

The Determinants of Export Diversification at All Margins

Case Study: South Korea

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ABSTRACT

Export diversification is an important lever for the economic growth due to its pivotal role in avoiding the shortfalls in export concentration. For instance, the sensitivity of export revenues to any shock may occur to a certain sector leading to underinvestment when investors avoid the risks. Thus, diversifying export items into different products within different sectors rather than concentrating on certain products in one sector may achieve the sustainability of export earnings.

The role of export diversification can be proved in the light of success of East Asian "Tigers" such as South Korea, where the export diversification has been adopted over the last five decades with fruitful economic returns. However, some Central American countries, such as Costa Rica, applied different diversification programs in the early of 1970s and lately 1990s without attaining the stability in their export earnings. Thus, this paper aims to explore the determinants of export diversification at all margins by developing a composite index of export product and geographical diversification, using the most common measurement, Hirschmann Herfindahl index, and Vector Error Correction Model in order to analysis the time series data over the period (1970-2010) based on Eviews 7.0 and applying these analyses on case of South Korea.

Keywords: Export Diversification, Economic Growth, Trade Cost, Trade openness.