

Services sector development: A key to poverty alleviation in Mauritius

INTRODUCTION

Having a vibrant production base is the foundation of economic prosperity. The more goods a country produces the more jobs are created. The specialisation resulting from the production of goods tends to result in newer technologies and higher levels of income, which leads to even higher growth.

There is little doubt that the services sector is an important driver of this economic growth and development. A vibrant services sector, nationally and globally, mainly emanates from the product market.

The services sector ensures that what is produced at the factory gets to the market place; that the workers involved in the production process are educated and healthy; that they stay in well-constructed structures.

Services include the telecommunication, transport, construction, health and education, business and financial services, which are all critical to a country's development. High quality services inputs add value to industrial goods and generate more highly skilled jobs.

Diversified economy

Mauritius has evolved into a middle-income country with a diversified economy, a result of reforms undertaken in the 1980s aimed at diversifying the economy away from its dependence on sugar exports.

The reforms resulted in accelerated development of the export-oriented clothing and textiles industry and promoted Mauritius as a tourist destination. The average annual growth rate was 5.9% from 1980-1989,

resulting in a significant improvement in living standards.

Regional hub

From the late 1980s to the mid-1990s, the economy was further diversified through financial liberalisation, promotion of offshore activities and the creation of a free port to position Mauritius as a regional financial, business and trading hub. A lively services sector was thus developed. This supported average economic growth of 5.7% between 1990 and 2000.

The paper on which this brief is based answers the question: Which industries in the services sector are growth enhancing?

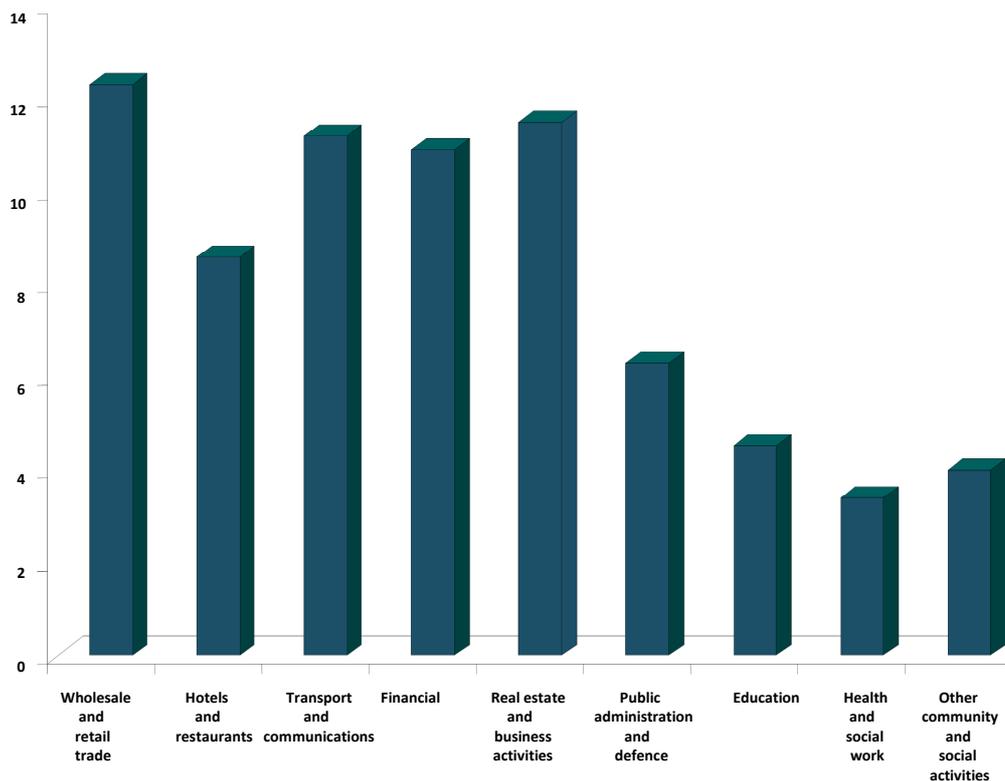
RESEARCH FINDINGS

The study uses a two-part methodology.

The first is the autoregressive distributed lag (ARDL) approach to determine the long- and short-run relationships between the services sector and Gross Domestic Product (GDP) per capita.

The information in this brief is extracted from a report prepared under the SADRN programme: *Services sector development: A key to poverty alleviation in Mauritius*, by Tandrayen-Ragoonbur Verena, Ragoobur Vishal and Poonoosamy Ken. Available on the TIPS/SADRN website www.tips.org.za/programme/sadrn For more information contact TIPS, info@tips.org.za Tel: +27 12 431 7900

MAIN ACTIVITIES OF THE SERVICES SECTOR IN MAURITIUS IN 2008 – %



Source: Services sector development: A key to poverty alleviation in Mauritius

The second stage includes conducting standard Granger causality tests to determine whether changes in a variable will have an impact on changes in other variables.

The long-run relationship shows a high significant positive impact on GDP per capita for the tourism, wholesale and retail trade, financial, and transport and communication sub-sectors of the services sector.

Education and telephone lines also contribute to GDP per capita, showing that education is essential for getting people getting out of poverty as well as the role played by good communications in promoting economic development.

In contrast inflation has a negative impact on standard of living reducing the purchasing power of individuals.

The short-run estimates point to a significant positive impact on GDP for services sector activities, with higher effects from transport and communication and wholesale and retail trade.

The Granger causality test confirms the view that the services sector can play a significant role in the long-term growth strategy for a small island economy like Mauritius.

RECOMMENDATIONS

Mauritius has shown a greater level of resilience to the world economic crisis than other African and emerging economies.

This can be ascribed to the effectiveness of reforms implemented in recent years which have made the economy more open and versatile. Its robust financial system has given the country the fiscal space to deal with the crisis.

To enhance GDP per capita in Mauritius, policy should promote activities in the following services industries: tourism, wholesale and retail trade, telephone (mainlines) and transport logistics.

Human resource development is also an important focus area as it creates the skilled labour force required by the services sector.

The Southern African Development Research Network (SADRN) was launched in 2007 as a broad-based policy and research network. It aims to increase the supply of policy-relevant research in the SADC region and strengthen evidence-based policy-making. The project is funded by the International Development Research Centre (IDRC)



SADRN focuses on three themes: industrial policy, services sector development at the regional level and trade policy and its linkages to pro-poor growth. The Botswana Institute for Development and Policy Analysis is the host of the trade and pro-poor growth theme working group, Trade and Industrial Policy Strategies hosts the industrial policy theme and the University of Mauritius hosts the services sector

