DOMESTIC CREDIT AND DIVERSIFICATION OF MANUFACTURED EXPORTS FROM DEVELOPING COUNTRIES

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March 2011

Abstract
This paper uses panel data to analyze the effect of domestic credit on the diversification of manufactured exports from developing countries. Diversification is measured by export variety and I find robust evidence that domestic credit significantly increases manufactured varieties that developing countries export. Given the evidence which clearly shows that export variety of manufactured goods positively affects productivity, the results imply that policy reforms that improve access to domestic credit for firms can raise productivity and hence economic growth in many poor countries. In addition, the results also show that building infrastructure and implementing reforms in governance that improve the quality of government regulations is important for encouraging diversification of manufactured export products in developing countries.

JEL classification: F1, O1
Key words: domestic credit, export variety, productivity

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