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Original article

Export market destination and performance: Firm-level evidence across Sub-Saharan African countries

Ousmanou Njikam

Faculty of Economics & Management, University of Yaoundé II, Cameroon

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Abstract

This paper uses a novel manufacturing firm-level survey data in 19 sub-Saharan African (SSA) countries to explore the linkages among a number of export-market destinations (e.g., China, India, other Asia, EU, US, MENA, SSA excluding South Africa, and South Africa) and performance. The paper also examines differences between exporters and non-exporters performance and assesses self-selection. We find superior characteristics of exporters relative to non-exporters. Size, foreign ownership and past export experience enhance the propensity to export while continuing exporters outperform switching ones. Export destination matters: exporting to China leads to improvements in total factor productivity (TFP); India destination enhances the wage rate, labour productivity and TFP, while the South Africa destination depresses capital intensity. Furthermore, the study finds that export intensity matters for certain destinations, with higher levels of exports to the USA improving enterprise performance, such as increases in overall output and labor productivity, while the reverse holds for exports to other SSA countries. This latter finding clearly poses a challenge to efforts to increase intra-Africa trade. These findings should provide coherent and coordinated strategies for SSA policies seeking to promote economic development through exporting and diversification of trade partners.

JEL classification: F14; D21; L1
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1. Introduction

The last two decades have seen a significant policy shift in sub-Saharan Africa (SSA), from inward-looking import substitution to outward-looking, market determined strategies. The reasons for

E-mail addresses: onjikam2002@yahoo.fr, onjikam@fseg-univ-yde2.org.
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this shift have to do mainly with the inefficiencies of import substitution and the success of exporting in promoting economic growth (Greenaway et al., 2005). In fact, outward orientation has been held up as a potential source of growth booms for SSA economies. At a macroeconomic level, export is a means to generate foreign currency inflows required to finance imports as well as social development projects. At a microeconomic level, many arguments in favour of the export-market participation have been put forward. The participation in foreign markets is thought to improve firms' efficiency through three major channels. First, the larger international market allows the exploitation of economies of scale that raises productivity. Second, international contacts foster a learning process through technology and knowledge spillovers (Clerides et al., 1998; Baldwin and Gu, 2003). Third, and as argued by Bernard and Wagner (1997), another link running from exporting to success stems from the more nebulous notion of international competition. Here, increasing export intensity leads to increased management efficiency due to competition abroad.

Several studies have examined the relationship between exporting and enterprises performance (see e.g. Aw and Hwang, 1995; Bernard and Jensen, 1999; Girma et al., 2004; Hansson and Lundin, 2004; Greenaway and Yu, 2004). Regardless of the data examined and methodology used, these studies find that exporters are more productive compared with non-exporters. There are two competing hypotheses regarding this result. First, enterprises self-select to become exporters, i.e., they are more productive before they enter export markets. Hence, exporting involves sunk costs and greater productivity is required of enterprises that become exporters.[1] The self-selection hypothesis is addressed empirically by looking at performance characteristics in the period prior to exporting using an export premium measure. The second hypothesis is that better performance of exporting enterprises may arise from the exporting process itself, through a type of 'learning by exporting' experience. The case-study evidence (e.g. Crespi et al., 2008) suggests that firms learn about new techniques and methods from the experience of exporting. The learning-by-doing hypothesis is addressed empirically by looking at performance characteristics of exporters compared with non-exporters in the period following their entry into export markets, again using an export premium measure.

Empirical investigations of the links between exporting and enterprise performance in SSA have emerged (see e.g. Zeufack, 2002; Söderborn and Teal, 2003; Bigsten et al., 2004; Van Biesebroeck, 2005; Rankin et al., 2006). However, and to the best of our knowledge, almost nothing is known about the relationship between export-market destination and the performance characteristics of SSA manufacturing firms. Yet, export-market destination matters. As noted by Ruane and Sutherland (2005) and Eaton et al. (2011), exporting 'globally' to unfamiliar markets where social, economic, and legal structure are different from those normally faced may really be what exposes the enterprise to competitive pressures and greater learning opportunities. Furthermore, export destination in relation to performance characteristics of enterprises is an important empirical question for informing SSA policies that seek to promote growth through exporting and diversification of trade partners, but without a coherent and coordinated strategy.

In sum, research on exports and enterprise performance has mainly been confined to the developed countries, Latin American and Asian countries but much less in the case of SSA countries. Yet, outward orientation and efficiency gains are of particular interest in SSA where the governments have adopted the export-led growth approach as their main development strategy, and juggle multiple trade partners without a clear vision. Moreover, one element of export behaviour of SSA manufacturing firms not discussed widely in the literature relates to the role of export destination. Our analysis is centred on three

[1] Export entry is costly. As a result firms with higher ex-ante productivity self-select into export markets, while those with lower productivity produce for the domestic market. For theoretical and practical explanations of why enterprises self-select to become exporters see, for instance, Jean (2002), Melitz (2003), Medin (2003), and Helpman et al. (2004).

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