

Explaining Diversification in Exports Across Higher Manufacturing Content : What is the role of commodities?

Most low-income countries export mainly unprocessed commodities. Yet, in their pursuit of structural transformation, they also seek a more diversified economic structure, including developing a strong manufacturing sector to create jobs and spur innovation as in more advanced economies. What is the best way for them to promote economic diversification? Should countries aim straight for manufacturing? Should they focus on the products most in line with their already-known and used endowments? Should they follow some sort of ladder of activities towards a well-diversified economy? Or should they simply lean back and let the markets sort it out? Finally, do the answers vary depending on the country? A body of recent research suggests that a country's diversification process would tend to move along pathways of "nearby" products: the "new" products it specialises in would build on the existing productive capabilities and knowledge used to produce the "old" ones. It would follow then that low-income, raw commodity exporting countries should build on their natural resource endowments. This would not always imply moving downstream and transforming those resources locally. Depending on learning processes, capabilities and the types of endowments, value addition at the local level may or may not make economic sense.

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