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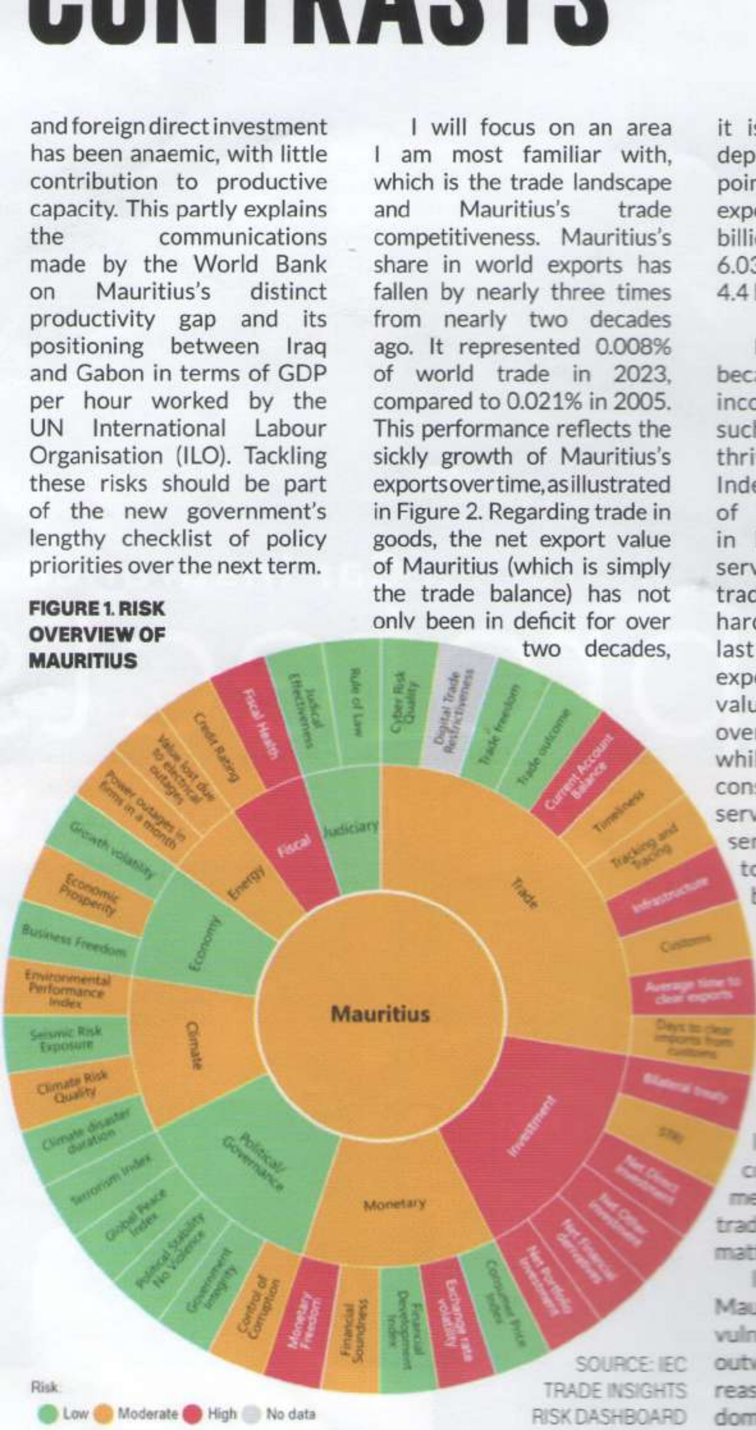
MAURITIUS: AN ISLAND OFECONOMIC CONTRASTS

BURTON Benedict, a professor at the University of California Berkeley, famously coined the phrase "Mauritius at a crossroads", as far back as 1961. More recently, I have read several other academics reflecting on the notion that Mauritius is at a crossroads. I want to reflect on the data for Mauritius and what it tells us about the trajectory of Mauritius's economy and where it is likely to be heading.

I start with a picture of Mauritius at this specific point in time and observe the economy's salient features. The most important thing is to determine the structural or transition risks that stifle confidence in the economy and, more unsettlingly, economic growth. Despite the glossy rankings it has enjoyed over the last decade, whether in doing business, good governance or innovation, the overall picture for Mauritius is quite frail. Notwithstanding a fraught decade concerning good governance, Mauritius's comparative situation is still favourable regarding the judiciary, political establishment, and economic freedom and stability (see Figure 1). Other metrics used to analyse risk are more concerning, especially climate, energy, monetary and trade dimensions. Fiscal risks and the debt overhang have grown quite significantly. Finally, domestic and foreign direct investment has been anaemic, with little contribution to productive capacity. This partly explains the communications made by the World Bank on Mauritius's distinct productivity gap and its positioning between Iraq and Gabon in terms of GDP per hour worked by the UN International Labour Organisation (ILO). Tackling these risks should be part of the new government's lengthy checklist of policy priorities over the next term.

FIGURE 1. RISK OVERVIEW OF MAURITIUS



SOURCE: IEC TRADE INSIGHTS RISK DASHBOARD

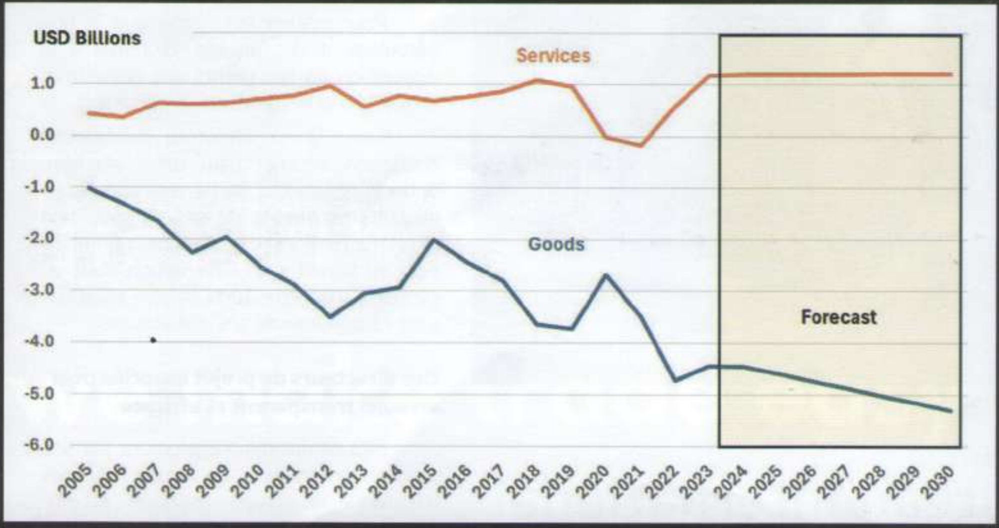
I will focus on an area I am most familiar with, which is the trade landscape and Mauritius's trade competitiveness. Mauritius's share in world exports has fallen by nearly three times from nearly two decades ago. It represented 0.008% of world trade in 2023, compared to 0.021% in 2005. This performance reflects the sickly growth of Mauritius's exports over time, as illustrated in Figure 2. Regarding trade in goods, the net export value of Mauritius (which is simply the trade balance) has not only been in deficit for over two decades, it is becoming increasingly dependent on imports, to the point that the trade deficit is expected to reach USD 7.0 billion by 2030, up from USD 6.03 billion in 2024 and USD 4.4 billion in 2010.

In 2020, Mauritius became an upper middle-income economy, and as such, one should expect a thriving service economy. Indeed, nearly two-thirds of the economic activity in Mauritius comes from services. Yet, internationally, trade in services has hardly progressed in the last two decades. Services exports are at the same value today as they were over a decade ago. And while Mauritius is often considered a competitive service economy, its net services trade is projected to be virtually unchanged between 2010 and 2030. Moreover, travel and transport account for nearly two-thirds of that value in trade.

What are the solutions for Mauritius to reverse this trend of losses in international competitiveness for both merchandise and services trade, and why does it matter?

It matters because Mauritius is a small, vulnerable economy which is outward-oriented for a good reason. Its opportunities for domestic growth are small.

FIGURE 2. MAURITIUS NET EXPORTS OF GOODS AND SERVICES, 2005-2030



SOURCE: IEC TRADE INSIGHTS

The main determinants for domestic growth in the medium term are public sector spending (which spiralled recently) and investment (primarily focused on real estate with unsustainable implications). Improvements in consumer purchasing power can provide long-term domestic growth.

The opportunities for external growth by tapping into opportunities in international markets far outweigh those from the domestic market. So, how can Mauritius rechart the path for economic growth? Firstly, Mauritius must address supply-side barriers to competitiveness. This includes addressing the low productivity growth and innovation in industry and service sectors. Initiatives such as gearing up for Industry 4.0 and smart agriculture have started, but they are often small-scale and not always open to everyone. It also needs to take root in Mauritius's service industry, which lacks innovation and ambition. Secondly, since the public sector is such a significant weight in the domestic economy, its procurement practices can incentivise the industry to innovate, but that requires a transparent, fair and competitive process to make it accessible to all. Investment and better standards in the business ecosystem in Mauritius – from legal and accounting services to banking and professional service providers are also needed to reach a more competitive industry. Thirdly, Mauritius can benefit from a clear trade policy and trade strategy to set the vision of where it wants to go and what strategic pillars can get it there. Fourthly, Mauritius has signed several trade agreements. Still, no analysis has been done on the value of the agreements and the strategic direction Mauritius wants to grasp in order to boost trade and investment. Monitoring and revising trade agreements is essential to a proactive trade policy. Many trade agreements signed so far lack ambition and are unlikely to be transformational. Fifthly, Mauritius is not a party to plurilateral agreements which could be transformational for Mauritius, such as the Government Procurement Agreement, Information Technology Agreement, or the recently concluded e-commerce joint statement initiative. These agreements will open access to markets far in excess in size to the value of protection afforded by the domestic market. Finally, Mauritius appears poorly integrated into global value chains for higher-value components and parts. Despite its excellent positioning for air connectivity with Europe, it exports no value-added products to Europe. Regrettably, Mauritius has poor connectivity with every other world market, especially the highest growth markets – in South-East Asia and Africa. Mauritius must consider its logistics and connectivity strategy and make the necessary difficult yet essential changes.

The outlook for Mauritius is one of stability and incremental improvements in welfare, with a bit of turbulence along the way, as the world is likely to face in the coming years. However, Mauritius could reach an inflexion point at this' crossroad' if it makes the right strategic choices.