Mauritius: Towards the Economic Miracle

I would like to express my appreciation to the African-Asian Society for giving me the opportunity to address you on the economic miracle of Mauritius. Before we talk about the present economic miracle it is important to revisit the road we have traveled and the challenges that faced us and how we overcame these.

Geography:

Mauritius is an island of 1865 sq km with 330 km of coastline almost entirely surrounded by coral reefs. We are 800 km east of Madagascar. The Mauritian territory incorporates the island of Rodrigues 600 km to the east. Two tiny dependencies to the north, are the Agalega Islands and the St. Brandon rocks. With all these islands we have an EEZ of 1.2 million sq km. The Chargos Archipelago on which the Diego Garcia military base exists also belongs to Mauritius although the British contends otherwise. Tromelin Island is currently co-managed by France and Mauritius.

History:

(i) Discovered by Arab seafarers in 15th century. Al-Idrissi and Ibne Batuta.
(ii) In 1510, the Portuguese seaman Fernandez Pereira sighted the island and called it Cerne. The group of islands consisting of Mauritius, Reunion and Rodrigues were given the names of Mascarenes after the Portuguese Pedro Mascarenhas.
(iii) In 1598, the Dutch settled in the island and named it Mauritius after Prince Maurice of Nassau. They introduced sugarcane. 5 years later, the French occupied the island renaming it Isle de France. From this strategic position the French were plaguing English vessels on their way to and from India. In 1810 the British conquered the island and Mauritius was ceded to the British by virtue of the Treaty of Paris in 1814.
(iv) In 1835, the British abolished slavery. Slaves at that time came from Madagascar, Senegal and Mozambique. This led to the importation of Indian indentured labourers to work in sugar cane fields.
(v) 12 March 1968: Independence.

Languages:

Creole, Bhojpuri, French, English.

Religions:

Hinduism 48%, Roman Catholic 24%, Islam 17%, others 8%.
**Prophets of Doom:**

Prior to our independence, Titmuss and Nobel Laureate Meade, two well known economists painted an Orwellian picture of the island and prophesied that Mauritius was doomed to fail as it was a small island faced with the vagaries of nature and having only a monocrop and therefore no a viable economy. Moreover, they viewed the multi ethnicity of population as a source of weakness and not strength. Later V.S. Napaul, another Novel Laureate and travelogue, painted a bleak picture of Mauritius in his book entitled “The Overcrowded Baracoon”. Both James Meade and V.S. Napaul were wrong. They overlooked a very important factor, the composition of the population of Mauritius. We are a land of immigrants, populated by Franco-Mauritians, who brought African slaves from Mozambique, Ghana, Senegal and Madagascar and who would later be disenfranchised and who make an important component of the Mauritian population, the indentured Indian labourers of various religious faith from Hindus to Muslims, the Chinese traders and some Englishmen who chose to stay in Mauritius. The strong determination of the composite population to shape the destiny of our country was indeed miscalculated.

Incidentally some of you may have read “The Adventures of Tom Sawyer and Huckleberry Finn” and the name of Mark Twain immediately clicks. In a depiction of his voyage to the Indian Ocean area and with particular reference to Mauritius Mark Twain had the following to say “You gather the idea that Mauritius was made first, and then heaven, and that heaven was copied after Mauritius.”

**Time of Independence:**

The economy of the island was solely based on a monocrop, namely sugar and unemployment was high. Upon its independence, Mauritius, like other countries, was able to export sugar to the United Kingdom through the Commonwealth Sugar Agreement.

Following the accession of the UK to the then European Economic Community in 1973, the provisions of the Commonwealth Sugar Agreement were transposed into a Protocol, to be called the Sugar Protocol, and which defined the quantities of raw sugar which each ACP Signatory State agreed to supply.

At the time of the conclusion of the Sugar Protocol in 1975, the world market price for raw sugar reached its highest ever registered price of £648, which was more than thrice the price paid offered by the EC. Whilst most countries chose to reduce the quantity it used to supply to the UK under the Commonwealth Sugar Agreement, Mauritius, contrary to all expert opinions, decided to increase by 100,000 tonnes its supply of raw sugar.

This was done on the basis of a deliberate policy decision to opt for long-term predictable and stable export earnings, rather than relying on short-term highly volatile world market conditions. With hindsight, this decision was instrumental in the
development of the country as it provided the necessary platform to develop new poles of
growth such as the manufacturing sector and tourism in the first instance and other
sectors at a later stage.

**EPZ:**

In 1970 we enacted the Export Processing Zone Act. It provided incentive and
concessions to enterprises exporting their products. The EPZ was successful for a
number of reasons. The Multi-Fibre Agreement signed in 1982 constrained several
countries in their export. It was in this context that investors came to set up their
factories in Mauritius. During 1990s, political uncertainty over the future of Hong Kong
encouraged investors to look for a safe haven and relocate to Mauritius currently. The
biggest garment factories are vertically integrated and produce their own fabrics.

Mauritius is today viewed as a development success story. In 42 years, the
economy of Mauritius has been transformed. In 1968, Mauritius was a low-income
agriculturally based economy with a single crop, sugar. Today, Mauritius is a middle-
income country, with a diversified economy, boasting of growing Services, Financial,
Hospitality, and ICT industry apart from the traditional manufacturing and agricultural
sector. While agriculture continues to be important, it no longer dominates the Mauritian
economy. The share of agriculture in real GDP has declined from around 12% in 1990 to
some 4% today. The service sector, heavily composed of tourism and financial services,
is now by far the most important pillar in the economy accounting for around 74% of real
GDP.

For over two decades, Mauritius has grown by nearly 6% per year. At
independence in 1968, Mauritius had a per capita income of about US $260. Today, it is
about US $7,500 at market prices. Improvements in human development indicators have
been equally impressive. Life expectancy at birth has increased from 61 years in 1965 to
71 in 2009. The infant mortality rate has gone down dramatically from 64 per 1,000 in
1970 to 7 per 1,000 in 2009.

**Social Changes:**

(i) The Mauritian population doubled between 1948 and 1970 leaving Mauritius to
cope with a young population with its challenge to traditional values.
(ii) Spread of education at primary and secondary level.
(iii) Strong democratic tradition which developed in Mauritius coupled with political
stability contributed to the success of industrialization. Whilst industrialization is set to
continue, we encourage the use of high technology to the more competitive instead of
relying on cheap labour.

**1000 Dollar Question:**

The question one would ask is how did this small island developing country
heavily dependent on a single commodity, vulnerable to terms of trade shocks, situated at
a considerable distance from world markets and faced with a rapidly growing population succeed.

**A Strategy for Growth:**

With no natural resources but only an abundance of human capital we relied on international trade. Under the Lomé Convention which bound the ACP-EU countries, they were provisions for preferential access to EU markets. We made full use of these preferences to expand and develop the EPZ. At the same time, we embarked on development of the tourism sector. The idea was to have more than one pillar to support the economy.

With the advent of the WTO, which meant erosion of preferences, Mauritius would also later come to face what in our jargon we call “triple shocks”- dismantlement of the Multi-Fibre Agreement, sharp reduction in the pride of sugar exports and rising oil prices. Could we then maintain a status quo- no indeed. We decided to move from preferences to global competition. Our industries had to become more efficient to be able to compete with those in other countries where cost of labour and therefore production cost was much lower.

Thus adjustment to new circumstances is not new to Mauritius. We embarked into a bold economic reform programme in 2005 and this reform programme aimed at developing new pillars of the economy, prudent fiscal and sound macro-economic objectives widen economic opportunities and above all maintaining the competitiveness of the economy. We have made significant progress over the years in improving the Doing Business Climate as per the World Bank indicators and we are currently embarked on working on a regional initiative of doing a joint project with like-minded countries in the region in improving collectively the Doing Business Climate in the region. We are actively looking at support of the international community for this initiative and already countries like Botswana have agreed to pair with Mauritius in advancing this initiative. This initiative replicates to some extent the considerable work being done by Singapore within APEC on improving the Doing Business Climate in the South East Asian Region.

**Answer:**

There is not a single answer but a host of factors involved such as political and macro-economic stability, respect for democracy, rule of law, human rights, and a clear separation of powers between the executive and the judiciary. We made judicious use of preferential access to markets and have always been staunch believers in free enterprise at a time where the cold war was at its apex.

Mauritius successfully turned the disadvantage of rapid population growth into the blessing of a dynamic and plentiful workforce. Our ethnic diversity, which could so easily have led to social fragmentation, was to gain advantageous business links to both the African and Asian continent and other parts of the world.
But I think the predominant factor explicating our economic miracle was in investing heavily in providing free access to education and building the institutions needed to support development. The building block of this economic success is greatly to be credited to the vision of Sir Seewoosangur Ramgoolam, Father of the Nation, First Prime Minister of the Republic of Mauritius and father of the current of Prime Minister of the Republic of Mauritius.

Were we are today:

(i) Economic indicators are in the green.
(ii) The Service Sector is vibrant and doing well.
(iii) The manufacturing sector has weathered the economic crisis of 2008 – 2009 better than expected.
(iv) Our sugar sector is doing well thanks to a reengineering which has rendered sugar production more competitive.
(v) **Offshore:** In 1992, with the enactment of the Mauritius Offshore Business Activities Act (MOBA Act), a forth pillar for the economy (besides Sugar, EPZ and Tourism) was created. The offshore and freeport services was a natural evolution for the country given its political and economic stability
(vi) **ICT:** The ICT sector has over 300 companies involved in a number of activities including software development, call centre, business process outsourcing (BPO) and training. Over 12,000 people are employed in this sector which contributes to nearly 6% of the GDP.
(vii) We have brought innovative concepts in the investment climate where many foreigners, including South Africans, are snapping up residence within the IRS. In its own limited way, Mauritius has also invested beyond its borders namely in Mozambique, Madagascar, the Maldives and Tunisia.
(viii) We continue to explore new niche that would serve to prop up the economy.
(ix) **International Arbitration:** In December last, Mauritius hosted an international conference on arbitration which would see Mauritius becoming a jurisdiction of choice for our region. This would lead to an effective of dispute resolution mechanism in the region with the aim at approving the Doing Business Environment in the region.
(x) Mauritius is ideally located between Africa and Asian and through its array of attributes such as its bilingualism, educated workforce, transparency, good governance, developed financial services sector, membership of various regional economic groupings such as the SADC, COMESA, AU, IOC, IOR-ARC.
(xi) **Health:** Health services are free of charge at all Government hospitals.
(xii) **Education:** Primary and Secondary education are free.
(xiii) **Transport:** Free for students and elderly.