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EXPORT DIVERSIFICATION IMPACT ON ECONOMIC GROWTH

The outstanding success of Chinese economy, based on export-focused strategy, highlights the role of foreign trade in economic development of the country. There is a number of studies supporting economic development strategy based on export diversification. Especially it's relevant for developing countries, where is often very low domestic demand so exports remain one of the few channels that in the longer run significantly contribute to higher income per capita growth rates of a country. Many countries that are commodity dependent or exhibit a narrow export basket often suffer from export instability arising from inelastic and unstable global demand, so export diversification is one way to alleviate these particular constraints [1]. Nevertheless, to be successful in export diversification, countries' exports need to be globally competitive to take advantage of leveraging world markets [1]. That's why benefits from export diversification is mainly shown by developed countries.

There are two types of export diversification: horizontal and vertical. Horizontal diversification means diversification among different industries, while vertical one includes diversification within the same field. Both types have a positive influence on the economic growth, especially it's widely observed in developed countries. Developing and transition countries mostly concentrate on export of raw materials.

Theoretically speaking there are several ways export diversification affects economic growth.

- export diversification leads to higher level of stability in export earnings in case of price volatility in international markets;
- export diversification is often accompanied with the transfer of technology that leads to higher productivity;
- export diversification in new industries boosts economic growth in other industries.

The following indices, computed by United Nations Conference on Trade and Development, are most commonly used to evaluate the level of foreign trade diversification of a country and its similarity to the world trade structure:

- concentration index, also named Herfindahl-Hirschmann Index, is a measure of the degree of product concentration. Mostly it's high in developing and transition countries and low in developed ones.
- diversification index (modified Finger-Kreinin measure of similarity in trade) is computed by measuring the absolute deviation of the trade structure of a country from the world structure. Developed countries show more similar export structure to the world pattern comparing with other national economies.

There are numerous studies dedicated to the relationship between foreign trade diversification and economic growth, which state that export diversification contributes to economic growth. According to Heiko Hesse's research [1] (that includes Malaysia, Thailand, Chile and other states), the evidence is strong that export concentration has been detrimental to the economic growth performance of developing countries in the past decades presumably due to the following reasons. The first reason could be the reduction of declining terms of trade, especially for commodity-dependent countries. Another reason, relates to the costdiscovery process faced by entrepreneurs and the valuable contribution of government policies to alleviate ensuing problems of coordination and information externalities. This results in a diversification of investments into a new range of activities and higher levels of growth [1].

Roberto Basile, Aleksandra Parteka and Rosanna Pittiglio [2] have performed research of 114 countries' (1992-2012) export data. The estimation results confirm the predictions of endogenous growth models: richer countries export more goods because their superior production technology endows them with an absolute advantage in global markets, while large countries exploit economies of scale and can compensate for lower fundamental productivity with lower factor costs. These are known as direct effects. On the other hand, the findings reveal that indirect effects strongly reinforce direct effects: spatial spillovers strengthen the absolute technological advantage of countries and allow them to export a greater variety of goods. Moreover, spatial proximity to large countries accelerates the diversification process, since lower factor costs of neighbours (which compensate for lower fundamental productivity) can easily be imported [2].

Anwesha Aditya and Rajat Acharyya [3] in a sample of 65 countries for the period 1965–2005 the dynamic panel estimation have revealed that both diversification and composition of exports are important determinants of economic growth after controlling for the impacts of other variables like lagged income, investment, and infrastructure. They state that there is a critical level of export concentration beyond which increasing export specialization leads to higher growth. Below this critical level, diversification of exports matters for gross domestic product growth [3].

Piotr Misztal's research [4] has found that exports diversification and concentration were among the most important factors that determined the level of gross domestic product per capita in the European Union. The study has revealed a nonlinear relationship between the degree of exports concentration and gross domestic product per capita in the European Union. It means that the exports diversification increased in countries with relatively low gross domestic product per capita, while the exports concentration increased in countries with relatively high gross domestic product per capita [4].

There are number of studies that show no impact of export diversification on economic growth. Thus the study of Ibrahim Alshomaly and Walid Shawaqfeh [5] has found that the exports diversification structures in the group of west Asian Arab countries diverge clearly from the world diversification pattern since the exports of group countries is driven by a high degree of primary exports concentration. Economic growth in the group has been influenced positively by human capital, primary products export growth, and the adoption of efficient anti-corruption policies, but, it has been negatively influenced by trade openness and population growth [5].

Marlo Murphy-Braynen has performed the research [6] concerning factors that make impact on export diversification and economic growth. According to the study the key that support export diversification are human capital accumulation inclusive of higher education, domestic investment, population, quality of institutions, quality of infrastructure and market access. Conversely the factors that retard export diversification or increase export concentration are economic distance (remoteness from major markets), openness to trade, and declining terms of trade, foreign direct investment, exchange rate volatility and exchange rate overvaluation. According to the study the key factors which promote economic growth are rule of law, investment ratio, favorable movements in the terms of trade, technology, higher education and increased international openness while the factors that inhibit economic growth are fertility rate, the ratio of government consumption to gross domestic product, and the inflation rate [6].

Thus export diversification is related to a national economic development and makes positive impact on economic growth of a country, that becomes less vulnerable to exogenous shocks. Export diversification is often accompanied with technology spillovers, development of new industries that helps to drive economic growth in traditional sector by boosting internal demand. Diversification of investments, good education, quality of infrastructure and market access are among the key factors contributing export diversification and, consequently, economic growth. Nowadays developed states use export diversification benefits more widely comparing with developing and transition economies that often depend on a narrow export basket. There are still a lot of countries that rely on traditional raw export structure, that being combined with constant devaluation of their national currencies, leads to enrichment of a certain business groups and sealing their obsolete economy structure.

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