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Economic diversification: The Mauritian experience

By

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Economic Diversification
The Mauritian Experience

Dr. Krishna Chikhuri

Mauritius - Background

KEY FACTS

Area:
- 2,040 Km2 (788 miles2)

Population:
- 1,266,334 (July 2021)

Capital:
- Port Louis

Government:
- Republic since 1992.
- Independent state in 1968.

Official Language:
- English's

At a Glance (Year 2021)

1.3 Million
Population

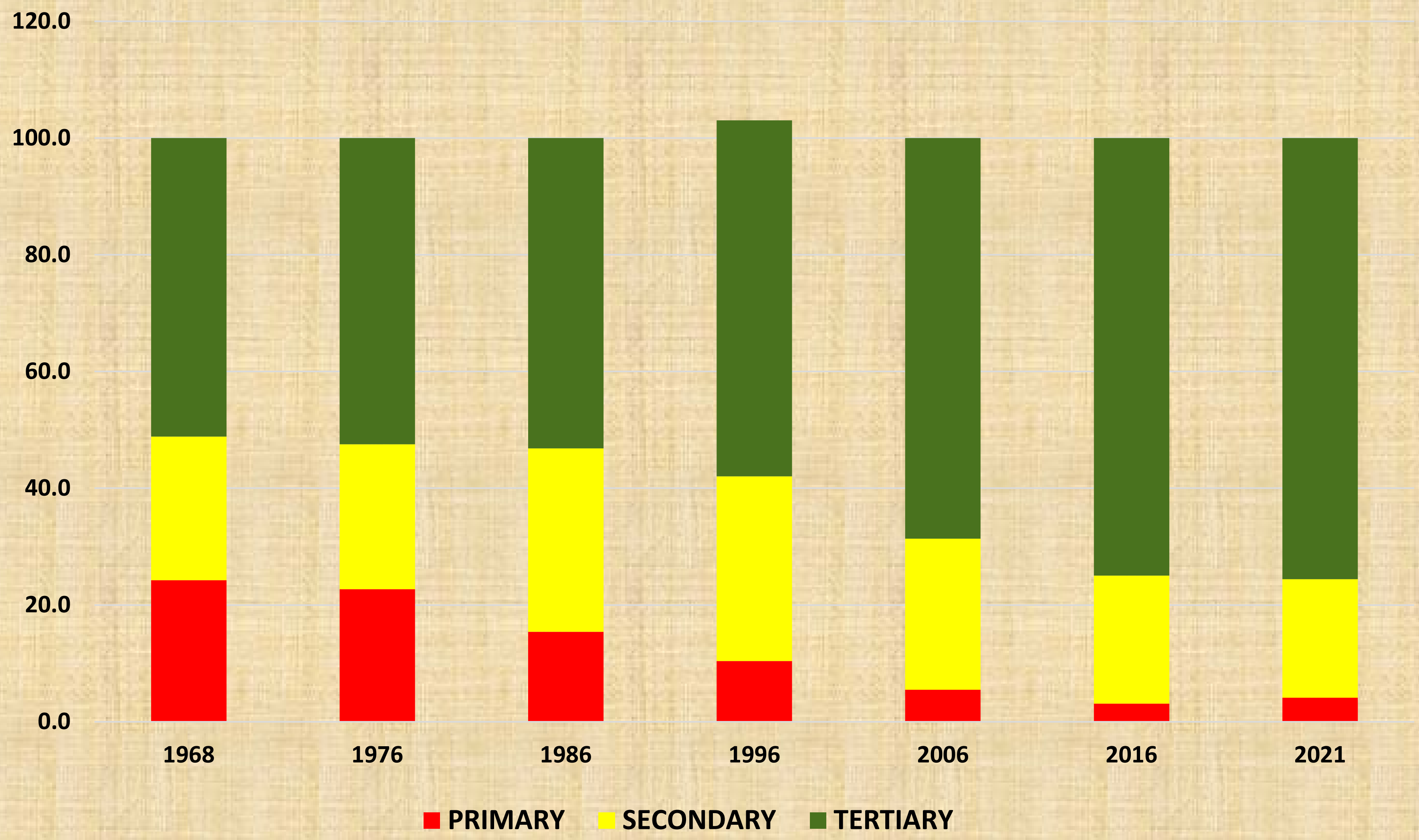
4.8 % (2021)
Real GDP Growth Rate

MUR198 billion (2021)
Total Imports (C.I.F)

Rs78 Billion
Total Exports (F.O.B)

US$10230
GNI Per Capita

Structural Economic Transformation (1968-2021)



Economic Trajectory of Mauritius

Monocrop Economy

1970's

Manufacturing & Tourism – 1980's

Sugar, Textile, Tourism

Manufacturing & Services Economy – 1990's

Freeport, Financial Services, Tourism, Textile, Sugar

Services Oriented – 21st Century

Knowledge, Real Estate, Textile, Agriculture, Health, Energy., Tourism, Blue Economy, Seafood

Background: At Independence

State of Mauritius in 1968

Economy	Monocrop: Sugarcane Sugar >91% of total fob exports
Income per Capita	USD 200
Unemployment	High and rising unemployment (>16%) Low labour and capital productivity
School Enrollment	Low in both Primary & Secondary
Quality of Living	Low Standard of Living Poor access to Water, electricity & Decent dwellings
Demographics	Growth rate of 3% Low Life Expectancy (61 male; 66 female) High Infant Mortality (64)
Infrastructure	Poor Infrastructure

Initial Conditions

Predictions by Nobel Prize Laureates

- **James Meade (*Report to Government of Mauritius*, 1961):**

"Heavy population pressure must inevitably reduce real income per head…That surely is bad enough in a community that is full of political conflict…the outlook for peaceful development is poor."

V.S. Naipaul (*The Overcrowded Barracoon*, 1972):

"The disaster has occurred… now given a thing called independence and set adrift, an abandoned imperial barracoon, incapable of economic or cultural autonomy…"

Explaining the Mauritian Miracle

- Breaking the dependence on sugar (1970–79)
- Developing export-oriented industrialization, specifically the textile and garment sector (1980–92)
- Laying the foundations for the growth of a services economy (1990–2012);
- Looking to the sea & new poles of development (2013 onwards)

Breaking the dependence on sugar (1970–79)

- At time of independence in 1968, sugar represented 30% of the GDP and 90% of the value of exports. Sugarcane cultivated covered 90% of arable land and there were about 25 sugar factories on the island.

- The Mauritian sugar industry did not act in a free market environment but instead used trade policies and arrangements for preferential access to its export market (ACP Sugar Protocol). Sugar prices between 1972 and 1975 rose by more than three times. During this sugar boom, not only did sugar profits increase, but gross earnings of the sugar sector rose from 15.2% of GDP in 1971–1972 to 34.2% in 1974–1975.

- The Sugar Export Tax provided the government with the main means to mobilise finance. Indeed, all sugar proceeds had to be repatriated, thus providing foreign currency and liquidity to the banking sector enabling it to meet the domestic demands for funds from both the public and private sector for infrastructure and capital investment (e.g. plant modernisation, technology imports).

- The sugar sector generated substantial surplus for investment in other sectors of the economy.

Developing export-oriented industrialization

- Industrialization began with import substitution in 1964 but it didn’t bring about expected benefits (small size of domestic market, limited resource endowment, lack of technical expertise and know how)
- Setting up of Export Processing Zones (EPZ) in 1970.

- Endogenous factors : tax benefits, duty-free imports of raw materials and machinery, and other inducements, the owners of EPZ enterprises agree to export all their products. By March 1973, over 14,000 jobs had been created and 34 new factories had been established in the industrial free zone, manufacturing products such as textiles and garments, food and beverages,
- Institutional and Regulatory : Conducive environment for investment, Ministry of Economic Planning, Development Bank of Mauritius, Monetary measures such as the devaluation of the rupee to make Mauritian exports internationally competitive, pool of educated labour, which was available at a cheap rate.

- Exogenous factors: The Multi-Fibre Agreement (Hong-Kong & Taiwanese textile factories , falling oil prices, Appreciation of Taiwanese dollar etc)

- Social Policies to foster human development (Welare state with free education, public health, national pension system)

The Economic Crisis (Early 1980's)

Major Causes and Consequences

- Cyclones in late 1979 and early 1980 destroyed 30% of the sugar crop leading to a sharp contraction in the economy of 9%.
- Petroleum prices rose, the sugar boom ended, and the balance of payments deficit steadily rose as imports outpaced exports; by 1979 the deficit amounted to a staggering US$111 million.
- Sales tax was imposed, food subsidies were reduced, price controls removed and social spending was curbed
- Economic situation in Mauritius deteriorated massively and reached rock bottom in the years 1980 to 1982 with inflation rates up to 42 per cent, a decline in real GDP by more than 10 per cent, a current account deficit of 13.8 per cent of GDP and unemployment rates up to 23 per cent.
- Moreover, the government expanded external debt in order to finance infrastructural projects before 1980, causing a balance of payment crisis.

Export-Led Boom (Late 1980's)

- The IMF implemented successfully four stand-by arrangements between 1980 and 1985. As part of the agreements with the IMF, the Mauritian Rupee was devalued in 1979 by 23 per cent and in 1981 by 20 per cent against IMF's Special Drawing Rights (SDR). Further measures like reduced tax rates, liberalized interest rates, moderate wage policies and trade reforms were set in place to promote the export-oriented industries and the tourism sector and thus lift Mauritius back on a growth track.

- Institutional framework : In 1989, the offshore centre was set up, which has attracted more than $4 billion of offshore funds. The Stock Exchange of Mauritius (SEM) started to operate in the same period. Stimulated by the EPZ, the free port was created in 1992 as a part of its strategy to develop as a regional trade ceframewthe Mauritius Export Development and Investment Authority also setup

- Sectoral linkages : With higher interaction with foreigners, tourists, investors and expatriate workers alike, the property sector witnessed a boom.

- FDI played a significant role more because of capital inflows as such. However, FDI in tourism and the EPZ also brought in the necessary technologies and know-how to transform them into leading sectors of the economy. It also enabled local investors to acquire and assimilate these technologies and know-how and develop domestic firms in the two sectors.

- Tariff reforms , Quantitative Restrictions, Price Controls limited

The 2000s: Building Resilience

- During and in the aftermath of the biggest exogenous shocks to its economy in recent times—the phasing out of the Multifibre Arrangement governing textiles, significant reductions in EU sugar protocol prices, the 2008 food and fuel crisis, and the 2008–09 global financial crisis—Mauritius's economy has displayed strong resilience.

- Textile Sector: investment in technology, marketing strategies, production reorganization, rationalizing and closing down units of production, and increased specialization. Evidence also indicates that the competitive edge of Mauritian firms lies in their ability to accept small orders with short lead times, and delivering good quality on time.

- Sugar Sector: Cost reduction & competitiveness measures (e.g. VRS, Centralization of factories, mechanization etc). Sugar industry transforming into a cane cluster : electricity from bagasse, generating greater production of ethanol as bio-fuel and maintaining its exports of albeit refined/special sugars to the European Union.

- Realizing the need to diversify the economy, the strategy adopted is to find new drivers particularly light manufacturing, offshore banking and financial services, and service-related information and communication technology (ICT). Air acesss to major European countries also boosted tourism sector.
- Openness Strategy: FTA with COMESA , SADC as well as capitalizing on opportunities under the AGOA

Growth of the Services economy

- Growth of income and increase interconnectedness, gave the proper impulse for the expansion of a service sectors which contributed to the making of a robust economy.

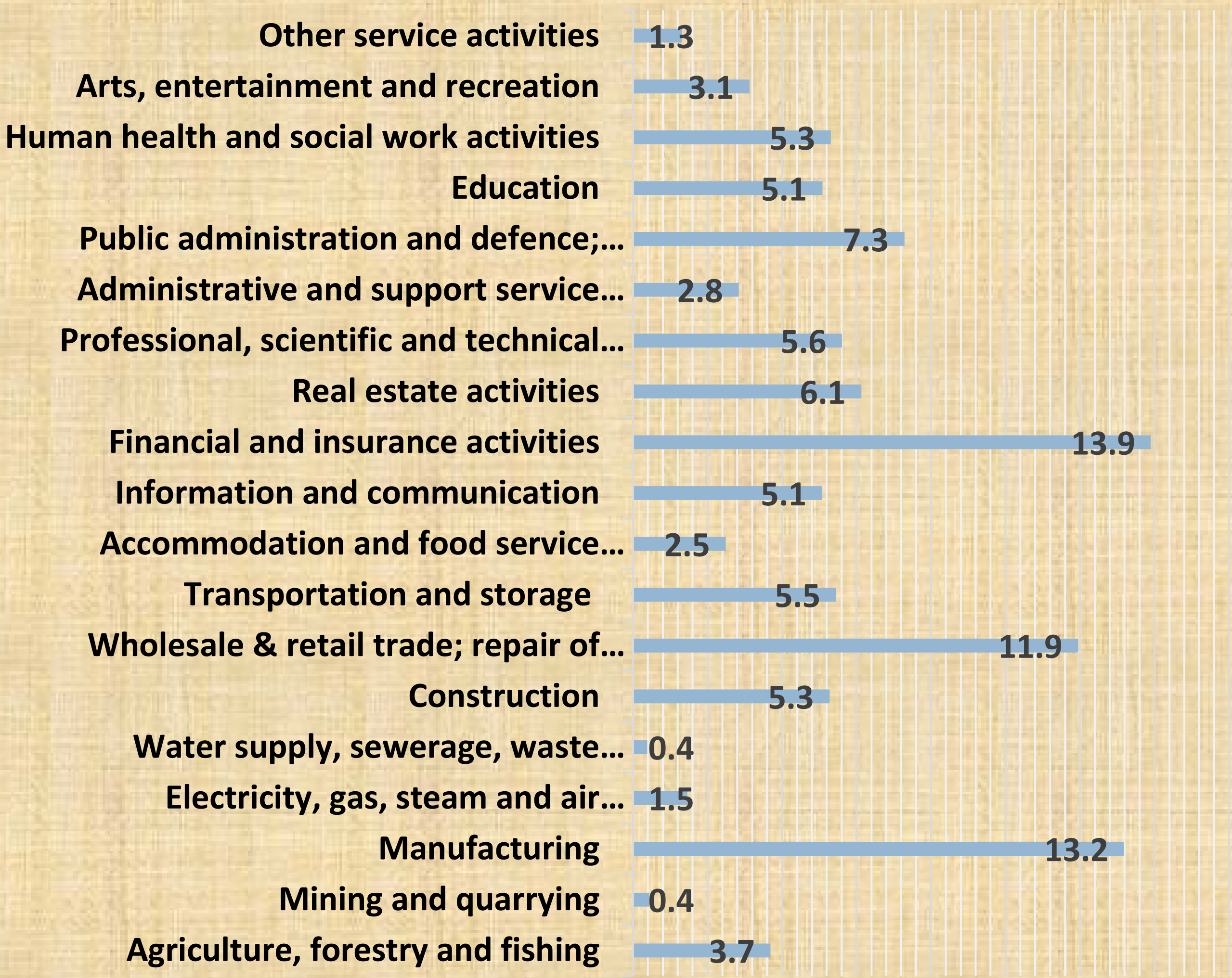
- Wholesale and retail trade, restaurants, and hotels expanded as increasing number of tourists visited the island.

- Transport, storage, and communication consist of producer services, and their ranking indicates the importance of a whole range of complementary services required to support economic growth and development.

- Financial services became an important pillar with an unparalleled well-regulated and transparent platform as well as several tax treaties. The introduction of new legislation related to anti-money laundering has also contributed a lot. Mauritius IFC is home to a number of international banks, legal firms, corporate services, investment funds and private equity funds.

- ICT : Development of BusIness Process Outsourcing in areas such as software engineering, accountancy etc

GDP Composition by Sector (Year 2021)

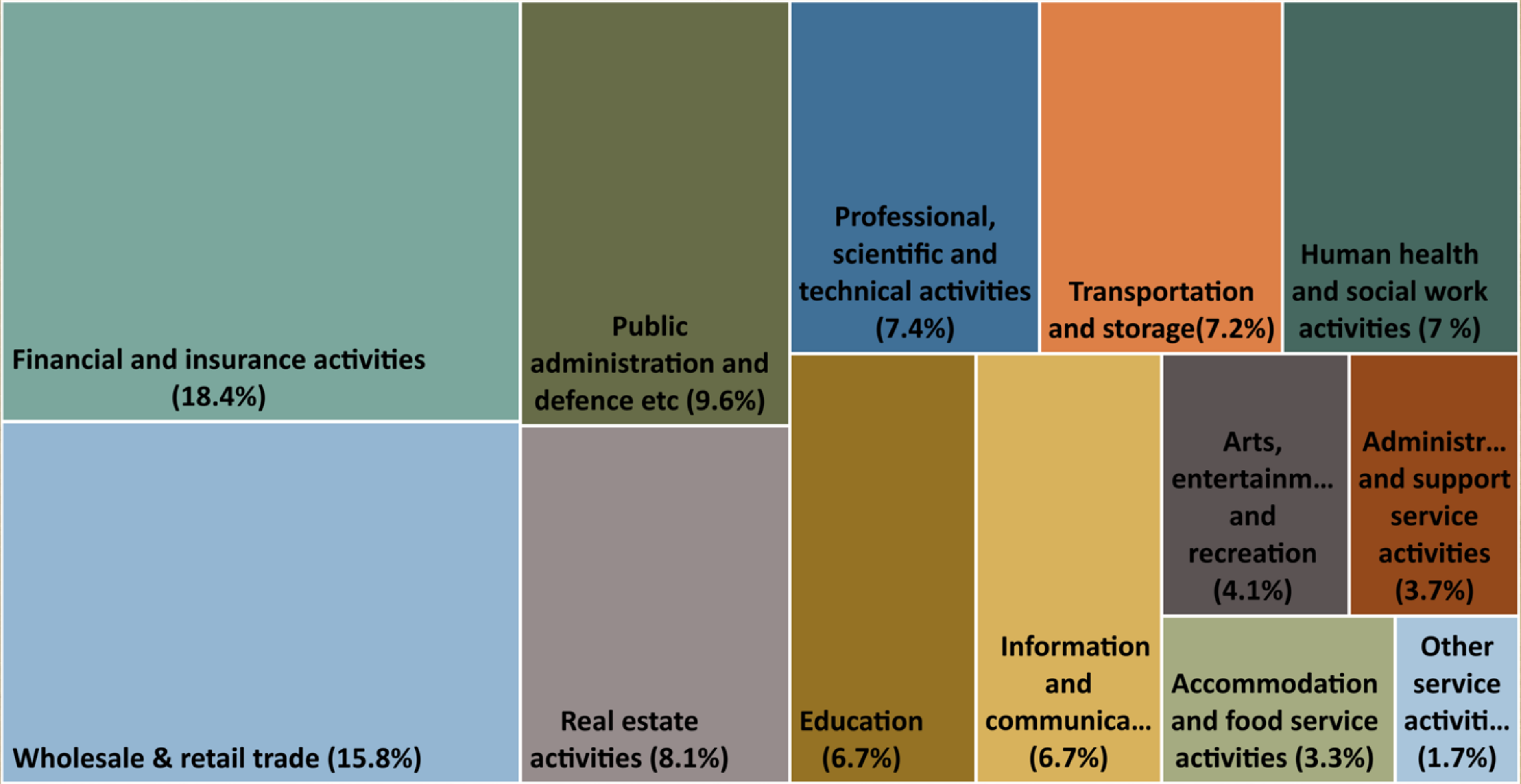


Tourism, ICT, Financial Intermediation, Real estate, Education, Health, Retail trade)

Secondary: Manufacturing, Construction

Primary: Agriculture and fishing

Services Sector Breakdown



Services Oriented Economy: 75.6 % GDP; Employment : 351,300 , 68.3 % of total employment
ICT : 133.9 Internet penetration; 155.25 % Mobile penetration & 850 Companies
Financial Services: 190 management companies, 19 banks, 1015 global funds
Wholesale & retail trade : 89,100 employment , 11.9% GDP

Emerging Sectors

- Renewable energy: Decrease heavy reliance on fossil fuels and mitigate greenhouse gas emissions. Target electricity generation from renewable energy from the current 13.3% in 2020 to 60% by 2030. Investment priorities in areas such as wind farms, solar energy, biomass, wave, and waste-to-energy projects.

- Moving Towards Circular economy : Sustainable practices and the adoption a circular flow or resources to include the reduction of waste, reuse and recycle of resources in Mauritius are vital. n Mauritius, solid waste disposal is estimated at 1,488 tonnes generated per day, which translates into 1.22 kg per capita daily.

- Knowledge & Expertise: Mauritius has the core competencies to export its inherent knowledge and expertise to Africa in the fields of sugar research and cultivation, tourism, financial services, teaching etc. There is huge potential to optimise on the trade in services chapter under the AfCTA. Attracting renowned Uni

- Blue Economy : Mauritius has a huge marine ecosystem which has always been exploited by international competitors. There are immense opportunities in setting up fish processing and sorting, aquaculture and sea minerals as a new sector of growth. There are tremendous potentials on facilitating seafood-related activities, including fisheries and aquaculture; shipping and maritime transport, freeport activities and bunkering, coral farming and rehabilitation, coastal and marine tourism in Mauritius.

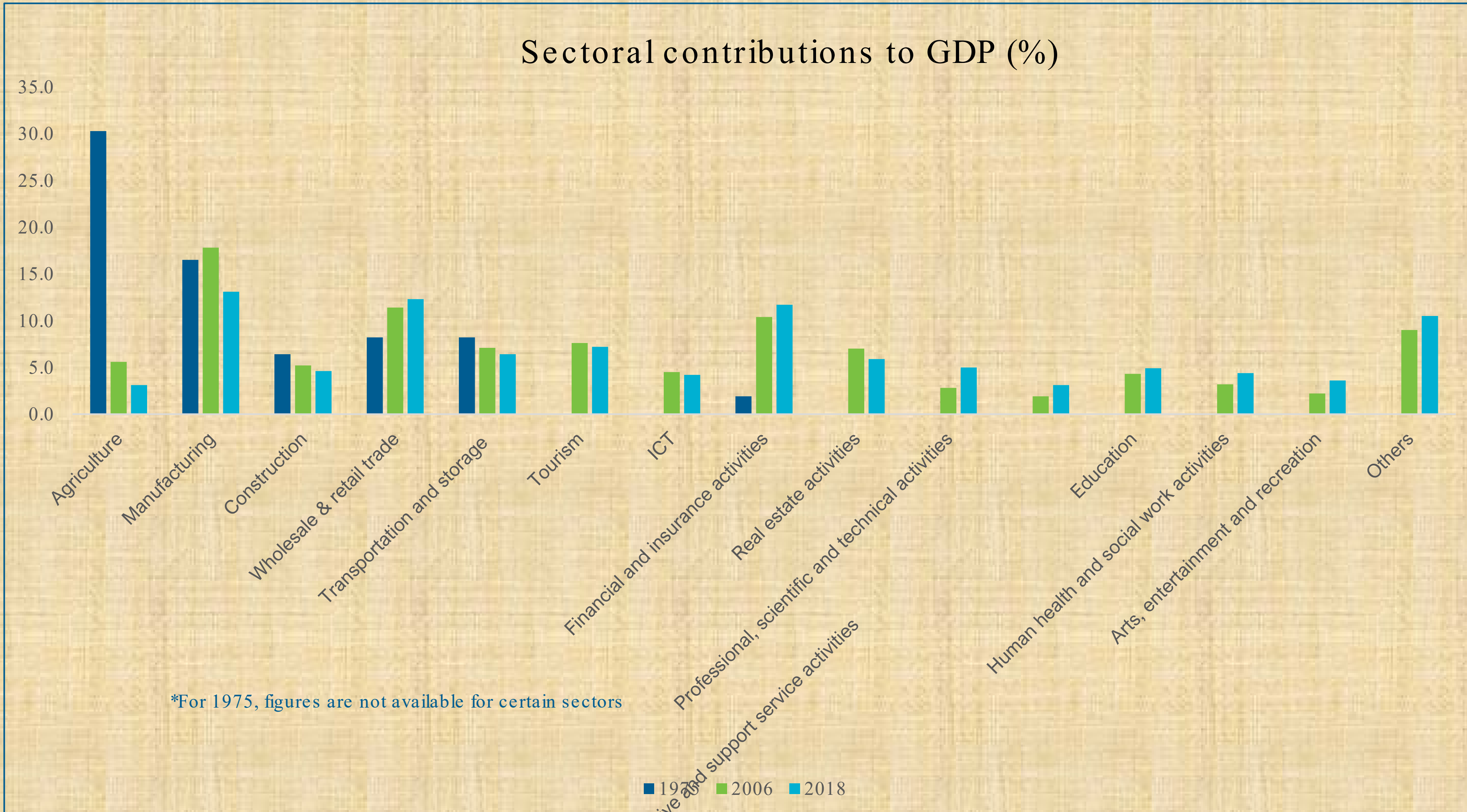
Emerging Sectors

- Pharmaceutical
- The development of the pharmaceutical industry in Mauritius represents an essential component of the Government’s economic agenda to diversify into new sectors of activity, especially in light of the COVID-19 pandemic. It is essential to invest local pharmaceutical production through joint ventures and strategic alliances.

- Medical tourism: Mauritius offers specialize medical assistance in various areas (cosmetic, hair grafting, dentistry)

- Moving from sugar to cane industry: Sugar cane is a highly sustainable renewable source and possible diversification avenues include the use of bagasse to create electricity and the production of bio-polyethylene (building block of bio-plastic) from ethanol to reduce dependence on petroleum-based plastic and lower CO2 emissions.

Economic structure
from a monocrop to a services oriented economy



Pre – independence (1968)		Present
809,200	Population size	1,266,000 (2020)
5.1	Household size	3.6 (2018)
60 Years	Life expectancy	71 Years (2019)
64 Years	Life expectancy	78 Years (2019)
1.6	Doctor per 10,000 population	21.9 (2018)
64%	Literacy rate	89% (2018)
44,197	GDP at constant prices (Rs Million)	463,692 (2020)
54,618	Per Capita GDP at constant prices (Rs)	338,206 (2020)

Enablers to our Economic Miracle

- Political leadership to embrace difficult reforms (e.g. Decisive policy choices such as Structural Adjustment Programmes , Sales Tax)

- Adaptive structural policies supported by solid institutions (the heterodoxy of trade policy, the role of exchange rate, wide use of access to main markets on preferential rate, institutional support from Development Bank of Mauritius)

- The importance of forging consensus (Policy making is built on the fundamental basis of seeking agreements, in particular between the private and the public sectors around key strategic issues. Private sector institutions occupy a central place in the policy making landscape to represent the voice of sector in the decision-making process.)

- The country’s economic transformation policies have always ensured the balance between economic and social objectives, notably with a strong focus on human capital, through free education and health, and a minimum basic social safety net for the most vulnerable.


Thank You!