MAURITIUS: A NEW ECONOMIC MODEL TO EMULATE

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ABSTRACT

Many countries are facing economic difficulties in the aftermath of the global economic recession. Europe and America are facing economic recession and high unemployment with the global economic and financial crisis. Prof Stiglitz qualified Mauritius as an economic model which has built the economic resilience and innovativeness which mitigated the effects of the crisis. However, it is important to note that Mauritius being a small island economy is supposed to be fragile due to its high economic independence with European countries (high Gini coefficient). Hence, the article simply seeks to demystify the New Economic Model based on a qualitative review of the economic performance of our economy.

Originality: The author reviews literature and statistics on Mauritius to analyse the critical success factors leading Mauritius to rank high in terms of competitiveness, human development index as well as achieve economic growth in a period of global economic recession.

Key Words: Small Island Economy, New Economic Model and Critical Success Factors.

INTRODUCTION

This article seeks to demystify the quantum leap of Mauritius in terms of a growing economy. Mauritius is referred to as a Small Island economy. A critical feature of a small state is it’s high level of structural openness, reflected in the share of trade in their GDP/GNP (Harvey and Robert Read, 1998). Our country is highly dependent on external trade for success. Some of the aspects of the New Economic model will be analysed as Mauritius has achieved an economic growth rate of 3-5% over the past three years. The economic performance is exceptional as many economies are facing severe financial difficulties such as Greece, France, America and Italy. What is intriguing is that Mauritius trades a lot with these countries. It is also important to point out that Mauritius does not possess any unique natural resources just as Japan.

Significance of Study

The contributing proposition of the research is the formulation of an economic model that can explain the sustainability of growth for a Small Island State. This can be very helpful for policy making and also as benchmarks for developing countries in their stride for economic growth and development.
Literature Review

Mauritius as a Small Island Economy

Many of the economic characteristics of small states are sources of vulnerability in that they amplify the sensitivity to external conditions in the global economic environment relative to larger states. Economic vulnerability is likely to be compounded by political, strategic, ecological and meteorological vulnerability. There is also a lengthy international relations literature concerning the political and strategic vulnerability of small states, primarily in terms of their dominant position relative to larger powers (notably, Vital 1967, de Smith 1970)\(^1\)

The Mauritian Economy as an Economic Model

The Mauritian economy has remained resilient in spite of the recession in the euro area that has weakened its external demand. At 3.3% in 2012, the real gross domestic product (GDP) growth rate remained positive although it continues to ease after growth rates of 3.8% and 4.2% in 2011 and 2010 respectively\(^2\). Growth was achieved by strong performances in the financial services, information and communication technology (ICT) and seafood sectors. The Cost Price Index (CPI) inflation steadily declined from 6.5% in 2011 to 4.1% in 2012.

The World Bank report Doing Business 2013 ranks Mauritius at 15 amongst 185 economies, while the World Economic Forum Global Competitiveness Report 2012-2013 ranks Mauritius at 27 out of 144 economies on trading across borders and on prevalence of trade barriers respectively. It is ranked first in Africa on both indicators.

In terms of Competitiveness, Mauritius is ranked 45\(^{th}\) according to the Global Index 2013-2014. We have a good ranking according to the Africa competitiveness Report 2013. The article will shed light on some potential reasons for the resilience and sustainability of our economy based on the mentioned achievements.

The financial globalization in small states may be seen as not only providing a source of further economic growth but also enhancing the general resilience of small economies in the inherent vulnerabilities they face. Briguglio et al (2004) define resilience as the ability of an economy to bounce back after a shock, depending on the plethora of policy issues amongst which macroeconomic stability, microeconomic efficiency and good governance.

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1 Consultative Consulting Group 1985

2 African Economic Outlook Website
Table 1: Key Economic Statistics for Mauritius (2012)

<table>
<thead>
<tr>
<th>Statistics</th>
<th>Figures (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Growth Rate</td>
<td>Year 2011 4.1</td>
</tr>
<tr>
<td></td>
<td>Year 2010 4.2</td>
</tr>
<tr>
<td>Inflation Rate</td>
<td>Year 2011 6.5</td>
</tr>
<tr>
<td></td>
<td>Year 2010 2.9</td>
</tr>
<tr>
<td>External Trade</td>
<td>Trade Deficit 84000 Rs M</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>Year 2011 7.9</td>
</tr>
<tr>
<td></td>
<td>Year 2010 7.8</td>
</tr>
<tr>
<td>Tourist Arrivals</td>
<td>Year 2011 964,642</td>
</tr>
<tr>
<td></td>
<td>Year 2010 934,827</td>
</tr>
</tbody>
</table>

Source: Central Statistical Office

The economic development of Mauritius: from gloom to success?

At the end of 1979, the country was almost in a bankrupt situation and its future was gloomy (Pather, 2006). It had “foreign currency reserves amounting to only two weeks of imports”. After unsuccessful borrowings to the Eurocurrency market, the government turned to the International Monetary Fund (IMF) in order to avoid the shipwreck (Yeung Lamko, 1998).

After agreement with the International Monetary Fund, Mauritius was required to go for a series of structural adjustment programmes between 1979 and 1986. The aim was to put Mauritius back on the path of economic growth.

Devaluation of the rupee, liberalization of the exchange rate, introduction of new sales tax and elimination of price controls were some of the measures to come out of the economic difficulties. In 1982, under the leadership of the Prime Minister Sir Anerood Jugnauth the country embarked in a transformation programme with the setting up of institutional policies for exports and growth. The government boosted the EPZ sector through certain incentives which fueled the economic growth of our country to two digits. Furthermore, the tourism sector was launched which created a large number of jobs. The diversification process continued so much so that Mauritius earned the name of the Tiger of the Indian Ocean in the Year 2000.

Mauritius through the global Recession

Since the onset of the global recession in 2008, Mauritius has followed a development curve marked by declining growth rate, increasing public debt and rising unemployment. Mauritius has shown economic resilience due to the growth in the fields of ICT, financial services and seafood. The Mauritius Commercial Bank (l’express, 2013) and the State Bank of Mauritius have registered Rs 4.3 billion and Rs 2.5 billion respectively showing signs of economic resilience

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despite the fact that European countries have registered a decline in economic growth and morosity.

**Critical Analysis of the Mauritian Competitiveness**

The latest World Economic Forum shows that Mauritius has overtaken South Africa as the most competitive economy in both the Southern Africa region and Africa as a whole. The island state in the Indian Ocean has long been known as a stable and quiet tourist attraction. Mauritius ranks high due to its political stability, good infrastructure, lack of trade barriers and transparency (Haris, 2013). The report also praises the way Mauritius has improved its financial markets as a result of better access to financial resources.

The report will also act as a wake up call to the bigger economies in the region and the continent that need to resolve their social and political challenges before further damage is done to their reputations with investors.

**High Ranking But Need for Alertness.**

Mauritius has achieved a laudable performance (3-4% economic growth) despite the global economic crisis. However, Mauritius has surely been affected in different sectors especially tourism and textiles amongst others with the global economic morosity. (Business Magazine, 2013) Mauritius is sometimes criticized by the high prices being practiced by certain hotels. Our textile products need to be reviewed to meet the changing expectations of customers. The costs of labour have considerably increased over the years with economic development. The textiles industry is shifting globally as companies are delocalizing from one country to another. In Europe, thousands of people have lost their jobs as textiles manufacturers have shifted to China. In such a situation, is it possible for Mauritius known as a Small Island Economy to be resilient and face the challenges of globalization.

The Mauritius Employers Federation puts the blame of reducing competitiveness on the increasing wages of employees in different sectors of our country. It is true to say that wages form an important part of the overall costs of an organization. Some global companies such as Ford and Air France have requested employees to review the salary structure to be competitive and save jobs. Air France has even proposed Voluntary Retirement Schemes to be competitive. The question is can a company be competitive despite having a high salary structure. The answer is only positive when salary increase is hiked by an increase in productivity. Germany has achieved a growth despite economic crisis with its lean manufacturing practices coupled with stringent industrial relations policies. It is also a country which has a global reputation for being innovative.

Mauritius has regressed in the Global Innovation Index by four places over the past year. We should understand that Mauritius and Africa lag behind in terms of research. There are many potential explanations for that such as the availability of funding, institutionalization of research, the contribution of human capital development amongst others. In Mauritius, it is the Mauritius Research Council which is responsible for promoting research at the national level. It is also
important for companies to have their own labs for product and service improvement research. We have institutions such as the AREU for the agricultural sector but do we have institutional labs for other economic sectors. The Higher Education sectors should help Mauritian companies to research and share the findings with the companies. We can also emulate the CNRS in France – Centre Nationale de Recherche Scientifique.

One of the reasons of Chinese economic success and competitiveness is the learning culture developed by the Chinese people in general. Education has become very important for everyone to climb up the social ladder. However, Chinese promote research and innovation through joint ventures between private companies and tertiary institutions. For example, automotive technical schools are being sponsored by big automobile manufacturers. Hence, the value chain is being improved over the years.

**Measures Taken for dealing with Global Economic Crisis**

The Government of Mauritius has taken several measures to deal with the economic downturn. The ‘Additional Stimulus Package’ was presented in December 2008 to support enterprises on a short term basis. The package introduced a ‘Mechanism for Transitional support to the Private Sector’, which was eventually replaced by the’ Economic Restructuring and Competitiveness Programme in 2010’ under the “Facing the Euro Zone crisis and restructuring for Long term Resilience” (MCCI, 2012).

The programme also included SURE (Support Unit for Re-employment of Employees), and plans for restructuring the tourism industry, and for supporting the sugar sector. In 2012, Rs 7.3 billion were earmarked to the National Resilience Fund to help businesses face the economic downturn.

For its part, the Mauritian private sector has been responding mainly by cutting on expenses, introducing restructuring plans, and reviewing their business strategy, which has unfortunately involved in several cases, the lay-offs of staff.

**Fiscal Policy Measures**

The Fiscal policy measures have helped to bolster the domestic economy and reinforce public service delivery and social protection. Following a series of fiscal stimulus measures since the crisis, the Government of Mauritius has strengthened its resolve to return to a more sustainable fiscal position. The 2012 budget performed well with outcomes showing to a commitment of fiscal consolidation while supporting resilience to the global economic slowdown. Although total revenues at Rs 73.74 billion (USD 2.43 billion) were lower than the budget estimates, they marginally increased to 21.5% of GDP from 21.4%. Tax revenues stood at 18.3% of GDP, thus reaching the 2012 target. The expenditure of the government was controlled through the implementation of the Medium Term Expenditure framework.
Some Key Statistics regarding the Public Finance are shown in the Table below:

**Table 1: Public Finances (percentage of GDP)**

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Revenue and grants</strong></td>
<td>22.3</td>
<td>21.9</td>
<td>21.4</td>
<td>21.5</td>
<td>21.2</td>
<td>21</td>
</tr>
<tr>
<td><strong>Tax Revenue</strong></td>
<td>18.4</td>
<td>18.5</td>
<td>18.3</td>
<td>18.3</td>
<td>18.1</td>
<td>18</td>
</tr>
<tr>
<td><strong>Grants</strong></td>
<td>1.7</td>
<td>0.7</td>
<td>0.7</td>
<td>0.9</td>
<td>0.7</td>
<td>0.6</td>
</tr>
<tr>
<td><strong>Total expenditure and net lending</strong></td>
<td>26.1</td>
<td>25.1</td>
<td>24.7</td>
<td>24.4</td>
<td>23.7</td>
<td>23.4</td>
</tr>
<tr>
<td><strong>Current Expenditure</strong></td>
<td>17.8</td>
<td>16.8</td>
<td>16.5</td>
<td>16.1</td>
<td>15.7</td>
<td>15.5</td>
</tr>
</tbody>
</table>

Source: Statlink

**Mauritius and Human Capacity Development.**

Mauritius ranks 78 amongst 187 countries and second in the Sub-Saharan Africa according to the Human Development Report(2011) by United States. Mauritius has the highest enrolment rates from the primary to the tertiary level. The enrolment rate is almost 100% at primary school as education is compulsory up to the age of 16. Mauritius currently has an enrolment rate of 43% at tertiary level-highest in the African region with some 30,000 students studying at the tertiary level. Mauritius wants to become a global hub for education just like Singapore and India. Mauritius has already attracted some global Universities in the Mauritian territory such as Middlesex, Vatel, Université Sciences Po, Limoges amongst others.

Mauritius also has the endeavour to have one graduate per family by the year 2015 with an enrolment rate of 75%. Mauritius already has four Public Universities and almost 60 registered private training institutions.

**Economic Co-operation, Regional Integration and Trade**

Mauritius is keen to accelerate economic integration to reduce dependency on the troubled euro area. A comprehensive strategy on Africa has been announced under which the authorities have mobilized five like-minded countries within the Southern African Development Community to co-operate on business and trade policy reforms. In 2012, Mauritius signed the Doubled taxation
Avoidance agreements (DTAA) with Nigeria, Kenya and Republic of Congo, and are currently renegotiating their DTAA with India.

Terms of trade shocks emanating from the Euro area crisis and underlying structural bottlenecks to trade competitiveness are affecting external sector outcomes for Mauritius. The trade deficit widened by 19.4% in 2012 to reach 23.9% of GDP as the growth of imports outpaced that of exports. Mauritian exports to the European Union declined from 61.3% in 2011 to 58.9% in 2012. Exports to South Africa grew by 28%; this was driven by textile trade. India and China remain the main import source markets.

**Economic and Political Governance**

**Private Sector**

Despite the strong indicators that doing business in Mauritius is relatively “easy”, the weak and certain economic environment in 2012 depressed investors’ confidence. The Mauritius Chamber of Commerce and Industry (MCCI) business confidence indicator lost 2.1 points in the fourth quarter of 2012 to 85.4 points, the lowest level ever recorded since 2010. The 2013 budget, therefore included a number of initiatives to boost investor confidence. For example, manufacturing companies were offered a 50% accelerated depreciation on acquisitions of plant, machinery and equipment. The Government also offered more micro-credit schemes and improved the financing structure in Mauritius.

**The Financial Sector.**

The financial sector in 2012 represented about 10.2% share of the GDP and grew by 5.5%, a slight slowdown from 5.6% in 2011. The banking sector has stood the global downturn well and remains healthy, profitable and well capitalized even above Basel III requirements. Stress testing by the IMF (Article IV, 2012) shows that capitalization is adequate with the Capital adequacy ratio being more than the regulatory minimum of 10%. Credit quality is good with a low number of non-performing loans; standing at 2.6% as of June 2011.

**The Economic Model/Framework Proposed**

The Economic Model for sustained economic growth will be based on the review of the critical success factors that have propelled Mauritius towards economic success. Some of the influences or causal factors that have been identified based on empirical evidence are:

1. Political Support and Incentives
2. Human Capital Development Index
3. Competitiveness of firms
4. Good Governance

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4 MCCI Report- Mauritian Businesses and the Economic Cycle
5. Economic and Regional Cooperation
6. Structural Economic Adjustments

Therefore, from comprehensive and qualitative review and based on past statistics it can be inferred that the above factors have contributed to the sustainability of our country despite the structural openness of the economy. An econometric model might be needed to test the hypothesis whether the above factors have a strong bearing on our economic performance. However, the scope of the present research was simply to identify the causal and determinant factors that might be tested in further research. However, it is important to point out that the New Economic Model might need to re-adapted due to the changing socio-economic conditions prevailing in the country.

THE NEW ECONOMIC MODEL-BASED ON ABOVE ANALYSIS
Components of New Economic Model.

The components of New Economic model that may be largely applied to developing countries with a high structural openness are as follows:

- **Bold Fiscal Measures**

An economy should have an effective management of its national budget and finance. A special attention should be given to the Small and Medium Enterprises. In addition, bold measures should be taken for supporting companies in difficulties. Mauritius also has a Mauritius Business Growth Scheme which helps people who have bright business ideas but no financing. The SMEDA also provides counseling, financial support as well as helps in creating networking forums for Small and Medium Enterprises. Greece is under bankruptcy because of its inability to reduce unemployment and also lack of good governance. This can be compared to the political support identified by Michael Porter in his book “The Competitive Advantage of Nations”.

- **Human Capital Development**

According to the Chinese proverb, a nation’s strengths lies in the knowledge of the scholars. This has proved to be true for Mauritius and even for China. The sustainability of growth would have never been possible without education. The Foreign Direct Investment in Mauritius is explained by the quality of people available. Mauritius has a high enrolment ratio from Primary till tertiary education. Mauritius seeks to develop a Knowledge Hub by the year 2020. There are obviously certain limitations and obstacles but which can be mitigated. The obstacles are mainly the ability to attract the best universities and also bring parallel development in various sectors of the economy.

- **Engage in Regional Economic Co-operation**

With the wave of globalization, it is important for vulnerable countries to engage in regional cooperation. Mauritius is a member of the SADC and COMESA- regional trade blocs in Southern Africa. Mauritius is a gateway to Africa and through the regional agreements it is easier to boost trade. Mauritius is also a logistics centre due to its strategic geographical location. Regional cooperation may help in sustaining external trade shocks and waves. Africa is also an important market for trade. With an economic growth of 5% for Southern Africa; investment in Africa is promising.

- **Structural Adjustments and Re-engineering**

The economic success of Mauritius has also been largely attributed to the ability of Mauritius to cope with Cyclical changes. The World Bank imposed a number of structural adjustments to our economy in 1980 before it could lend us money. Stabilisation and re-engineering exercise was carried out so as to create employments and make Mauritius become a competitive economy.
The Global Challenges to the Economic Model

With the phasing out of the European Union Sugar protocol, the elimination of the Multi-fibre Agreement and rising commodity prices, Mauritius has to deal with a triple terms of trade shock coupled with the global economic crisis. Mauritius is also vulnerable to changes in exchange rates with it’s high degree of openness of trade. These shocks can be mitigated through structural adjustments as well as macro-economic strategic policy making.

Some economic sectors are facing enormous pressure with the global economic crisis. Some of the sectors which are affected are the airline, the tourism sector, textiles and to some extent the manufacturing companies.

Need for Developing an Inclusive Growth Strategy.

Growth is inclusive if it supports high levels of employment and rising wages. For developing countries, this means acquiring new competences in new sectors and technologies. Policies to support inclusive growth have to address the problems of traditional market economies. There is need for a pragmatic approach accompanied by reform policies.

The OECD/World Bank Report presents a framework for making growth more inclusive. It highlights the wide scope governments have for using innovation policy to foster inclusive growth. State support for research and development should not be biased towards certain sectors, such as high-tech, but rather focused on a wide range of activities capable of creating jobs for high-skilled and low skilled workers alike.

Regional development policy should be used to ensure the benefits of growth are distributed evenly across borders. Better infrastructure and social spending can help poorer regions catch up with richer ones, improving inclusiveness.

Limitations of Study

The study has some basic limitations that need to be accounted for. In the first instance, the research is based on statistical evidence gathered namely economic growth, inflation, rate of unemployment and so on. However, it is true that an economic model cannot simply be based on grounded research. Other limitations that may affect the development of the economic model are the compensating effects of the growing sectors in the Mauritian context. The research is also largely qualitative in nature but however based in facts.

Conclusion

The analysis of economic statistics clearly indicate the stride that Mauritius has undertaken in it’s 45 years of independence. Mauritius has earned international reputation in various fields including tourism and financial services. Mauritius is also referred to as ‘The Tiger of the Indian
Ocean’. The critical success factors were identified based on World Bank and global rankings. There is clearly a need for a quantitative research on the New Economic Model proposed.

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