Analyzing the Determinants of Export Trade in Cameroon (1970 – 2008)

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Abstract

This research analyses empirically the determinants of export trade in Cameroon from 1970 to 2008. We use the two Stage Least Square to show that exchange rate, trade openness and export lag one period are the main determinants of export in Cameroon. This result, although common in most Developing Countries are in contradiction with former studies, mostly because the foreign direct Investment was found to be not significant in determining the export in this Country.

Keywords : *export trade, openness, TSLS, exchange rate, determinant*

1. Introduction

Cameroon has seen itself engaged in international trade, and specifically in the exportation of goods and services for the past years. According to Bamou (2002), three main phases in the evolution of Cameroon's total exports can be picked out from independence (1960) up to date: (1) rapid growth from 1960 to 1986: characterized by rapid growth at an annual rate of 106% and was spurred by the good performances of primary agricultural products; (2) a fall from 1987 to 1994: marked by a fall in both agricultural and industrial contributions and a boom in the oil contribution to total exports and also was characterized by the "Dutch Disease" as described by Benjamin and Devarajan (1985); and (3) continuous growth recovery since 1994, even though occurring in fluctuating pattern. This phase began with some major changes in the country's trade policy; a fiscal reform was implemented and the local currency (CFAF) devaluated by 100% relative to the French franc (FF). The export growth in this last phase was also accompanied by a relative harmonization of contributions to total exports, especially in the industrial sector[1].

There is ample evidence that export trade in Cameroon has been occurring in a fluctuating manner. Also, it is true that unfavorable domestic terms of trade and declining output are the principal contributors to the fluctuating and poor performance of Cameroon's exports (which is mainly agricultural in nature)[2]. Coupled to these, there is the effect of the interaction between inappropriate domestic and foreign reform policies. This situation has led the country to a number of macroeconomic imbalances, including budget deficits and balance of payments (and debt) problems. The low foreign exchange earnings constrain the importation of vital raw materials and this induces the deterioration of the quality of both the social and economic infrastructure. In such a situation, and attempting to follow an export-led growth approach, an increase in exports is expected to contribute significantly to the improvement of most of these imbalances. The overall success of any strategy to increase exports will depend, among others, on the knowledge of what factors constrain export growth.

Where export supply responds negatively to exchange rate or inflation for example, currency value changes cannot bring about an increase in export volume.

Our main objective is to analyze the factors that determined the volume of export trade in Cameroon (1970-2008). Specifically, we are out to identifying some factors and analyzing the extent to which these factors have influenced the magnitude of export trade in Cameroon for the years under study.

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[1]*See Bamou (2002), Njong (2008),*
[2]*See Gbetnkom and Sunday A. Khan (2002).*

Following our objectives stated above, we hypothesize that the factors we will identify are significant in determining the volume of export trade in Cameroon during the period of study.

2. Empirical Literature

Several cross-country studies found support for the hypothesis of a negative relationship between FDI and export (Jeon 1992). Moreover, Sharma (2000) does not see any statistically significant impact of FDI on Indian exports. In contrast, other studies indicated that FDI actually has a positive effect on export performance of host countries (Cabral, 1995; Blake and Pain, 1994). In this light, Njong (2008) investigates the effects of foreign direct investment on export performance in Cameroon. According to this author, theoretical relationship between FDI and export growth can be explained by using the flying geese model, Vernon's product life cycle theory and the new growth model. These three theories all agree that FDI has an influence on the recipient economy. First, MNE subsidiaries exploit the host country's factor endowments for lowering production costs to increase their export competitiveness. Therefore, the host country's export expansion by MNE subsidiaries is to be expected (capacity-increasing effect). Secondly, the host country's export can be increased by domestic firms through the spillover effects of FDI such as competition and transfer of knowledge (spillover effect). In an attempt to estimate the potential effects of FDI inflows on export growth in Cameroon over the 1980-2003, he separates the effects of FDI into supply capacity-increasing effects and spillover effects. Hypothesizing that FDI has had a positive impact on Cameroon export performance, he finds evidence that FDI inflows contributed to higher supply capacity and spillover effects in Cameroon, leading to higher export growth during the period of study.

In the Journal of African Economies (2000), a sample of 38 manufacturing firms from Cameroon is examined for the period 1980-95. A production function and an export function are estimated in order to study the determinants of TFP and export performance. The results demonstrate a mutually reinforcing relation between productivity and manufacturing export performance. Moreover, the study provides evidence indicating that adequate management of the real exchange rate is a crucial factor for the promotion of manufacturing exports. The performance of the manufacturing sector in Cameroon has deteriorated substantially since the mid-1980s. This decline is to a large degree explained by Dutch disease symptoms and inward-looking policies for the manufacturing sector, resulting in a highly overvalued real effective exchange rate (REER).

Gbetnkom, D. and Khan, A.S. (2002) investigate the determinants of three agricultural exports from Cameroon between 1971/72 and 1995/1996. Export supply functions are specified and estimated for the three export crops chosen: cocoa, coffee and banana. Quantitative estimates obtained from the ordinary least squares (OLS) estimation procedure indicate the following: the response of export supply of all the crops to relative price changes is positive, but fairly significant. This can be attributed to the price constraining nature of the international markets for these commodities. Changes in the nature of the road network positively affect the export supply of cocoa, coffee and banana. More credit to crop exporters has a significant and positive influence on the export supply of all the crops. Equally, rainfall's influence on the growth of the three commodities is positive, but significant only for cocoa and coffee. Finally, structural adjustment dummies show a positive effect on the export supply of crops for policies implemented. These results point to two conclusions. First, the marginal sensitivity of crops to the relative price changes means that the price incentives are not sufficient to generate desired export supply of agricultural commodities in Cameroon. Second, the significant sensitivity of crops under consideration to the availability of credit to exporters, the improved road networks and the specific policy changes implemented in the framework of the SAP implies that attempts to increase the export supply of agricultural crops in Cameroon should focus on these variables.

Amin (1996) estimates the effects of exchange rate policies on prices of export crops and on Cameroon's agricultural export competitiveness. After calculating the nominal protection coefficient (NPC) and the nominal protection rates (NPR) for the crops considered (cocoa, coffee), and estimating the real exchange rate (RER) and the extent of the over-valuation, Amin reached at the following conclusions: the agricultural sector is heavily taxed through a high level of intervention and over-valuation. The levels of real over-valuation are quite high, up to 77%, and estimates show that a 10% depreciation of RER stimulates about 1.0% increase of cocoa.

Tshibaka (1998) addresses the effects of external shocks and domestic sectoral and macroeconomic policies on the structure of price incentives of major agricultural export commodities, and their repercussions on output and producer income. He concludes that during the period 1971–1993, Cameroon's export commodities faced a very unfavorable world market environment as their real world terms of trade declined at an average rate of 3.1% per year. The domestic sectoral and commodity specific policies that prevailed during this period were also detrimental to the export crop subsector. Finally, the real exchange rate decreased at an average annual rate of 3.9%, suggesting an appreciation of

the CFA franc. The analysis has also shown that external factors have been the leading cause of the observed fall in the overall level of export earnings and real producer income in Cameroon.

Sangita (2000) analyzes "the determinants of exports in Fiji." The paper identifies some of the main determinants of exports in Fiji. A single equation model for exports is developed in which trading partner income and relative prices play a central role. The underlying conceptual framework of the study is an imperfect substitution model, in which the key assumption is that exports are not perfect substitutes for domestic goods in importing countries. A distinguishing feature of the analysis is the incorporation of the effects of agricultural supply-side shocks in the export equation. The results show that in the long run, trading partner income largely drives movements in Fiji's exports. In the short run, exports are mainly influenced by changes in factors which affect the output capacity of agricultural production, such as weather conditions and industrial disputes, as well as relative prices and changes in foreign demand.

Using quartile regression techniques, Marco Fugazza (2004) analyzes the major determinants of export performance. Results indicate that, while trade barriers continue to be of concern, poor supply-side conditions have often been the more important constraint on export performance in various regions, particularly in Africa and the Middle East despite a generalized deepening of international trade integration. Beside strong linkages to international markets, good transport infrastructures, macroeconomic soundness and good quality institutions appear to be major determinants in the development process of the external sector.

The performance of a country's export trade is highly dependent on its exchange rate regime, and more specifically the real exchange rate (Agasha, 2007). Various studies have shown that the demand for a country's exports increases when its export prices fall in relation to the world prices. The depreciation of its currency compared to other currencies makes its exports cheaper on the international market. Sharma (2001) discovered that the demand for Indian exports increased when its export prices fell. He also argued that the appreciation of the Indian Rupee at one time adversely affected Indian exports.

Musinguzi and Obwona (2000) regressed export growth on real exchange, TOT and lagged export growth. They found that TOT had a marginal but statistically significant impact on export growth. They also found out that export growth rate in Uganda is significantly and positively affected by its previous growth and terms of trade, but is not significantly affected by real exchange rate. Similarly, Ngeno (1996), using export growth function of output and real exchange rate found that both variables significantly affect export growth in Kenya. JayantParimal (2006) associated deteriorating TOT with contraction of export earnings in Burundi.

Before estimating the aggregate and individual agricultural export supply, Fosu (1992) noted that the real exchange rate (RER) of a domestic currency does not influence the economy's agricultural exports directly; instead, it influences agricultural exports through its effects on the incentive structure. In total, four agricultural export functions were estimated using the ordinary least squares method. First is an aggregate real agricultural export function, followed by cocoa, coffee and sheanut export equations. At the 5% level, the lagged export variable turned out to be the only significant variable in the aggregate model. The cocoa base capacity *(Qt)*, cocoa to food price ratio *(Px/Pf)* and the trend term are statistically significant. The coffee to food price ratio and the foreign income are significant, but the negative sign of the response of the latter implies that contrary to expectation, an increase in foreign income tends to precipitate falls in the volume of coffee and cocoa exports. A 10% increase in *Yt* tends to generate a 13.73% fall in the volume of coffee exports in Ghana.

Studies on export performance in developing countries show that FDI has a significant positive impact on export structure (Njong, 2008; Amelia and Santos, 2000). Amelia and Santos (2000) in Agasha (2007); reveal that foreign direct investment sometimes chooses sectors of the economy where a country may not be relatively specialized and that this also affects export performance. Also, the study suggested that imports of intermediate inputs and machinery are important determinants of changes in the export sector. Gross Domestic Product is also coined to have a positive impact on exports[3].

The price of exports on the international market is proven to be one of the main determinants of export growth, especially for countries like Cameroon which depend on exportation of agricultural products whose prices fluctuate frequently. Edwards and Golub (2004) found that foreign prices have strong impact on manufacturing sector's export performance. Using time series data, they got significant positive coefficient of foreign prices[4].

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[3]*Kumar et al. (1997) and Ngeno (1990) both found positive significant effect of GDP on export growth.*
[4] *Similar results are found in Rakif and Sverdberg (1990).*

Terms of trade (TOT) is also found to be one of the determinants of export performance in both developed and developing countries. Favorable terms of trade are associated with increased export growth rate and unfavorable terms of trade with low export growth rates[5].

Real effective exchange rates and economic activity in trading partner countries have a considerable impact on real exports of the G7-countries (Lapp *et al.,* 1995). Using an error correction framework these authors find that the short-run and the long-run effects differ substantially between the countries. The relative importance of both influences is demonstrated in a simulation with standardized shocks. For five countries, the effects are more or less the same; in Japan, however, the exchange rate effect dominates the effect stemming from foreign economic activity, the opposite is true for France. Finally, exchange rate volatility is found to have no systematic effect on export growth in the majority of the countries.

Based on data from more than 100,000 Chinese manufacturing firms, Huang*et al.* (2008) explore the reasons for the recent surge of manufacturing exports from China. They point out that Research and Development (R&D) investment has not been a contributing factor to the export success of Chinese firms, even in high-technology sectors. Although exportation of high-technology products has been dominated by foreign manufacturing firms, domestic firms have invested more heavily in R&D than their foreign counterparts. The role of low labor cost in the rise of the Chinese manufacturing industries is inconclusive as suggested by the econometric evidence. However, the major contributors to the increase in Chinese exports are collaboration with foreign investors and fierce domestic competition.

Employing a panel data set for 1999—2002, ZhongChangbiao (2009) examines the determinants of exports in Chinese electronics industry, with a particular focus on the role of foreign direct investment (FDI). He finds that FDI especially investments from Hong Kong, Macau and Taiwan and economies of scale are positively related to exports. He also find that the share of state capital is negatively associated with exports, whereas capital intensity, R&D and human capital are not important, indicating that most Chinese electronics enterprises are still positioned at the low-end of product value chain in the international division of labor. The paper makes two original contributions. The first is the distinction of contribution made by FDI from different country groups and the establishment of evidence that FDI from Hong Kong, Macao and Taiwan plays a greater role in promoting exports than FDI from western countries. The second is the finding that the level of labor cost moderates the relationship between FDI and exports.

In a comprehensive study Riedel, Hall and Grawe (1984) investigate quantitatively the determinants of export performance in India on the basis of time-series analysis over the period 1968-1978. The study analyses the effects of relative price of exports, relative domestic demand and domestic profitability on export performance. The dependent variable used is the ratio of indexes of constant price exports to industrial production. Exports are expressed as a ratio to output in order to account for the effect of expansion of production capacity. The results support the view that domestic market conditions strongly influence export behavior. The variable measuring domestic profitability or relatively domestic demand is found to be statistically significant in explaining export behavior in 23 of 30 sectors. Relative price, incorporating export policy incentives and the exchange rate turn out to be statistically significant in only 10 of the 30 sectors. However, relative prices tended to be significant in those sectors where comparative advantage is presumed to be strongest, for example, ready-made garments, carpet weaving, handicrafts and metal products.

3. Methodology

3.1 Sources of data[6] and model specification

The data for this work was essentially secondary data collected from the International Monetary Fund (2010, 2011); the United Nations Statistic Division, the World Bank (2010 estimates), the CIA World Fact book (2011estimates), theEconStats, 2011 and the Afristat.

Based on the empirical literature reviewed and also following our objectives and hypothesis, our model will be specified econometrically as follow:

Export trade = f (foreign direct investment, inflation rate, exchange rate, interest rate, trade openness,).

$LEXP_t = \alpha_t + \beta_1 LFDI_t + \beta_2 INFLA_t + \beta_3 IR_t + \beta_4 ER_t + \beta_5 TO_t + E_t$…………… (2)

Where *a priori*, α_t, β_1, β_5, >0; β_2, β_3, $\beta_4 < 0$;

$LEXP_t$: Log of Export trade[7] from Cameroon in time t.

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[5] See Svedberg (1999).

[6] *The choice of the sources of data is in relation to the refined and treated nature of the data.*

LFDI$_t$: Log of Foreign direct investment in time t.
INFLA$_t$: Rate of inflation in time t.
IR$_t$: Interest Rate in time t.
ER$_t$: Exchange rate in time t.
TO: Trade Openness
E$_t$: Error or stochastic term.
α$_t$: constant term or autonomous exports.

4. Presentation of results

Our model will be estimated using, the 2SLS with instrumental variables. The version used is White heteroskedasticity-consistent and is shown on the table below.

Table 2: *2sls Regression Results*

Dependent Variable: LEXP
Method: Two-Stage Least Squares
Date: 05/28/12   Time: 13:40
Sample (adjusted): 1973 2008
Included observations: 36 after adjustments
White heteroskedasticity-consistent standard errors & covariance
Instrument specification : LEXP LFDI INFLA ER IR TO LEXP (-1) LEXP (-2)
                          TO(-1) LEX(-3) ER(-1) IR(-1) LFDI(-1)
Constant added to instrument list

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.930477	0.536900	1.733056	0.0941*
LFDI	0.203469	0.184275	1.104155	0.2789
INFLA	-0.000631	0.001056	-0.597415	0.5550
ER	-0.000243	0.000138	-1.755502	0.0901*
IR	0.004465	0.003352	1.332249	0.1935
TO	0.004426	0.002032	2.178758	0.0379*
LEXP (-1)	0.617573	0.199453	3.096334	0.0044**
LEXP (-2)	0.267625	0.179797	1.488479	0.1478

R-squared	0.951556	Mean dependent var		9.290366
Adjusted R-squared	0.939445	S.D. dependent var		0.255186
S.E. of regression	0.062796	Sum squared resid		0.110414
F-statistic	78.56927	Durbin-Watson stat		1.679164
Prob(F-statistic)	0.000000	Second-Stage SSR		0.110414
J-statistic	28.00000	Instrument rank		14
Prob(J-statistic)	0.000094			

** and * indicate significance at 5% and 10% respectively.
Source: computed by author using EVIEWS 5.0

As shown on the output from the table about 95% of the variation in export trade of Cameroon for the period 1970-2008 was explained by FDI, ER, INFLA, IR and TO. This is shown by the value of the R^2 (0.95) and the adjusted R^2 (0.94), which indicates a good fit for the model. The F-statistic explains the significance of the R^2 in explaining the joint effects of the variables in explaining variations in Cameroon's export trade. It is significant at less than 1% and has a value of approximately 79. The good fit of the model is confirmed by the value of the J-statistic (28) with a probability of almost zero(0.000094).

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[7] *Talking about export trade, we mean export of both goods and services.*

The export trade of the previous quarter significantly (at 5%) impacts on the current quarter's export trade. This finding is consistent with that of Fosu (1992), Musinguzi *et al.* (2000) and Agasha (2007) who found out that lagged export trade has a statistically significant impact on current year's export trade.

In conformity with Agasha (2007), FDI has a positive coefficient but is not statistically significant in explaining variation in the export trade volume of Cameroon during our period of study. This finding is however contrary to that of Njong (2008), who found out that FDI has significantly contributed to higher exports in Cameroon for the period 1980-2003. Also, INFLA and IR are found to be insignificant in explaining variations in Cameroon's export trade volume during our period of study.

The positive (0.930477) and significant (at 10%) coefficient of the constant term in our model tells us that holding all of our stated variables constant, Cameroon's exports would still increase, everything being equal. This means there are other variables not included in our model that influenced Cameroon's export growth during our period of study. If the values of these variables increased, export trade would also increase. These other factors could include TOT and GDP.

Having a negative coefficient, exchange rate is found to be significant (at 10%) in explaining variation in the volume of export trade in Cameroon during our period of study. This is in conformity with our apriori expectations and with the studies of Fosu (1992) and Sharma (2001), carried out in Ghana and India respectively, and contrary to that of Agasha (2007). A fall in Cameroon's domestic prices due to exchange rate depreciation makes exports cheaper in the international markets, resulting to their increase. The negative coefficient (-0.000243) tells us that an appreciation of Cameroon's exchange rate will cause exports in Cameroon to drop. Also, depreciation in the exchange rate will have an expansionary effect on Cameroon's export volume. Therefore, if Cameroon's exchange rate was to be increased by 100, its exports would reduce by 2.4%[8]. Conversely, if Cameroon's exchange rate fell by 100, its export trade would increase by 2.4%.

From the results obtained, trade openness (TO) is found to be significant (at 10%) in explaining variations in export trade growth in Cameroon from 1970 to 2008. Its positive coefficient (0.0044) is in conformity with our apriori expectations. Cameroon as an open economy will have greater market opportunities, at the same time she will face greater competition from businesses based in other countries. In 1998 for example, Cameroon had a TO index of 5.2, which can explain the relatively higher growth rate of its export trade. From 1980 to 2008, Cameroon had fluctuating trade openness indices, which reflected the fluctuations in its volume of export growth. In 1980 for example, its TO index was 5.44 an annual export growth was 30.7%. In 1990, TO index was 5.5, with export growth rate of -9.8. In 2000, its trade openness index was at 5.8 with export growth of -5%. As such, if Cameroon's economic freedom index increases by 10, its exports will increase by 4%. This result is in line with that of Kimura and Lee (2004), who found that a country with a high economic freedom index will realize higher exports. As such, as Cameroon moves towards economic liberalization its export trade will be seen to improve.

5. Conclusion

This study was set out to identify and analyze the determinants of export trade in Cameroon, over the period 1970 -2008. Given that Cameroon's export trade is constituted mainly by primary products, external shocks and policy reforms have caused its export growth to be cyclical over the period of study. Empirical analysis and results showed that exchange rate, lagged export values and trade openness had significant effects on Cameroon's export trade during our period of study. The negative relationship existing between exchange rate and export trade is consistent with past findings but contradicts the results of Majeed and Ahmad (2006), who found positive relationship between exchange rate and export growth. However, in contrast with many studies for which FDI significantly and positively affects export trade, our results showed that FDI was not significant in determining export growth in Cameroon during the period of study. Inflation and interest rates were also found to be insignificant in causing variations in export volume of Cameroon. The results made us to conclude that some variables (ER, $LEXP_{t-1}$, and TO) actually caused variations in Cameroon's export volume during our period of study, while some did not (FDI, INFLA and IR). From our results, we see that trade openness had a significant positive impact on export trade in Cameroon during our period of study. The low value of the coefficient could be as a result of the country not being effectively economically free. As such, policy reforms aimed at effectively liberalizing trade in Cameroon should be revised. This could make the impact of trade openness to be important in determining export growth in Cameroon. In terms of financial development, trade openness will be a way to obtain money from other countries, in other to invest its surplus in other countries.

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[8]*The interpretation is so because of the log linear form of the model.*

Also, considering the exchange rate as a significant determinant of Export trade in Cameroon during our period of study, there is evidence indicating that policy reforms should also be geared towards adequate management of the exchange rate which is a crucial factor for the promotion of Cameroon's exports. Nevertheless, given the significance of the constant term, there is evidence that policy reforms should also be geared towards others variables not included in the model. Emphasis should be laid on other economic indicators.

Based on the results found in this work, there is need for further research. We restricted our model based on aggregated data. The use of the aggregated data made us to assume that the effects of the identified factors are equal across sectors. Using disaggregated data, we recommend a sound sectoral analysis to show the effects of the determinants identified on each sector of the economy. Again, there is need to disintegrate the factors determining export trade in Cameroon into supply and demand factors.

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