a self-assessment questionnaire-based exercise conducted jointly by the Organisation of Economic Co-operation and Development (OECD) and the World Trade Organization (WTO) surveyed donors, south-south partners, regional organisations and partner countries. A total of 133 responses were received. Eighty-eight (88) responses were submitted to the partner country questionnaire, 38 of which were submitted by LDCs. South-south partners submitted five responses, the same total as for regional organisations. Bilateral and multilateral donors submitted a total of 36 responses.

The rest of this chapter highlights key points emerging from the survey results. It is organised on the same lines as the self-assessment questionnaires. The questionnaire requested information on the following topics from respondents:

- a) Information on economic diversification as a policy priority in national and regional development plans;
- b) Progress reported in export diversification and factors constraining export diversification; and
- c) Information on economic empowerment as a policy priority in national and regional development plans together with examples of how Aid for Trade had helped meet economic empowerment objectives.

ECONOMIC DIVERSIFICATION AS A POLICY PRIORITY

The 2019 aid-for-trade monitoring exercise highlights the centrality of economic diversification as a policy objective for respondents. Eighty (80) of the eighty-eight (88) answers (91%) to the partner country questionnaire stated that economic diversification is a priority in national or regional development strategies. This number was still higher among LDC and LLDC respondents (100%), where respondents replied with unanimity that economic diversification is a policy priority. Box 1.1 lists some of the reasons offered from a cross-section of respondents for their prioritisation of economic diversification.

Economic diversification is considered a key element of economic development in which a country moves to a less concentrated, more varied production and trade structure. Lack of economic diversification is associated with increased economic vulnerability such that external shocks can undermine the development process. Given that the structure of economies varies, there is no one blueprint for what constitutes economic diversification at a sectoral level (i.e. in terms of the contribution of the agriculture, manufacturing, services sectors). That said, LDCs and other low-income countries tend to have the least varied economic structures frequently with a heavy reliance on agriculture and natural resources, such as fuel oils, gas, copper and other metals.

According to the World Bank, economic diversification occurs when domestic production moves toward new activities within and between sectors. In turn, this leads to better resource allocation and improves overall productivity. Diversification will tend to increase the demand for labour and deliver jobs, of particular importance in resource dominated economies with large youth populations and high unemployment rates.⁴ In turn, export diversification can occur through an increase in the variety and volume of exports and/ or trading partners (extensive margin diversification), or through increases in the proportion of products and services that are exported, and/ or through an increase in price for those exports (intensive margin diversification).

Conceptually speaking, economic and export diversification are separate concepts. In practise, policymakers' responses indicate that the notions of economic and export diversification merge into common targets. This tendency can be seen in comments such as that made by Georgia that "economic diversification entails multiple sectors and sub-sectors of the economy including export diversification, SME development, agriculture development, significant industrialisation etc.

Box 1.1. Why economic diversification matters to developing countries and the LDCs

Economic diversification is defined in the different documents cited as a fundamental contributory element to the reduction of poverty in the country – **Benin**.

The Central African Republic is full of important natural resources. But, the base of the economy rests only on some products (coffee, cotton, diamond, wood). Economic diversification is defined as the expansion or development of new sources of income in the country – **Central African Republic**

Diversification is an essential component of the Government's strategies to reverse the trap of low economic growth shown in El Salvador for several decades – **El Salvador**

Our nation is using economic diversification to improve inclusiveness and reduce heavy dependence reliance on resource sectors – **Lao PDR**

Economic diversification is a priority for the national program of emergence for the new government which has just started this January 2019 – **Madagascar**

Export diversification is at the heart of the government aimed at broadening the export base and industrialisation and value addition is embraced to drive the economic growth and sustainable development – **Malawi**

Art 2.1. of Mongolia's Sustainable Development Vision 2030 states: "the economy will be diversified in order to meet the objectives of sustainable economic development" - **Mongolia**

Industrialisation and product diversification are important because of our high reliance on imports and the pressing need to close the huge trade deficit – **Tonga**

The decline in crude oil and petrol commodity prices meant that the country has to look for ways to diversify its economy. – **Yemen**

A further example comes from Zambia where its "Seventh National Development Plan identifies economic diversification as a mechanism that will generate employment opportunities, building a strong manufacturing base and value addition through forward linkages, and diversifying away from non-traditional exports.

Economic diversification objectives are linked by some respondents to specific targets. Among the most specific goals reported are those from Ecuador's national development strategy. Targets to be achieved by 2021 include to "increase the trade balance in relation to gross domestic product from 1.26% to 1.65% by 2021, decrease the concentration rate of non-oil exports by product from 0.1252 to 0.0799, increase agricultural and agro-industrial exports by at least 33% and to grow from USD 55.2 to USD 74.5 per capita exports of high, medium and low technological intensity". These targets are part of a broader plan that aims to increase sustainability of the social and solidarity economic system and consolidate dollarization.

Other respondents relate economic diversification to specific policy objectives. For example, Kyrgyzstan foresees "economic diversification through bringing foreign direct investment for modernisation of production facilities."

Some respondents envisage specific policy instruments as a route to achieving economic diversification. Lesotho plans "to tap onto its existing comparative advantage to broaden sources of growth by supporting economic diversification and export competitiveness through developing industrial clusters under productive sectors. The country further needs to establish "Special Economic Zones." Another respondent to mention the role of special economic zones is Liberia who is using them at the Buchanan Port to "move away from dependence of major extractive sectors and looking to increase the domestic production of manufacturing, industrialisation, and value-added products". Mauritania is also looking to the free zone of Nouadhibou to boost its trade with ECOWAS.

The avoidance of certain risks was also identified as a driver for economic diversification action. One motivation mentioned by Mauritania comes from “reducing its vulnerability to external shocks linked to price volatility for natural resources and climate change”. Climate change was also mentioned as a driver for action by the Cook Islands. In its reply, the author stated that “it is risky to have 70 percent of our GDP bolstered by tourism, given our vulnerabilities to climate change”. Climate change was also mentioned by Mali, Samoa and St Kitts and Nevis in their responses. The Pacific Island Forum Secretariat identified recovery or rebuilding from frequent and severe natural disasters as a factor impinging on economic diversification.

The role of trade policy in support of economic diversification is conceived from quite different perspectives among some respondents. Peru’s vision of a “dynamic, diversified, high-tech and regionally balanced economy, with full employment and high productivity of work” is supported by a “strategy of trade opening through diversification into new emerging markets and in the framework of trade agreements”. Tajikistan’s policy vision is one of “import substitution with regard to the consumer goods, export diversification and expansion of investment opportunities in the national economy”. Angola has established a programme to support national production, export diversification and import substitution. Similarly, Côte d’Ivoire also notes its intention to “practice the import-substitution model”.

Some respondents take a multi-sectoral approach to economic diversification. Panama’s Strategic Plan for 2015-2019, seeks to promote “diversification and productivity of the economic base based on development in the field of logistics and transport, the agricultural sector and rural development, tourism and mining.” Environmental sustainability and territorial development are also mentioned as considerations. Likewise, Togo’s National Development Plan aims at structural adjustment through growth in the contribution of key sectors (trade, agriculture and fisheries, industry and tourism). Likewise, The Gambia’s National Development Plan places “emphasis on the modernisation of the agriculture sector, development of human capital, as well as the need for modern, reliable and efficient energy and infrastructural services.”

Some respondents are highly focused in their targeting of economic diversification. In its response, Colombia recalled its 2016 national policy for productive development and the scientific methodology applied to identify productive activities with growth potential. Table 1.1 below highlights the methodology used which assigns a value based on values derived from a productive capacity and export capacity index to identify export diversification targets.

Table 1.1. Methodology to identify economic and export diversification priorities

Productive capacity index		Export capacity index	
Variable	Weighting	Variable	Weighting
Participation % of value added	22.7%	Complexity	33.1%
Jobs	20.3%	Growth % sectoral exports	28.6%
Enterprises	19.6%	Exporting enterprises	25.6%
Growth % of value added	16.4%	Participation % sectoral exports	12.8%
Linkages	11.6%		
Complexity	9.4%		

Source: National Planning Department, Colombia

Other respondents identify specific value chains or products as targets. For example, the Democratic Republic of the Congo has “taken the option to develop agricultural and industrial branches that are channels for economic growth, such as coffee, cocoa and palm oil.” Niger cited studies suggesting “clear opportunities for the emergence of value chains and for the development of certain sectors: livestock – meat, hides and skins, onions, cowpeas, potatoes, garlic, peppers.”

Expansion of the industrial sector is a desired outcome for some respondents. Indonesia’s comment that “industrialisation encourages economic diversification” is echoed in other comments. Uganda stated in its reply that “economic diversification is defined in terms of value addition to traditional export commodities and is measured by the manufactured exports as a percentage of total exports”. This perspective on diversification was also shared by Zimbabwe who commented on economic diversification being achieved through “more export product lines, new industries established and with new products produced.”

At a regional level, Africa records the highest share of respondents indicating that economic diversification is a priority. Thirty-four (34) of the thirty-five (35) African respondents (97%), of whom 26 are from LDCs, confirmed their prioritisation of economic diversification. This finding squares with the emphasis placed on this topic in the African Union Commission’s shared strategic framework for inclusive growth and sustainable development: “Africa 2063, The Africa We Want.”

The response submitted by ECOWAS also underscores the importance of economic diversification. This priority is reflected in a series of regional strategies including, inter alia, the ECOWAS Common Industrial Policy and Action Plan, Agricultural Policy, Private Sector Development Strategy, Technical and Vocational Education and Training Strategy. ECOWAS’s revised masterplan 2019-2033 includes indicators to monitor the performance of ECOWAS Industrial Policy and Action Plan, such as percentage increase in exports, percentage increase in the share of industry or manufacturing in GDP, among other indicators.

Services were the focus for diversification activities of some other respondents. Bhutan noted that its “diversification of export products and markets was focussing more on service sectors such as tourism”. Tuvalu in its reply suggested that “trade cannot exist while other sectors such as tourism, fisheries, agriculture and labour mobility are not priorities. All sectors are inter-linked and collaborate together to overcome constraints faced by the tourism or any other sector.”

The fisheries sector was identified as a sector for economic diversification by various Pacific Island States. In addition to Tuvalu mentioned above, the Cook Islands highlighted that “it is a priority to diversify our economy with fisheries, trade, and offshore financial services. Kiribati also identified fisheries development as among its aid-for-trade priorities, together with tourism.

Fisheries development is cited as a strategic priority in the National Development Plan of The Gambia. Fisheries also features amongst the empowerment objectives of St Kitts and Nevis through the training of fishers in navigation, diving, primary processing of fish, and food safety. Likewise, the Philippines lists fisheries as a sector for the empowerment of marginalised subsectors and people. Zambia refers to an Aquaculture Enterprise Development project benefiting the youth by increasing productivity and promoting market access for fish exports.

EXPORT DIVERSIFICATION: PROGRESS AND CONSTRAINTS

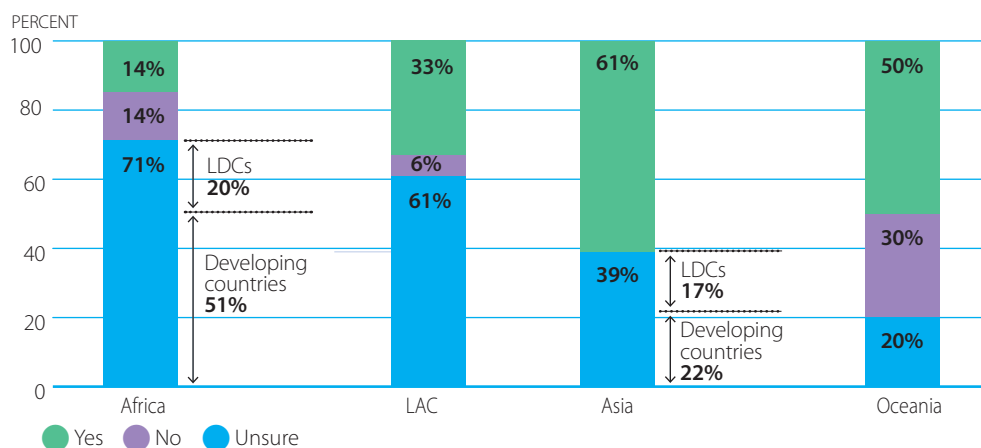
Progress reported by respondents

Forty-seven (47) of the eighty-eight (88) respondents (53%) to the partner country questionnaire reported progress in economic diversification since the launch of the Aid-for-Trade initiative in 2006. Across different regions, Africa records the highest share with 71% of respondents reporting progress in economic diversification.

The share of LDCs reporting progress was 50 per cent higher than that of other respondents. Sixty-six per cent (66%) of LDC respondents reported progress compared with compared with forty-four (44%) among non-LDC respondents.

Not all respondents reported progress in diversification. Five African respondents (Burundi, Comoros, Ethiopia, Central African Republic, and South Sudan) reported that no progress had been made in economic diversification since 2006. Among the constraining factors discussed in more detail in the next section were lack of financing (Burundi), the 2013 crisis (Central African Republic), limited progress in the transformation of traditional products and dependence on a few export products (Comoros).

Figure 1.3. Progress reported by respondent in economic diversification



Source: OECD-WTO aid-for-trade monitoring exercise (2019)

StatLink <http://dx.doi.org/10.1787/888933952558>

Nine Asian respondents replied positively in relation to economic diversification. Amongst these respondents, Kazakhstan highlighted a 12-fold growth in its foreign trade and a 20-fold increase in industrial output. Lao People's Democratic Republic recalled that its progress was being monitored as part of an LDC graduation process. Asian respondents returned the highest category of "unsure". There was also divergence with answers from the Pacific.

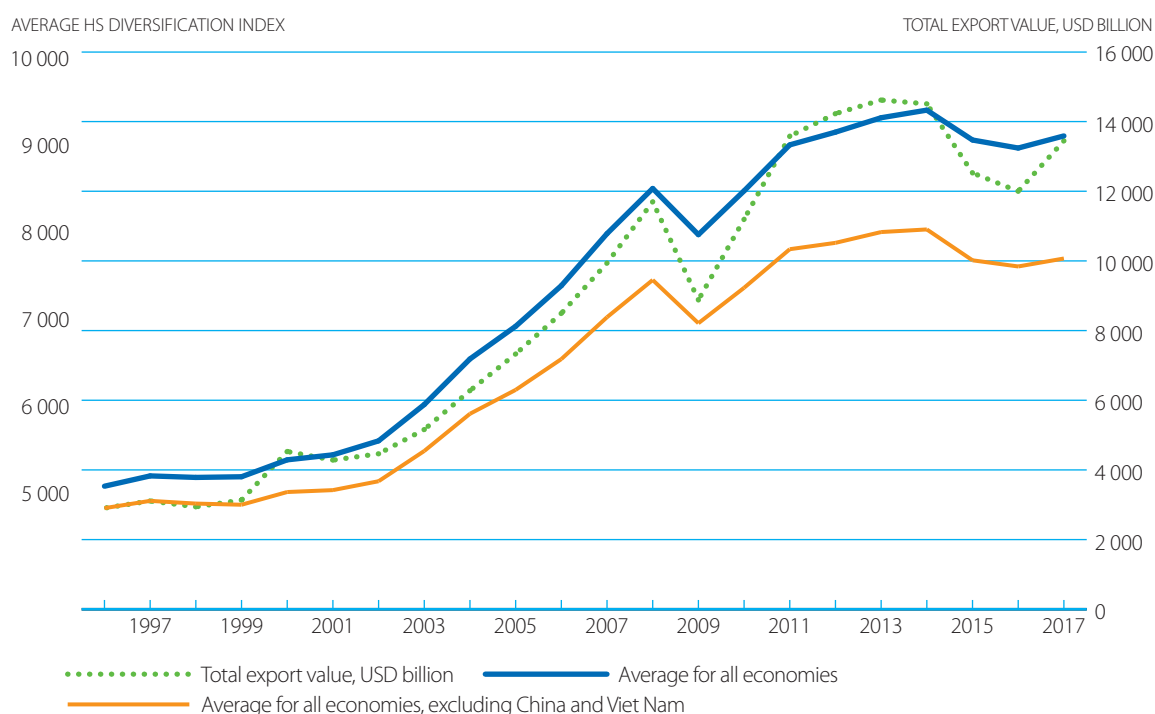
Amongst Pacific respondents, the number of unsure and negative responses on the question of economic diversification outnumbered the positive responses from Kiribati and Vanuatu. Responses from Palau, Samoa, and Tonga indicated that economic diversification had not been achieved. The national authorities in Tonga reported that a "lack of technology, know-how and high cost of spare parts have posed major constraints to the ability of diversifying its economy".

Answers from the Pacific are indicative of a broader trend among SIDS. The share of respondents in the UN SIDS category who reported no progress in economic diversification (17%) was just over twice the number of other non-SIDS respondents (8%). That said, ten SIDS respondents still reported progress (42%). Amongst landlocked developing

countries, more than half of respondents reported progress in economic diversification. Positive self-assessment responses were received from 13 respondents. Among the three LLDC respondents who did not report any progress were: Burundi, Central African Republic and Ethiopia.

In LAC, 11 respondents (61%) reported progress in economic diversification since 2006. One example is Paraguay who in the last four years has seen an “important advance in the industrial sector, which has increased its contribution to the growth of the Paraguayan economy. According to the Central Bank of Paraguay (BCP), 2017 has closed with 9.4% growth in manufacturing industry. During the period from 2013 to 2017, a total of 104 export industries operating under the Maquila Regime have been installed, representing an increase of 259% from the previous five-year period. A total of 9,310 new jobs were created in this sector, 156% more than in that in the previous five-year period.”

Figure 1.4. Long-term trend of export diversification and value of global exports



Source: WTO Secretariat calculation based on the WTO IDB and UN COMTRADE.

StatLink  <http://dx.doi.org/10.1787/888933952577>

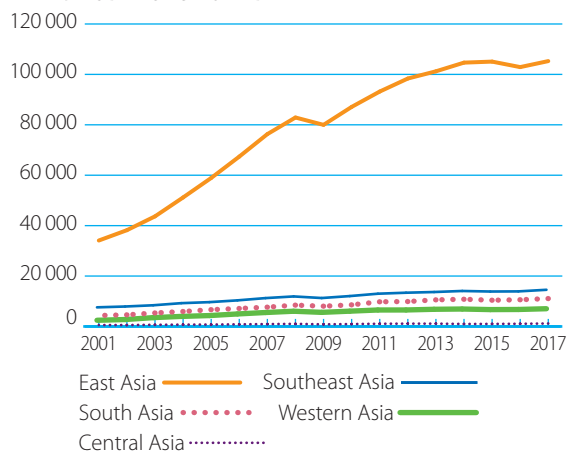
These responses broadly concur with the picture that emerges from trade statistics on export diversification. Figure 1.4 shows the trend in merchandise product export diversification among 157 countries over the period 1996 to 2017, together with the total value of annual exports during the same period.⁶ Overall, an increase in diversification is visible over time, in line with an expansion in trade.

A steep increase of export diversification occurs after 2001 accompanied by growth in the value of exports, led by Asian economies and China in particular. This upward trend continued until the beginning of the economic downturn in 2008-09. The slump in exports that followed not only affected overall export volumes, but also led to a drop off in export diversification.

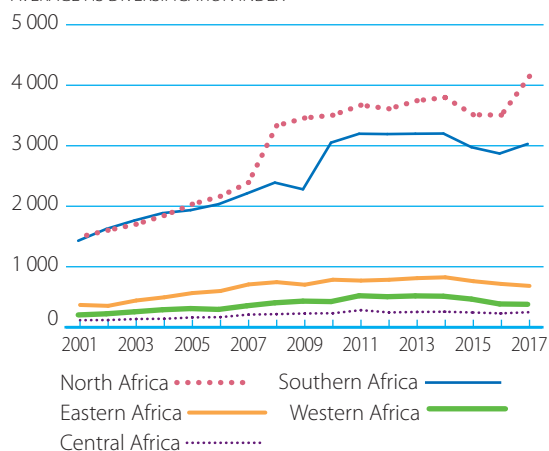
Figures 1.5-1.9 overleaf highlight similar trends by income, region and according to specific UN categories e.g. landlocked, SIDS, LDCs. The same post financial crisis slump is visible in these figures.

Figures 1.5-1.7., Product diversification, by sub-region**ASIA**

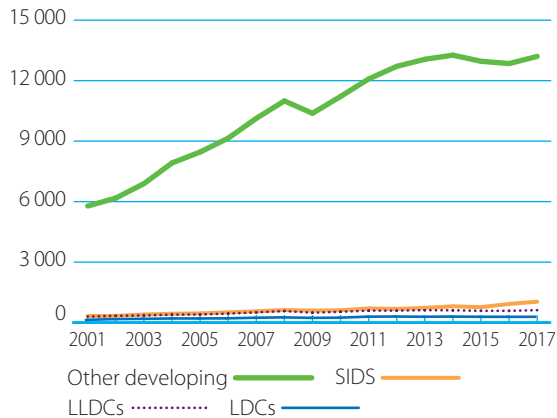
AVERAGE HS DIVERSIFICATION INDEX

**AFRICA**

AVERAGE HS DIVERSIFICATION INDEX

**DEVELOPING COUNTRIES**

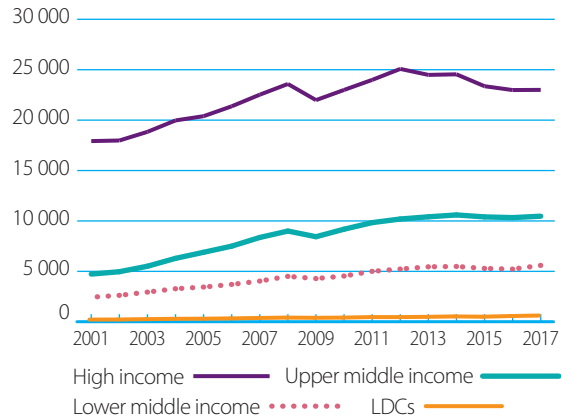
AVERAGE HS DIVERSIFICATION INDEX



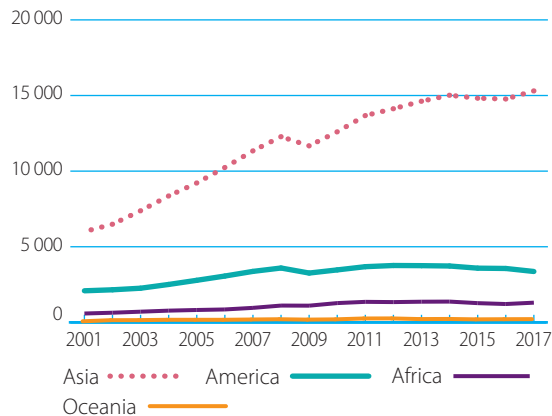
Source: WTO Secretariat calculation based on the WTO IDB and UN COMTRADE.

Figures 1.8.-1.9., Product diversification, by income groups and region**INCOME GROUP**

AVERAGE HS DIVERSIFICATION INDEX

**REGION**

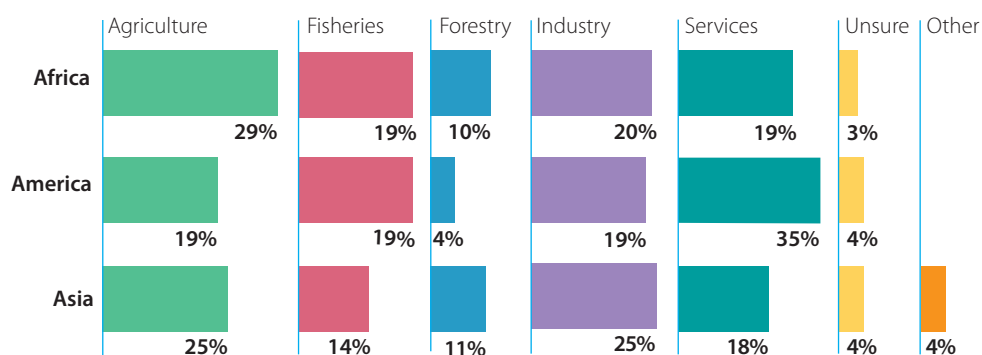
AVERAGE HS DIVERSIFICATION INDEX



Source: WTO Secretariat calculation based on the WTO IDB and UN COMTRADE.

At the sectoral level, agriculture is the sector in which progress in economic diversification has been reported the most, followed by industry and services. Thirty-four (34) out of the eighty-eight (88) respondents reported progress in agriculture, 29 in services and 28 in industry. Agriculture is the top sector in which progress in economic diversification has been recorded by LDCs. Within the LDC group, African LDC report most progress in agricultural diversification. Figure 1.10. below highlights the sectoral distribution across different regions. The top sector in which progress has been reported is agriculture in Africa and services in LAC. Respondents who reported progress at the sectoral level in Asia, largely from the LDCs, identified agriculture and industry as the top sectors.

Figure 1.10. Economic diversification at the sectoral level, by region

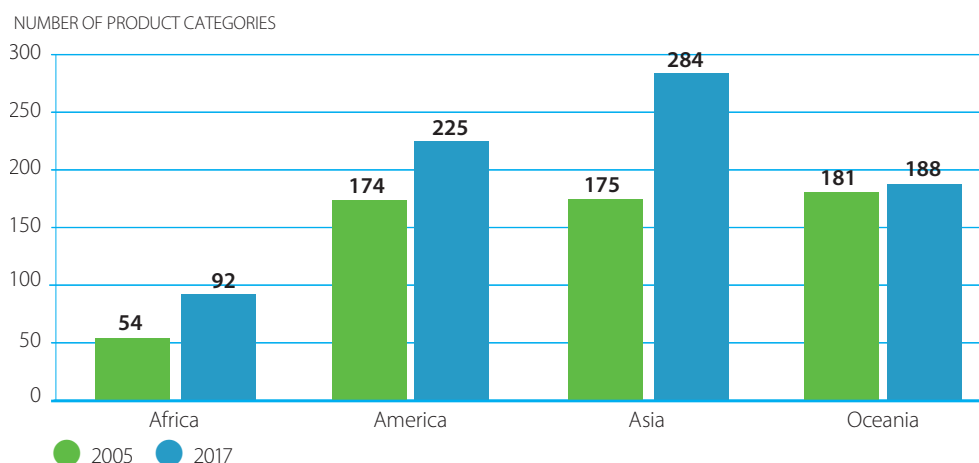


Source: OECD-WTO aid-for-trade monitoring exercise (2019)

StatLink <http://dx.doi.org/10.1787/888933952596>

Again, these findings broadly concur with the story that emerges from trade statistics. Since 2000, Africa has recorded the highest growth rate (70%) of all regions in the number of agricultural product categories exported, up from 54 to 92 HS categories exported in this sector from 2000 to 2017.

Figure 1.11. Export diversification by agricultural products, by region



Source: WTO Secretariat calculation based on the WTO IDB and UN COMTRADE.

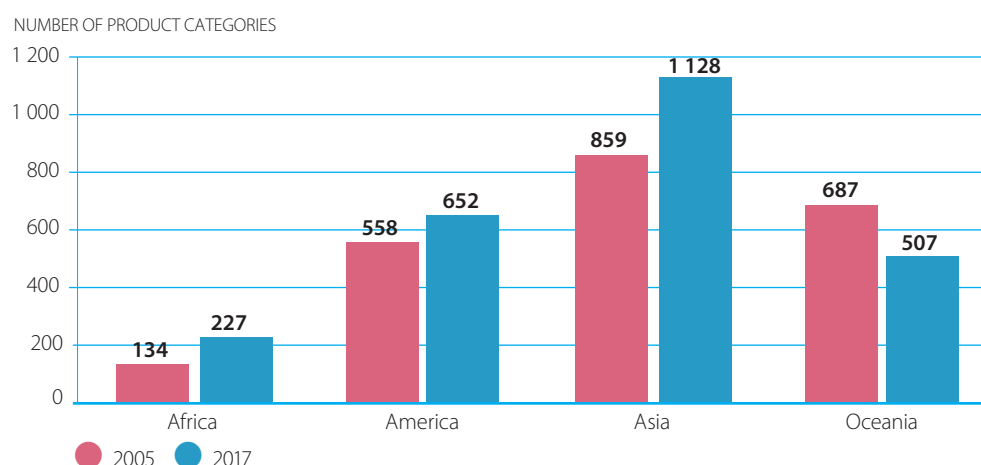
StatLink <http://dx.doi.org/10.1787/888933952615>

Among LAC respondents, Honduras highlighted its National Strategy Plan that promoted diversification and growth of employment in light-assembly manufacturing and services, in particular call centres and back office centres. The response from Peru mentions that services exports have increased 2.75 times since 2006.

Among respondents, industrial export diversification was scored most highly by Asian respondents. In view of the remarkable progress made by economies such as Cambodia, Bangladesh and Myanmar in diversification, this is perhaps not surprising. At a trade statistics level, the rate of diversification in African industrial export has been higher, albeit from a much lower base.

In Africa, the number of industrial product categories exported increased by 70% from 133.5 in 2000 to 226.5 in 2017. Across regions, Africa records the strongest growth rate in industry export diversification, followed by Asia (31%) and America (17%).

Figure 1.12. Export diversification in industrial products, by region



Source: WTO Secretariat calculation based on the WTO IDB and UN COMTRADE.

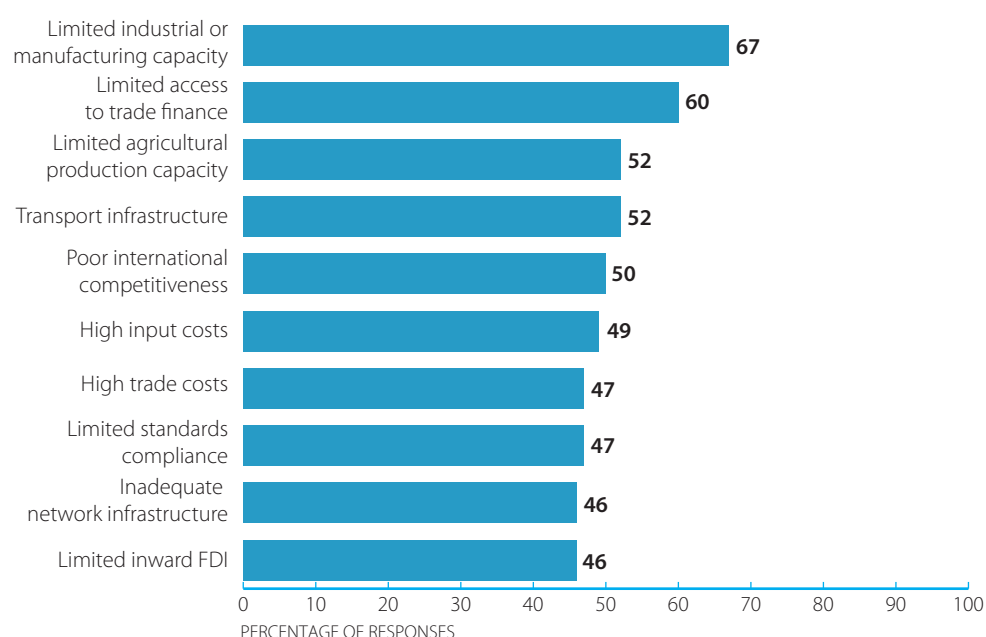
StatLink <http://dx.doi.org/10.1787/888933952634>

Furthermore, this diversification has been focused regionally with North Africa leading the way, not only in terms of the level of product diversification, but also the growth rate, reaching up to more than 4,000 product export categories in 2017. Southern Africa records the second highest product export diversification in the region, with exports recorded in more than 3,000 HS codes. In contrast, Central, Eastern, and Western Africa exported no more than 700 product categories in the same year.

Constraints to economic and export diversification

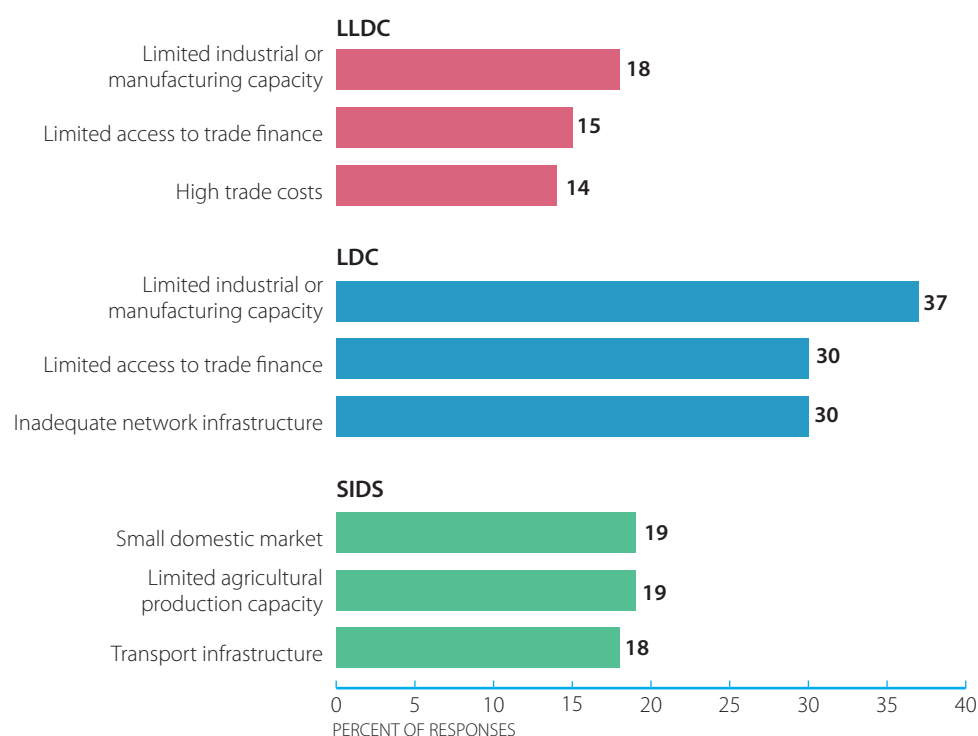
Limited industrial or manufacturing capacity is reported by 67 out of the 88 respondents (76%) as the top constraint to economic diversification. Thirty-seven (37) of thirty-eight (38) LDC respondents (97%) also report limited industrial or manufacturing capacity as their major constraint to economic diversification. Figure 1.13. below lists the top constraints to economic diversification for partner countries, including those in the UN categories of SIDS, LLDCs and LDCs.

High trade costs are listed as one of the top three constraints to economic diversification encountered in LLDCs by 14 out of 22 respondents (64%). Among the UN SIDS category, the size of the domestic market emerges as the most critical constraint, as reported by 19 out of 25 respondents. Mauritius, for example, identified its remoteness from major markets coupled with limited natural resources as an obstacle in diversifying its economy. Box 1.2 overleaf discusses some of the factors cited by respondents in their answers on the factors constraining economic diversification.

Figure 1.13. Top constraints to economic diversification for partner countries

Source: OECD-WTO aid-for-trade monitoring exercise (2019)

StatLink  <http://dx.doi.org/10.1787/888933952653>

Figure 1.14. Top constraints to economic diversification, by LLDC, LDC and SIDS respondents

Source: OECD-WTO aid-for-trade monitoring exercise (2019)

StatLink  <http://dx.doi.org/10.1787/888933952672>

Box 1.2. What factors constrain economic diversification

Network infrastructures is severely lacking in Central African Republic. The rate of access to electricity is merely 3%, which makes it difficult to develop or run a business, especially because our country is a landlocked country – **Central African Republic**

Lack of support infrastructure, limited connectivity, and shortage of energy supply are major bottlenecks to economic diversification – **Democratic Republic of the Congo**

Insufficient level of technological sophistication and innovation weigh on diversification in the country. In addition, technical barriers to trade and inadequate infrastructure raise the cost of exports – **Georgia**

Lack of basic infrastructure, such as water, electricity, and telecommunications, coupled with inadequate FDI in productive sectors have limited the capacity to diversify – **Guinea**

Challenges in the area of electronic commerce include low data security, inadequate capacity and infrastructure to collect revenue, cybercrime, high cost of internet connectivity, poor network coverage especially in rural areas, and financial constraints to implement e-commerce initiatives – **Kenya**

Low domestic revenue generation is driven by falling prices of major exports coupled with infrastructural deficit as well as gaps in human capacity and logistics – **Liberia**

In terms of export diversification, there is limited capacity in terms of product development, standards and quality assurance infrastructure. – **Lesotho**

The lack of infrastructure, storage, and transport as well as insufficient supply of energy constitute major obstacles to economic diversification. – **Madagascar**

The rugged terrain in the country results in low accessibility to goods and services as well as markets, which remains a challenge. The enabling environment to support economic activities such as the network infrastructure and transport infrastructure has limited the ability of people to venture into other areas of development. – **Papua New Guinea**

In Senegal, weak essential backbone services sectors, such as telecommunication and financial services, and limited access to factors of production and quality inputs have become major obstacles to promoting economic diversification. This is aggravated by poor private sector dynamics, delays in the implementation of reforms in the energy sector, and low level of productivity, which continues to hamper efforts towards economic diversification – **Senegal**

The low level of know-how and limited access to technology and financial resources have constrained the country's ability to modernise – **Sudan**

Our country experienced a decline in the share of industry in GDP due to lack of national industrial policy and low profitability generated through raw materials processing and low-value added activities as well as a shortage in skilled workers – **Tajikistan**

Inadequate skills and lack of capabilities to utilise the diverse natural resource base of the country in forestry, agricultural products, minerals and fisheries have resulted in weak diversification – **Tanzania**

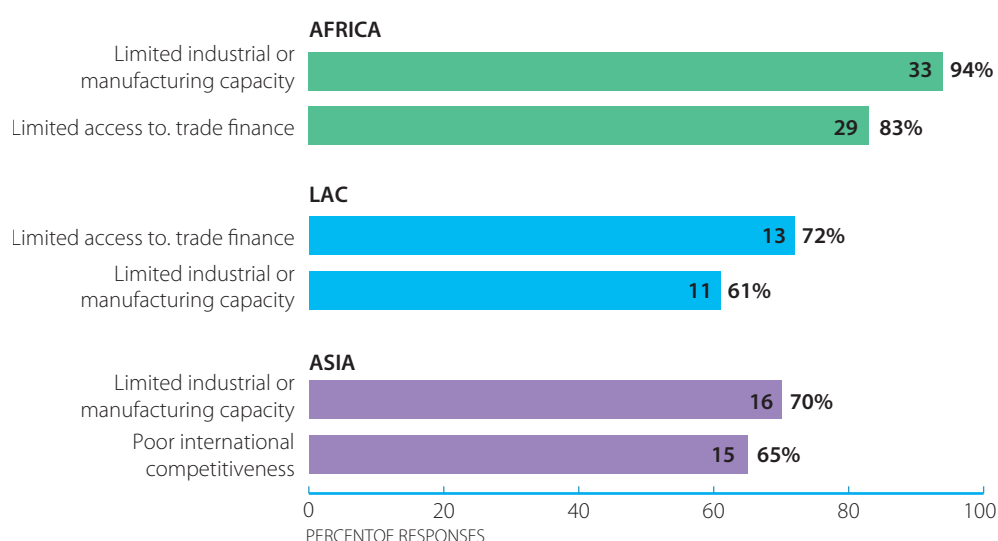
The main challenges to export diversification include inadequate infrastructure and skills gap – **Uganda**

Despite significant potential for export growth, our competitiveness is still hindered by low productivity, market and product concentration, limited financial access, deteriorating physical infrastructure, and cumbersome regulations and customs procedures – **Ukraine**

Source: OECD-WTO aid-for-trade monitoring exercise (2019)

Access to trade finance emerged strongly as a constraint in this year's monitoring exercise. Access to trade finance was cited as an obstacle by 60 out of the 88 respondents (68%) in the partner country questionnaire. In comments to the self-assessment questionnaire, Antigua and Barbuda stated that access to trade finance has become a high priority given the impact of the de-risking phenomenon, which has caused many indigenous Caribbean banks to lose correspondent banking relationships. The author highlighted that the economic impact would be critical if the trend continues to plague the region's financial sector, curbing their ability to participate in international trade.

Figure 1.15. Top constraints to economic diversification, by region



Source: OECD-WTO aid-for-trade monitoring exercise (2019)

StatLink  <http://dx.doi.org/10.1787/888933952691>

Respondents in Asia and Africa identified limited industrial or manufacturing capacity as their top constraint. Interesting to note is that limited access to trade finance came out as the major constraint in LAC and as the second-highest ranked constraint in Asia. In Asia, limited industrial or manufacturing capacity is ranked first by respondents in both LDCs and other developing countries in Asia. Figure 1.15. above discusses the top constraints to economic diversification by region.

Just outside the top ten constraints to economic diversification cited by the respondents are digital connectivity and ecommerce issues. Forty-four (44) of the eighty-eight (88) respondents (50%) cited limited e-trade readiness as one of the main obstacles to economic diversification. In comments, a linkage was also made with network infrastructure development. For example, Mali highlighted the need to increase access to electricity at a lower cost, promote the use of ICT for all sectors and actors, and extend the Internet and voice networks. Affordable and reliable access to electricity underlying digital connectivity was identified as a barrier to economic diversification by 27 respondents, most of whom are from the LDCs.

ECONOMIC EMPOWERMENT

The 2019 aid-for-trade monitoring exercise highlights how economic empowerment is being integrated into national and regional policy frameworks. Seventy-nine (79) of the eighty-eight (88) answers (90%) to the partner country questionnaire stated that economic empowerment is a priority in their national or regional development strategies. This share is higher among LDCs (95%) and LLDCs respondents (96%), who stated that economic empowerment is a policy priority.

Africa records the highest share of respondents (94%) with thirty-three (33) out of thirty-five (35) confirming that economic empowerment is a priority in their national and regional development strategy. Twenty-five (25) of these respondents are LDCs.

Questionnaire responses reflect the diversity of approaches undertaken in integrating economic empowerment into national and regional strategies. Togo's National Development Plan targets economic empowerment through inclusive financing. A similar approach is adopted in Sudan and Maldives. Meanwhile, Zambia and Benin devise strategy on economic empowerment around human capital development and skills. In some cases, national development strategies also link economic empowerment to a wider development goal. For example, economic empowerment is viewed as a channel to promote inclusive trade and economic recovery in Central African Republic.

Many respondents noted how economic diversification acts as a gateway for economic empowerment. In its reply, the Democratic Republic of the Congo noted that its national development strategy focused on "access to large markets, partnership between the different actors of regional trade, which will increase the wealth of vulnerable actors of the trade including women and young people." Nepal also highlighted that integrating its "products in the global value chains and promoting business and entrepreneurship skills development for MSMEs are important" for empowerment.

Senegal's national plan places youth and women's employment at the heart of its development strategy with projects being implemented to develop high value-added agriculture activities, fishing, and farming, mining, industrial platforms, logistics hub, "ready to use" export services, tourism, arts and crafts". Further afield, Kiribati's questionnaire notes that "economic empowerment is seen as an enabler to international trade as it contributes to the development of national and global value chains".

The nexus between economic empowerment, economic diversification, and export diversification is reflected in Peru's National Development Strategy, which envisages achieving higher productivity "by stimulating competitive exportable products with high value-added, supporting MSMEs in export consortia, promoting public-private alliances to increase investment in trade infrastructure, and increasing jobs that promote inclusive modernisation. Peru also noted that "to have a competitive economy with high level of employment, priorities also focus on improving the access to labour markets for women, youth, the elderly and people with disabilities."

One point that emerged from these comments is that the link between diversification and empowerment also runs in the other direction. Empowerment also actively contributes to economic diversification in the view of some respondents. This latter perspective is reflected in comments made by Cabo Verde that "economic empowerment requires improving digital and ICT awareness, trade knowledge, language skills, and water supply infrastructure". Nigeria likewise commented that "economic empowerment requires strengthening policy framework, providing an enabling environment for trade, and improving ICT infrastructure".

Box 1.3. Economic empowerment as a priority

Economic empowerment forms one of the axes of the third pillar of the National Plan for Rehabilitation and Peacebuilding with a view to promoting inclusive trade and economic recovery. – **Central African Republic**

The Law for the Promotion, Protection and Development of Micro and Small Enterprises states that strategic alliances between the MSMEs and the Salvadoran population residing abroad will be promoted, with the purpose of creating an intermediation system and investments that promotes their business engagement in the international markets. –

El Salvador

Support to women's economic empowerment, balanced development, and employment generation are some of the criteria for priority export potentials in the development of Nepal Trade Integration Strategy 2016. – **Nepal**

Most MSMEs face difficulties in obtaining financial support from the banks and other financial institution. Moreover, MSMEs often lack capacity in developing their businesses. – **Papua New Guinea**

Samoa's private sector is made up mostly of MSMEs. As such, interventions to support economic diversification and empowerment should be focused on empowering MSMEs. There is a shift from subsistence / communal living to business start-ups, from micro businesses to small entities and expansion of MSMEs in diversifying exports. – **Samoa**

SMEs account for 99.8% of the economy, which proves the importance that must be given. Senegal has set up several youth programs (ANPEJ, PAPEJF, ONFP, etc.). However, there is a lack of dialogue and harmonisation of actions in certain phases such as orientation, integration through employment, financing of project leaders, training and integration through self-employment. – **Senegal**

The programme in our country focuses on small-scale financing to support women and youth, encouraging their participation in production processes – **Sudan**

The priority includes the development of institutional mechanisms to incorporate national and international commitments on gender equality and women's empowerment in sectoral policies. To promote the creation of productive jobs, priority areas also focus on providing support to SMEs, including for youth and women, especially in high-tech innovative industries. – **Tajikistan**

The strategy is gender sensitive with the aim of increasing women's participation in production and manufacturing. It also focuses on advocacy for women and marginalised groups to have access to finance to boost their participation in regional and international trade. – **Uganda**

The Micro, Small and Medium Enterprise Development Policy states that government shall through designated agencies and in collaboration with stakeholders facilitate SME access to local and international markets. – **Zambia**

More is expected to ensure women's preferential access to finance, trade support, trade information, business premises in the form of factory shell. It will also promote their participation in local, regional and international exhibitions to create market linkages for women products and improve their networking chances. In that regard, funding is required to strengthen implementation of the COMESA Simplified Trade Regime. – **Zimbabwe**

Source: OECD-WTO aid-for-trade monitoring exercise (2019)

Comments made by Togo in its reply were amongst the strongest in considering how empowerment can contribute to diversification. Togo's national development strategy aims at "strengthening the capacities of women and youth to better participate in the national, regional, and international value chains". The Philippines also sees empowerment and inequality reduction as making it easier for the marginalised groups to contribute to economic progress. Zambia also highlighted that "women, MSMEs, and youth are actively involved in economic activities that have potential to create positive impacts such as, income generation, jobs and livelihood improvements". However, they are also "the very group that encounter demand and supply side constraints".

Addressing empowerment constraints may open new market opportunities. Vanuatu highlighted that "the production potential of virgin coconut oil, especially for women and MSMEs to participate in higher-value added activities, is poorly coordinated and largely overlooked." Addressing these constraints could help grow the exports of a product in great demand worldwide.

Sixty (60) of the eighty-eight (88) respondents (68%) stated that their national or regional development strategy includes indicators to track progress on economic empowerment. The share is higher among LDC respondents (79%). Across regions, Africa registers the highest share with 25 of the 35 (71%) respondents in the region confirming that there is an indicator or target for economic empowerment.

Indicators used to track empowerment differ in scope and complexity. Among the straightforward indicators referenced by respondents were those used by the Central African Republic on the number of women or youth who had benefited from capacity-building actions. Comparable indicators were mentioned by Burkina Faso focusing on the number of graduates trained in job search techniques. Burkina Faso's indicators went a step further referencing a metric used by various respondents on the number of jobs created.

Several respondents highlighted targets linked to employment, particularly for youth and women. The Gambia's National Development Plan includes targets to reduce youth unemployment from 38% to 30% by 2021. Togo has set a target to reduce the youth unemployment rate from 3.2% in 2015 to 2.5% in 2022. The rate of female participation in the labour market is a metric used by Mexico. A target to reach 48% in 2018 has been set, together with other targets including reducing the percentage share of employed women without access to day care by 75% and lowering salary discrimination index per sector by at least 20%. The Philippines tracks additional criteria beyond female labour force participation, such as the percentage of females with advanced degrees employed. Several respondents also referred to concepts such as decent work (Tonga) and adequate employment (Peru).

Access to credit is a parameter tracked by various respondents, both as an indicator for women's economic empowerment and as an indicator for MSMEs. Togo has a target to "increase the share of women with access to credit from 44.4% in 2015 to 60% in 2022." Papua New Guinea tracks the number of women with a credit account as part of a broader set of indicators that also includes youth employment, women engaged in SMEs, the share of MSMEs having access to financial credits and the number of registered MSMEs. The Philippines Development Plan Results Matrices for 2017-2022 measures the proportion of small-scale industries in total industry value-added, the number of MSMEs and the share of bank loan portfolio allocated to MSMEs amongst its indicators. The access of female entrepreneurs to credit is also cited by Iraq and Madagascar as an issue to address.

One note of caution sounded by Peru in relation to the use of economic empowerment is the lack of additional information and indicators, for example, on the number of companies led by women and those who export. To this concern, could also be added the ability of many statistical offices to capture and track such metrics over time.

The rest of this section is organised around specific comments made by respondents on empowerment in relation to youth, women and MSMEs.

Empowerment and youth

Several respondents referred to youth empowerment targets, notably from an employment perspective. In comparison with the other two areas surveyed of women's economic empowerment and MSMEs, the comments pertaining to youth were not as extensive.

The respondent from Papua New Guinea highlighted the difficulties youth face in securing jobs after graduation and the need to equip them with skills and financial backing to encourage their participation in the economy. Likewise, the respondent from Madagascar cited the “lack of experiences and start-up funding” as major barriers to youth entrepreneurship. This issue was codified into the law governing national youth policy in Madagascar in 2015, which recognises that “young people are the first victims of unemployment”. To that end, “socio-economic inclusion of youth and the promotion of youth entrepreneurship” is enshrined in the strategy of Madagascar. In a similar vein, Papua New Guinea noted that youth has not been given sufficient support in all areas to ensure they are employed and participate meaningfully in economic activities.

Policy approaches to address youth empowerment include statements in national development strategies. Senegal noted that “the employment of youth and women have been at the heart of the development strategy” in Senegal. In Zambia, the government has put in place a youth empowerment and employment strategy with policy interventions addressing challenges on youth empowerment.

Other references were made to more specific actions, such as vocational training by Guinea and entrepreneurship programmes by St. Kitts and Nevis. The integration of youth into projects was highlighted by Zambia through its Aquaculture Enterprise Development and Cassava value chain projects.

Empowerment and women

Gender has been an important element of the Aid for Trade initiative since its inception. Reference can be found in the Aid for Trade Task Force recommendations from 2006. The Joint Declaration on Trade and Women's Economic Empowerment launched at the Buenos Aires WTO Ministerial Conference in 2017, identified aid for trade as an instrument to analyse, design and implement more gender-responsive trade policies.

The 2019 aid-for-trade monitoring exercise highlights how economic empowerment is being integrated into national and regional policy frameworks by partner countries and regional organisations, as well as donors and south-south partners. Responses from the monitoring exercise suggest that women's economic empowerment is a critical component of inclusive and sustainable growth.

Data shows an increasing focus by partner countries' national and regional development strategies on women's empowerment since the inception of the Initiative. This latter trend emerges strongly from responses to the joint OECD-WTO 2019 Monitoring and Evaluation Exercise. In fact, there is little to separate donor and partner countries in their promotion of women's economic empowerment in the aid for trade plans (84% of donors indicated it was a priority) and national or regional development strategies (85% of partner countries highlighted it as a concern to address). Furthermore, both groups highlighted mainstreaming women's economic empowerment as a factor leading them to update their strategies.

Efforts to empower women are also reflected in various policies to achieve this aim. For example, Kazakhstan mentioned its “long-standing policy of legislative support to women. As the first Central Asian country to set up a national entity to promote gender equality, Kazakhstan approved in 2016 the Concept of Family and Gender Policy up to 2030, to prevent gender-based discrimination and imbalances.”

Box 1.4. Joint Declaration on Trade and Women's Economic Empowerment

We have agreed to collaborate on making our trade and development policies more gender-responsive, including by:

1. Sharing our respective experiences relating to policies and programs to encourage women's participation in national and international economies through World Trade Organization (WTO) information exchanges, as appropriate, and voluntary reporting during the WTO trade policy review process;
2. Sharing best practices for conducting gender-based analysis of trade policies and for the monitoring of their effects;
3. Sharing methods and procedures for the collection of gender-disaggregated data, the use of indicators, monitoring and evaluation methodologies, and the analysis of gender-focused statistics related to trade;
4. Working together in the WTO to remove barriers for women's economic empowerment and increase their participation in trade; and
5. Ensuring that Aid for Trade supports tools and know-how for analysing, designing and implementing more gender-responsive trade policies.

Source: Joint Declaration on Trade and Women's Economic Empowerment on the Occasion of the WTO Ministerial Conference in Buenos Aires in December 2017

Mainstreaming of women's economic empowerment is evident through the incorporation of national and international commitments on women's economic empowerment. This is the case for example of sectoral policies in Tajikistan. The importance of embedding women's economic empowerment as a cross-cutting issue across development policy was also highlighted. Responses received from the Democratic Republic of the Congo underscored the importance of "considering the gender dimension in all activities". To that end, in the next five years, national action is expected "in the direction of strengthening the capacity of women's empowerment and to advocacy for the implementation of laws in favour of women."

The link between economic empowerment and international trade is reaffirmed by a number of respondents. The national development strategy in the Democratic Republic of the Congo "associates economic empowerment with the participation of women and youth in international trade". Zimbabwe acknowledges the "important role women play in informal cross-border trade" and the need for "gender mainstreaming in the implementation of the National Trade Policy". In Malawi, "special preferences are given to women involved in cross-border trade." Guinea continues to "support associations of women to participate in trade promotion activities such as fairs and exhibitions".

The potential of simplified trade regimes and streamlining custom procedures as a lever for economic empowerment, particularly women and MSMEs, is cited in some response. Zimbabwe underscored the need to channel more "funding to strengthen the implementation of COMESA simplified trade regime" to better establish market linkages for women. Kenya stated that "the simplified custom procedures established in EAC provide opportunities for SMEs".

The experience in some countries demonstrates the role that digitalisation may play in advancing women's economic empowerment. In Iraq, the Internet, especially social networking sites, has played a role in promoting women's economic empowerment. The Democratic Republic of the Congo attributes women's increased production and better access to markets to modern communication techniques. Responses also highlight room for improvement in this area. Guinea, for instance, articulated the need for further support in training women entrepreneurs in modern trade techniques. Over 30 respondents in the questionnaire identified digital connectivity and ICT skills as a way Aid-for-Trade can contribute to economic empowerment for women.

Ukraine indicated the need for a threefold approach including for "export companies to implement gender equality, especially in promotion and decision-making, for women to develop their capacity, and for women-led businesses to have access to national and international business networks for business opportunities and export".

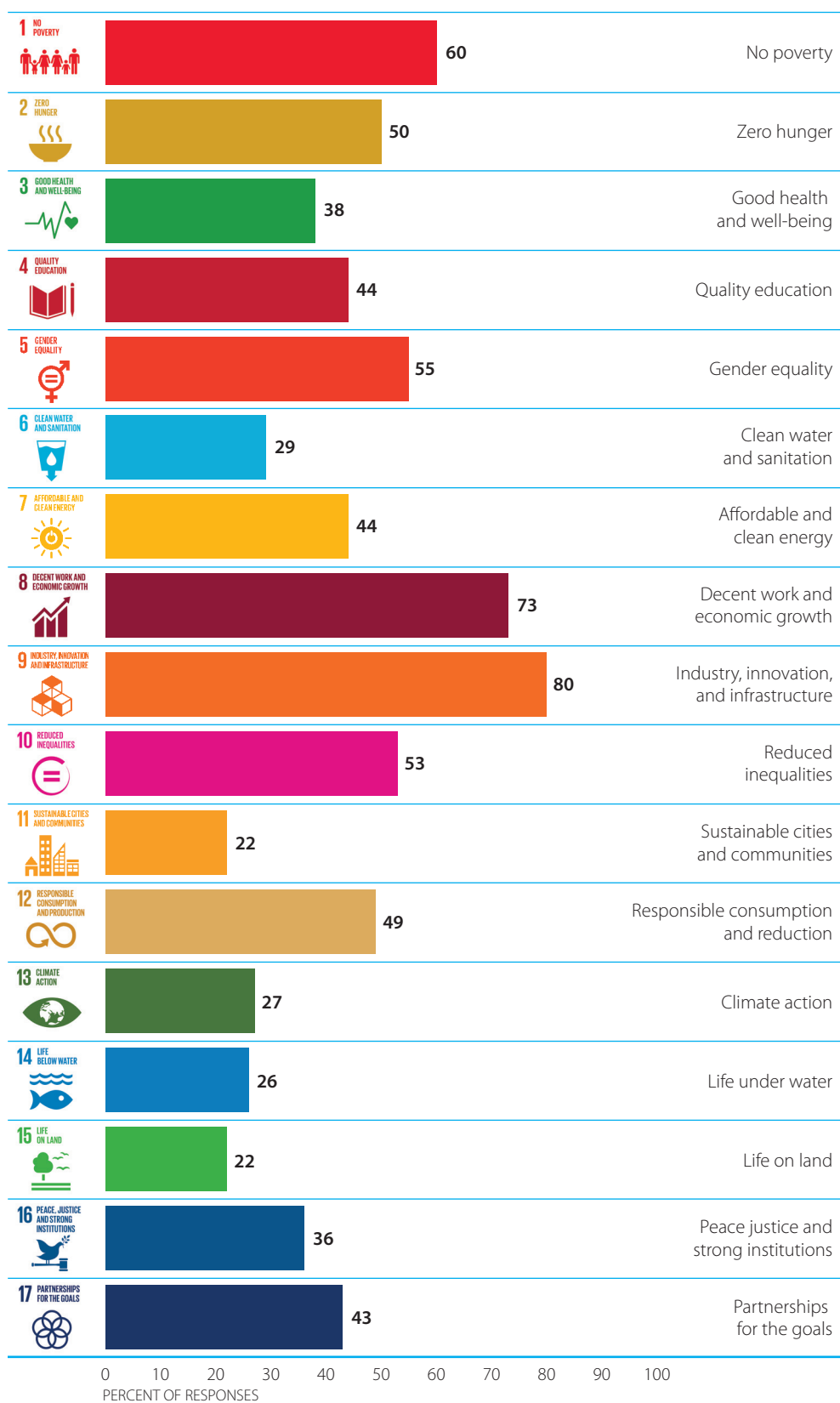
Empowerment and MSMEs

One of the primary motivations for economic empowerment is the prominent role MSMEs play as the backbone of economies. For example, Samoa recognises that MSMEs constitute the largest share of the economy and argues that there is a need to direct "interventions to support economic diversification and empowerment on empowering MSMEs". MSMEs role as a major source of employment is referenced by Kazakhstan and Maldives. In its submission, Senegal states that the share of employment attributed to MSMEs (99.8% of the economy) should guide the level of importance given to economic empowerment. Similarly, Guinea considered the empowerment of MSMEs as the "basis for development, especially for the LDCs".

Responses also revealed linkage of MSMEs with export diversification. The MSME Development Policy of Zambia focuses on facilitating access to local and international markets. Honduras noted that reductions in trade cost will largely benefit MSMEs – a point echoed by Kenya, which mentioned "the benefits of simplified custom procedures under EAC."

MSMEs' viability very much depends on key enabling factors including skills and access to finance, which were the top two most frequently cited factors in the questionnaire responses. Nepal highlighted the importance of "promoting business and entrepreneurship skills for MSMEs". Human capital development forms an integral part of the national and regional development strategy with the overarching goal of improving employment in some including Benin, Zambia, and the Philippines. Zambia's response highlighted that "women, MSMEs, and youth are actively involved in economic activities that have potential to create positive impacts such as, income generation, jobs and livelihood improvements". However, they are the very groups that also encounter demand and supply side constraints.

Access to financing is one of the pressing issues frequently mentioned in the context of achieving economic empowerment for MSMEs. Access to finance poses challenges in Papua New Guinea in that MSMEs are unable to obtain financial support from banks and financial institutions, hampering progress in economic empowerment. To address such challenges, particularly high collateral requirement, Maldives has established a SME bank in February 2019 focusing on SME financing and development. Kazakhstan considers access to finance a catalytic factor for the empowerment of MSMEs. Access to finance is proved important not only for MSMEs, but also women and youth. Access to finance has also been identified as a channel to empower the marginalised groups by facilitating their participation in regional and international trade, as stated by Uganda.

Figure 1.16. Aid for Trade can contribute to the achievement of the 2030 Agenda

Source: OECD-WTO aid-for-trade monitoring exercise (2019)

StatLink  <http://dx.doi.org/10.1787/888933952710>

CONCLUSIONS

Responses from the 2019 monitoring exercise show clear recognition that both economic diversification and empowerment strengthen the rationale for aid-for-trade as a driver of economic growth, industrialisation and innovation. This is in line with the objective for the Aid-for-Trade first articulated by the 2006 Task Force, that is: “to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade”.

Among partner country respondents, there is clear appreciation of the role that Aid-for-Trade can play in making a contribution to the achievement of the 2030 Sustainable Development Agenda, notably to SDG 8 (decent work and economic growth) and SDG 9 (industry, innovation, and infrastructure). Figure 1.18. below highlights the responses from partner countries.

NOTES

1. The bilateral export flows at HS 6-digit level with values less than USD 100,000 are excluded in the product counts.
2. The WTO Trade in Services Dataset by Mode of Supply (TiSMoS) includes estimates produced by the WTO Secretariat to ensure a full coverage of services categories. A threshold of USD 50,000 is applied for each of the 39 EBOPS items, namely SA, SB, SC11, SC12, SC13, SC21, SC22, SC23, SC31, SC32, SC33, SC4, SDA, SDB1, SDB2, SDB3, SE1, SE2, SF, SG, SI1, SI2, SI3, SJ1, SJ21, SJ22, SJ311, SJ312, SJ313, SJ32, SJ33, SJ34, SJ35, SK1, SK21, SK22, SK23, SK24, SH.
3. WT/AFT/1
4. World Bank, “Economic Diversification Guidance Note”, Trade and Competitiveness Global Practice Available at: <http://ieg.worldbankgroup.org/sites/default/files/Data/reports/EconomicDiversification.pdf>
5. Departamento Nacional de Planeación, Colombia “Metodología tipo de pre-identificación de apuestas productivas a nivel Departamental Ministerio” Marzo de 2017, Available at: <https://colaboracion.dnp.gov.co/CDT/Desarrollo%20Empresarial/Metodologia%20Priorizacion%20PDP%20-%20FINAL.pdf>
6. A revised version of ‘HS diversification index’ used in the technical paper in the World Tariff Profile 2017. The ‘HS diversification index’ is defined as a country’s total number of export trade flows at HS 6-digit level with all trading partners (destination markets). Thus, the index provides a measurement of both broadness product categories and diversity of export markets. It should be noted that the index does not consider trade volumes. Although trade values could be useful in measuring intensity vis-à-vis product diversity, it could also distort the measurement of pure export potential as this could be under-estimated when trade values are given too much importance.