



Export Diversification and Economic Growth: The Case Of Mauritius

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■ The acceleration of global trade in the second half of the 20th century saw patterns of trade vastly differing to those predicted by classical trade theories built around perfect competition, comparative advantage and constant returns to scale. Based on Adam Smith's concept of division of labour and specialization for economic growth and development and Heckscher-Ohlin Samuelson's (HOS) model of international trade, countries should specialize in producing those goods in which they have a comparative advantage. Nonetheless, it was later believed that economic growth and development may be achieved by export diversification.

In much of the related literature reference has been made to the 'concentration phenomenon', with export concentration being believed a major contributor of instability in export revenues. This phenomenon basically consists of commodity concentration and market concentration. Countries with commodity concentration are adversely affected by volatility in market prices through swings in foreign exchange revenues. In this regard, it has commonly been suggested that broadening the export base through a more diversified national trade portfolio can help in maintaining stability in export receipts, thus fostering long-term economic growth.

Quantitative methods make it possible to examine the dynamic relationship between export diversification and growth. An exercise conducted for the case of Mauritius and covering the period 1980 to 2010 makes it possible to analyse both the short and the long-run relationship between diversification and growth. The use of such a framework also allows the discussions of potential causality and indirect effects. Furthermore, the findings could be considered by policy makers in order to successfully pursue policies that boost both growth-led diversification and diversification-led growth.

Findings of an econometric exercise revealed a positive relationship between export diversification and economic growth in Mauritius both in the short run and long run. Nevertheless, the coefficients of the short run estimates were smaller than the long run ones, implying that it takes time for the absolute effect of export diversification to be experienced. Moreover, domestic investment, trade openness, human capital and FDI were also seen to contribute to economic growth in the long run.

In addition, a bi-causal relationship between diversification and growth in the country was confirmed with openness, human capital and FDI also having been identified as the short run

determinants of exports diversification. Diversification is observed to work indirectly through openness, FDI and GDFCF in influencing economic performance.

However, although it is safe to advance that Mauritius has performed tremendously well since the 80's, recent global events may unfortunately have a negative bearing on any future growth expectations unless appropriate measures and policies are devised and adopted. The negative repercussions of the 2008 financial crisis are already being felt. Decreasing tourism arrivals and the resulting fall in related local sector activities have already been witnessed. Unfortunately, this is not the only challenge. The guaranteed sugar quota from the EU is due to end soon; and it is obvious that Mauritius will not be able to compete with countries such as Brazil.

In this context policy makers may want to take the following possible policy measures into consideration:

1. Further consolidation of the island's traditional sectors with greater emphasis still being placed on the production of higher value added products which entails investment in modernising the technology base for these sectors;
2. Given the importance of tourism for the island on an intensification of marketing campaigns to foster demand for national tourism products may be considered. Emerging economies and the BRICS could be targeted in particular;
3. Mauritius has always been at the forefront of the various regional initiatives to which it is a member. Policy makers may want to consider to work closely with regional counterparties to streamline the administrative requirements and the number of NTMs prevailing in the region to increase market access by and to member countries;
4. Although Mauritius' offshore sector has had a quite remarkable success since its inception, it has relied extensively on the DTA with India with accords preferential treatment to offshore companies which establishes operations in Mauritius. It is proposed that the government, together with the private sector, invest in the training of man power for high value services which would serve to increase the substance of Mauritius' offshore operations.

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