



## Prospects of economic progress for Mauritius on its 50<sup>th</sup> Independence

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### Abstract

On the occasion of the 50<sup>th</sup> anniversary of the Independence of Mauritius, a republic in the Indian Ocean, business prospects for a new economic miracle are constantly being sought. In fact, the island nation's economic development was linked with two key economic booms known as 'miracles' in the mid-1970s and 1980s. These embellishment periods propelled economic growth and advancement for the nation. In recent times, with a growth rate nearing 3.5% and unemployment coming close to a double-digit mark, there are apprehensions of whether embellishment times are ahead or not. In this context, the Mauritius 2030 which aligns with the United Nations Development Programme Millennial goals expects the nation to be a fast technologically-driven society with strong institutions that will support such development. This research article, initially developed in 'Business Magazine Year Book 2018' calls for a review of the past economic miracles, the conditions under which they took place and posits that, under Porter's competitive advantage concept, rather than re-expecting a miracle, an embellishment time would be more appropriate for the country seen from the international competitive environment that now prevails.

**Keywords:** economic miracle, embellishment, Porter's concept, Mauritius

### Introduction

In these fifty years since Mauritius gaining Independence, the nation has progressed economically to be known, at a certain time, as the 'Tiger of the Indian Ocean'. This was a landmark in its achievement because the enviable stage of development was attained in a period known as the economic miracle. Such a miracle according to Carey (2018) was a time when the economy grew rapidly, and the middle classes of all ethnic groups took for granted that good times would keep rolling with growth rates at 6-8%. Prior to that, there was an economic boom that lasted for some three years between 1973 and 1976 in times of the petrol shock where sugar as a foreseen substitute energy gained immediate concern and that was followed by a price spike. Prices were determined chiefly by multinational oil companies until the 1970s when the Organisation of Petroleum Exporting Countries (OPEC) <sup>[i]</sup> asserted its capacity to influence to varying degrees the price via its output decisions (Wakeford, 2006). With higher price earned from sugar exports, there was the 'boom sucrier' where sugar industry workers earned arrears and payments in the form of Cost of Living Allowance (COLA). Agricultural workers of the Sugar Industry as well as in relation to workers of the Construction Industry which consecrated the principle of a Cost of Living Allowance becoming payable whenever the cost of living rose (CSAT, 1973). These two periods were the rare moments in the country's economic history where the term 'boom' or 'miracle' could be alternately used. Once these moments of prosperity were over, Mauritius again faced tough times where the community at large dreamt of a new economic miracle.

### Economic miracle-Then and now

Since the present government gaining power in 2014, the term 'miracle' has been heralded on all fronts beginning the mandate but the reality is that such an expectation is either still in the tunnel or not even popping out. The miracle belief has gone mistaken when the economy has grown by an average of 3.5% over the years, unemployment has remained stagnant at some 7 to 8% and investment has not really picked up despite some positive results in sectors like the tourism industry with a slight ratio of one tourist per Mauritian or growth in the services sector among others. This view is supported by Trading Economics (2018) stating Mauritius' gross domestic product just advanced 3.7 percent year-on-year in the third quarter of 2017, following an upwardly revised 4.5 percent growth in the previous period. The period of embellishment has not been reached or remains in the offing. This is why certain local economists prefer stating that the term 'miracle' should no more be used as it is inappropriate to speak of such a happening.

### Conceptualising a miracle

It would be interesting to define the term 'miracle' and why this occurred in rare instances since 1968. In the first scenario, external economic forces provided the push to Mauritius to benefit from a boom. With a prosperous sugar sector as a monocrop industry, the price spike following the petrol shock led to an increase in the price of sugar exports. Stiglitz (2011) stated that the country progressed from sugar-based monoculture of 50 years ago to diversified economy that includes tourism, finance, textile, and if the current plans bear

fruit, advanced technology. Through a policy of sustained exports under the Lomé Convention and a guaranteed price of sugar with the former European Economic Community (EEC), the demand for sugar resulted in windfall gains for the Mauritian economy and such revenue could be redistributed to the sugar industry benefiting both producers and workers. Being a nation based on a labour intensive model, the country was financially well-off for some time. This also allowed for the development of infrastructure, the provision of welfare followed by a slight increase in revenues earned by workers. Betchoo (2015) commented that the first economic boom of Mauritius is typical of times of hope for developing economies where there is a general feeling that the country is moving to an elevated standard of living with benefits and opportunities that will be reaped by all people

In the second scenario taking place between 1986 and lasting up to 1990, it was the development of the textile sector that spurred the growth of the Mauritian economy. This condition was fulfilled by the absorption of idle labour in such sector and a new export industry that was in its infancy. Consequently, as such industry was developing, the economy quickly benefited from high level of growth. At a time, there was no unemployment—plein employ<sup>[iii]</sup>—with the country having recourse to foreign labour through Chinese workers contributing to the launching of the emerging textile sector. Keane and te Velde (2008) support the argument that Mauritius diversified from sugar into textile and clothing in the 1980s and subsequently into tourism and other services. The textile and clothing industry still generated around 19% of manufacturing value added, indirect employment for 250,000 people, and direct employment for around 78,000 people.

Fast growth and development are generally accounted for when the economy creates a new industry which is expected to expand in the years to come. Dube (2016) supports the argument by stating that in a fast-growing and generally labour-intensive sector, there exist plenty of opportunities both for skilled and unskilled workers, and especially for women and the youth. Getting the advantage of cheap labour coupled with increasing demands in terms of orders, there is room for progress. As such, the Mauritian economy recovered and could attain a cruising speed known as a developmental phase that accelerated growth initially to curb a little afterwards.

### **Porter's model as a framework**

In both cases analysed, the economic miracle could be either something occurred by chance or a sudden growth fuelled by both local and external factors. To some extent, Porter's model of Competitive Advantage of Nations (1985) applies. The Economist (2008) summarises that competitive advantage is a function of either providing comparable buyer value more efficiently than competitors at low cost, or performing activities at comparable cost but in unique ways that create more buyer value than competitors and, consequently, command a premium price. Nations might win either by being cheaper or by being different meaning being perceived by the customer as better or more relevant.

The chance factor can explain a miracle where conditions in

favour of Mauritius created dynamism within the economy. Porter (1990) defined certain events which are beyond the control of firms as chance events. Jhamb (2016) commented that these events may create forces that reshape the structure of an industry allowing the firms to improve its competitive position. Chance is the likelihood that the external events such as natural disasters and war can affect or benefit a country or an industry or cluster but these events are entirely beyond the control of Government and managers within the industries. Government effort is also considered in the model where the latter's readiness to jump on the economic bandwagon gives a real boost to the economy. Thirdly, related factors in demand and supply conditions from the external environment do help economies progress fast and create that really needed impetus. Hence, the embellishment helps in imaging the economic miracle. According to Porter (2000), it is the external economies of related and support industry clusters, such as networks of specialised input providers, institutions and the spill-over effects of local rivalry, that become the true source of competitive advantage (Porter 2000, 2003).

### **The new miracle as an aspiration**

In the current context, a new miracle has been a long-sought dream of every government or the common citizen. Since the new millennium, economic threats have affected Mauritius. Firstly, the preferential agreements on multi-fibres have deregulated international business with China entering World Trade and competing at an unequal level with small producers like Mauritius or any sub-Saharan country. Curran (2008) stated that the inbuilt inflexibility that the quotas brought to the market meant that wider changes in competitiveness over time could only be partly reflected in changes in the market share. Secondly, price guarantee on sugar has been dismantled with a substantive decline of 36% in the price of such an export commodity. The subsequent 36% plunge in prices meant the local industry would export raw sugar for less than the cost of production. This triggered the industry's radical up-evolution from the manufacturer of an unfinished product to the exporter of a ready-for-consumption finished product (Axys Group, 2009). Additionally, Mauritius has turned up to become a consumer society with higher consumption, low local food production and a constant deficit in its balance of payments. The lowering in indices of such an indicator has become a threat coupled with stagnant levels in foreign direct investment (FDI). With unemployment as a key political and societal factor, jobs are more difficult to create when the manufacturing sectors suffer from lower order supplies.

So how can Mauritius rethink its embellishment? There is no need to speculate since there are positive elements that have cropped up within the economic cycle. For instance, there is a higher educated and skilled workforce today compared to the past two 'miracles' where more people now enter education and read up to a minimal 16 years which is obligatory. Training institutions are larger in number and provide both human capital qualitatively and quantitatively than before. One could remember that during the 1980s miracle, the industry was in quest of skilled and qualified labour. The degree of sophistication of industry has become higher with

greater diffusion of information technology propelled with higher use of communications through the advent of the Internet. However, according to the World Economic Forum (2016), as Mauritius moves up the development ladder, more needs to be done to unlock the areas of competitiveness conducive to a knowledge-driven economy: higher education in quality terms; the use of ICTs and ability to absorb new technologies; the capacity to innovate, about which business leaders are particularly concerned; and an inadequately educated workforce.

Then why does the miracle remain in the pipeline? The central idea here could be market deregulation where a once favoured status for Mauritius no longer exists. For example, the phase of embellishment of Mauritius is now taken over by Rwanda regarding the textile sector. The services industry comprises competitors in the Arab countries including Turkey. South-East Asian competitors, though having moved a level forward in their development are still keeping ahead of competition.

### **Gambling on an embellishment**

Rather than gambling on a new miracle with promising sectors like the blue economy or the services sector to help Mauritius become a high-income country, there is greater possibility of thinking of embellishment. When will this occur, no one knows but expectations could be great. For example, some re-engineering of the economic system could be envisaged. The development of transport infrastructure to lower connections to the port or airport could be something to envision. Business facilitation should be widely encouraged to allow investors come and create business while absorbing labour significantly. The blue economy as a new pillar of the country should come out in a concrete form so as to redefine the new economic framework. Smart cities must be sought as centres that create innovative and well-paid jobs. Inequalities that deepen between the rich and the poor in tough times must be compacted and so it goes for corruption that must be constantly reduced so as to create a 'climat de confiance' <sup>[iii]</sup>. Exchange rate mechanisms must be flexible but more in favour of currency stabilisation rather than fluctuation. It is possible that the country will get out of the 'middle-income' economy trap and tailgate a higher income status. So far, the level of progress will still lag behind today's winners like China or India or an always sought model like Singapore. The 2030 economic development goal must be visible to all stakeholders and create the spur needed in the economy. Mauritius.com (2015) focused on the aim behind achieving the Second Economic Miracle and Vision 2030 is to put Mauritius into the league of high income economies with key issues like addressing unemployment; alleviating, if not eradicating, poverty; opening up the country and new air access policies; and sustainable development and innovation. Possibly, could Mauritius bet on chance, government or external macro-economic factors to boost Mauritius to its cherished ambition?

### **Conclusion**

The quest for a new miracle or we prefer embellishment will depend on the factors mentioned here or even on additional

components like business confidence, public-private enhanced partnership and societal involvement on reaching the dream. Only time will tell if the recovery will be likely or if Mauritius steps to a new stage of economic development. The 2030 vision looks promising and booms could occur in an unpredicted timeframe. According to Foreign Affairs.com (2017) the initiatives might ensure that Mauritius will remain a global financial and banking centre, as well as a country boasting prime investment opportunities in important sectors that have been prioritized by Mauritius' leadership to create a strong and diversified economy. Also, worthwhile to note, that miracles are followed by tough after-effects. In this 50<sup>th</sup> anniversary commemorating our Independence, wishful thinking should not be the State's concern only but that of the nation as a whole. One must not always moan 'Cry my beloved country' but rather vaunt that good days ahead might make Mauritius the good pupil of Africa and of the greater worldwide community (Betchoo, 2018).

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<sup>i</sup> OPEC-a powerful petrol organization grouping Arab nations in the past century.

<sup>ii</sup> Plein emploi-French term for full employment.

<sup>iii</sup> Climat de confiance-French business term for business climate of confidence.