Fifty Economic Steps

The economy of Mauritius from 1968 to 2017

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Mieux comprendre l'économie (2005)

A contre-courant (2011)

Alice in Dodoland (2012)

Robinson sur l'île durable (2013)

L'économie de la diversité (2015)

Economic Sense (2017)

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"Heavy population pressure must inevitably reduce real income per head below what it might otherwise be. That surely is bad enough in a community that is full of political conflict. But if in addition, in the absence of other remedies, it must lead either to unemployment or to even greater inequalities, the outlook for peaceful development is poor."

James Meade
The Economic and Social Structure of Mauritius, 1961

"And they (the political parties in Mauritius) seem to recognise that, at the end of the day, they will be left with what they started with: an agricultural colony, created by empire in an empty island and always meant to be part of something larger, now given a thing called independence and set adrift, an abandoned imperial barracoon, incapable of economic or cultural autonomy."

V.S. Naipaul
The Overcrowded Barracoon, 1972

Was it intended to be a wake-up call or a requiem? For sure, Mauritians were aghast at the gloomy prognosis of James Meade, at the head of an Economic Commission sent by the British colonial administration in the aftermath of the highly devastating cyclone Carol in 1960. Mauritius was stuck in a "Malthusian Trap" with limited natural resources and population growing at an annual rate of more than 3.0 per cent. The man who was to win the Nobel economics prize in 1977 was not alone in his negative outlook for the country's future. Another Nobel prize-winner, the acclaimed novelist V.S. Naipaul, penned a scathing piece on Mauritius, "The Overcrowded Barracoon", after a short visit to the island in 1967. Also in 1961, the world-renowned sociologist, Richard Titmuss, predicted disaster for Mauritius on account of its high birth rate, lack of natural resources and heterogeneous population. He went as far as to forecast a population of 2,869,000 by 2002! To cap it all, the first World Bank mission to Mauritius, led by Jean Baneth in 1962, wrote that "this country exudes an air of hopelessness." But a quarter of century later, precisely in 1989, the World Bank referred to Mauritius as a "miracle of development."

When it obtained its independence on 12 March 1968, Mauritius was a backward monocrop economy depending entirely on sugar. The mainstay of the economy earned the country the reputation of Sugar Bowl Island. But throughout the years, Mauritius has successfully developed textiles, tourism, financial services, and information and communication technology as new growth pillars. The Bank of Mauritius, which is six months older than the Independent State, has constantly supported the objective of economic diversification, fostering growth and employment while safeguarding the internal and external value of the currency of Mauritius, the Rupee (MUR).

Tucked away in the South West Indian Ocean, in latitude 20 degrees South and longitude 57 degrees East, Mauritius is a small island of 1,865 square kilometres of land and of 177 kilometres of coastline, surrounded by the third largest coral reef that provides several long stretches of white sandy beaches and transparent lagoon. To its west, at some 2,000 kilometres is the African continent, and at 855 kilometres is Madagascar. The island was a natural extension of the Silk Road, an ancient network of trade routes that were central to cultural interaction through regions of the Asian continent, connecting the West and East from China and India to the Mediterranean Sea.

Being of volcanic origin, Mauritius has a central plateau which is about 400 metres above sea level. Mountains and tropical forests scattered throughout the island add to its natural beauty. The country enjoys a maritime sub-tropical climate.

Mauritius became a Republic on 12 March 1992, but it continues to be part of the Commonwealth. The ultimate appellant body remains the Queen’s Privy Council, which provides essential comfort to economic operators. The country has a hybrid legal system combining both the civil and common law practices, which is an asset for the development of an international financial centre. Mauritius takes pride in its thriving multi-party democracy modelled on the British parliamentary system and underpinned by the rule of law administered by an independent judiciary. Incidentally, the country was among the only 19 “full democracies” identified by the Economist Intelligence Unit’s Democracy Index 2017, taking the 16th place.

1.3 Stages of Economic Growth

When the Mauritian economy was booming in the mid-1980s, the then finance minister Vishnu Lutchmeenaraidoo used the word "take-off" to describe the economic situation as an airplane rising into the air. Economic take-off had been conceptualised by Professor Walt Rostow, an American economist and government official, in his book *The Stages of Economic Growth* published in 1960. Every nation goes through five stages of economic growth to reach its highest degree of economic development. They centre around the "take-off" (real output per capita increases), preceded by "preconditions for take-off", and followed by "the drive to maturity" and subsequently by "high mass consumption."

Singapore is a glaring example of an economy that grew in this way. We can say the same about Mauritius. The island economy set the stage for growth between the beginning of the 1970s and the mid-1980s, took off in the decade 1985 to 1995, sustained its growth till around 2010 and then grew at a moderate pace, fuelled largely by consumption. This sequence of economic development does not fit exactly with Rostow's model, but the latter can shed light on the successful path taken by the Mauritian economy.

Mauritius was a traditional society, which corresponds to Rostow's first stage of growth: a subsistent economy with intensive labour that allocates a big proportion of its resources to agriculture and where output could be increased only through expansion of land area under cultivation. Fatalism prevails in such a society, and it was reflected in James Meade's thinking that not much economic progress was possible for the Mauritian people and for their future generations.

The preparatory stage of growth, or the pre-conditions for take-off, emerged after independence when political sovereignty brought about a change in Mauritians' attitudes towards risk-taking and profit-earning. A class of entrepreneurs appeared, mobilising savings and investing in new enterprises. Agriculture became more mechanised. Increase in agricultural incomes led to industrial investment and to the development of manufacturing. Indeed, the sugar boom of 1973 enabled the sugar groups to diversify and invest in the textile sector, and profits derived from the textile boom in the second half of the 1980s were injected in tourism. The traditional society persisted side by side with modern economic activities. The adaptability of the labour force and the construction of infrastructure underpinned this second stage of growth foundations for economic transformation.

The "take-off" stage is a short period of intensive growth which, according to Rostow, covers two decades. In the case of Mauritius, it can be said that it lasted one decade (1985-1995) in which the economy grew strongly (by more than 8.0 per cent in 1986 and 1987). Real output per capita (the living standards) rose while the proportion of investment to national income increased (from 18 per cent in 1984 to 30 per cent in 1994). Productivity levels surged with the enhanced use of technology (capital productivity by 10.6 per cent, and multifactor productivity by 10.8 per cent, from 1983 to 1987). New types of enterprising men came forward. The manufacturing industry played a bigger role than agriculture in the economy, and a large share of profits yielded by industries was reinvested in new plants. With industrialisation, there was greater urbanisation: almost 44 per cent of the resident population was urban in July 1991. The forces making for economic progress came to dominate the society, and growth became its normal condition. The structure of the economy changed (from a classic plantation type monocrop economy to an industrial economy and then to a services economy), thus opening the way towards self-generating economic growth.

The drive to maturity occurs when the economy becomes mature and shows self-sustained growth. True, Mauritius is still today a developing economy. As from the mid-1990s though, its initial key sectors (sugar and textile), which had powered the economic take-off, started shrinking, and industry became more diverse. In parallel, there was a succession of new rapidly-growing sectors, from tourism through financial services, Global Business, and information and communication technology to business process outsourcing. Progressively integrated into the world economy, Mauritius was more exposed to external shocks. Thus economic growth, which averaged 6 per cent during the take-off period, posted an average annual rate of 5 per cent over the subsequent 15 years.

At the turn of the decade, economic growth trended down to below 4 per cent, ranging from 3.9 per cent in 2011 to 3.1 per cent in 2015. Its moderate pace is sustained by the expansion of a middle class of consumers. The age of high mass consumerism has not yet arrived for Mauritius, at least in respect of consumption of luxuries on a mass scale. Nonetheless, the country has the attributes of a consumerist society: consumer sovereignty reigns; consumption transcends basic food, clothing and shelter; there are more mobile phones in circulation than inhabitants; and every family wants to own a car and a satellite dish. As a percentage of gross domestic product (GDP), household consumption expenditure was as high as 74.7 per cent, and gross domestic saving as low as 10.4 per cent, in 2015.

Historically, according to Rostow, maturity is generally attained 40 years after the take-off. It can be said that the Mauritian economy is still today at this stage of development, for it has yet to demonstrate its ability to move beyond the traditional industries, to produce at home goods that are imported, and to find its place in the international economy. To do that, the country needs to revise its institutions urgently in such a way as to support rather than retard the growth process.

This is how Singapore has achieved maturity. Unlike the city-state, Mauritius is disadvantaged by its geography and population size. What really makes the difference, however, are the national ethos, work ethics, continuous learning, integrity and meritocracy – values on which Singaporeans have rapidly built their success. Mauritius did not move at the same pace, though there was progress.

THE FIFTY STEPS

Throughout the different stages of economic growth over the past half of a century, successive governments have taken many actions to promote the economic development of Mauritius. If we are to highlight 50 economic steps, the following merit attention. The country:

1. Safeguarded the property rights of the sugar owners upon the country's independence in 1968.
2. Set up the Export Processing Zone in 1970.
3. Enacted the Development Incentives Act 1974 to give additional facilities to the import-substitution industries.
4. Signed the Lomé Convention with the Sugar Protocol in 1975.
5. Made education free for all up to university level as from 1977.

6. Devalued the Mauritian rupee in 1979 and in 1981 to reduce trade deficit.
7. Implemented the stabilisation and structural adjustment programmes of the International Monetary Fund and of the World Bank, beginning 1980s.
8. De-linked the Mauritian rupee from the Special Drawing Rights and anchored it to a trade-weighted basket of currencies in 1983 to encourage exports.
9. Signed a double taxation avoidance agreement with India in 1983.
10. Slashed the corporate tax to a uniform rate of 35 per cent in 1984.
11. Set up state-support organisations to assist manufacturers and to promote the Mauritian destination.
12. Improved air access into major European markets.
13. Liberalised interest rates fully in 1988.
14. Established a formal Stock Exchange in 1989.
15. Launched offshore banking in 1989.
16. Introduced a comprehensive offshore business legislation in 1992.
17. Established the Freeport zone in 1992.
18. Abolished credit ceilings in 1992-1993.
19. Enacted the Industrial Expansion Act 1993 to integrate the export-oriented industry and the import-substitution sector.
20. Liberalised all current and capital account transactions in 1993.
21. Suspended exchange control in 1994.

22. Reformed the tariff structure in 1994.
23. Allowed a foreign tax credit of 80 per cent on foreign source income derived from the offshore sector, as from 1996.
24. Opened the mobile telephony sector in 1996.
25. Set out the rules for Internet liberalisation in 1998.
26. Introduced Value Added Tax in 1998 to encourage investment instead of consumption.
27. Operated the Permanent Resident Scheme of 1999 to attract high net worth foreigners.
28. Supported the African Growth and Opportunity Act enacted in 2000.
29. Participated in the COMESA Free Trade Area launched in 2000.
30. Invested in the expansion and modernisation of the port as from the years 2000.
31. Restructured the sugar industry into a cane cluster during the years 2000.
32. Founded the Board of Investment in 2001 to promote and facilitate investment in Mauritius.
33. Adopted the Financial Services Development Act in 2001.
34. Operated the Integrated Resorts Scheme for high-class real estate properties as from 2002.
35. Created a new business city in Ebène in 2003.
36. Developed the seafood hub as from 2004.
37. Integrated the domestic and offshore banking business in 2004.

38. Enshrined the independence of the Bank of Mauritius in the law in 2004.
39. Introduced the Key Repo Rate in 2006.
40. Brought a series of business facilitation measures in 2006.
41. Introduced a flat tax of 15 per cent on both personal and corporate income in 2007.
42. Set up the Monetary Policy Committee in 2007.
43. Participated in the SADC Free Trade Area launched in 2008.
44. Applied fiscal stimulus packages in 2008 and in 2009.
45. Put in place a comprehensive Road Decongestion Programme as from 2009.
46. Implemented an Economic Restructuring and Competitiveness Programme in 2010.
47. Abolished taxes on interest in 2012.
48. Introduced the SME Financing Scheme in 2012.
49. Operated the new state-of-the-art international airport as from 2013.
50. Adopted the Business Facilitation Act in May 2017 to eliminate regulatory and administrative bottlenecks.

All these 50 measures set the stage for economic growth. Political and social stability also made valuable contribution to economic success. From MUR 982 million in 1968, gross domestic product at current market prices multiplied by 470 to attain MUR 461 billion in 2017. The Mauritian economy has shifted towards tertiary sector activity, which accounted for 76 per cent of national output in 2017. It is today well diversified with the services sectors as the main pillars of growth. The financial sector was underdeveloped at the time of independence when Mauritius had only five banks. At 50, the country has a sound and dynamic bank-centric financial sector, a modern financial market infrastructure and a transparent monetary policy framework.

A poor country with a per capita income of less than USD 200 in 1968, Mauritius has achieved the third highest GDP per inhabitant in Africa, amounting to USD 9,631 in 2016 (World Bank figure). According to the Africa Wealth Report 2017, Mauritians are the wealthiest persons in Africa with per capita wealth of USD 25,700.

Fifty years after lowering the Union Jack and raising its flag of freedom, Mauritius has a mostly free economy. It ranked seventh worldwide out of 159 countries on the 2015 Index of Economic Freedom of the Fraser Institute (Canada), and 21st out of 180 countries on the 2017 Index of Economic Freedom of the Heritage Foundation (United States). On the World Bank's Doing Business Index, Mauritius maintained its first place in Africa for 12 consecutive years. On the 2017-2018 World Economic Forum's Global Competitiveness Index, Mauritius was ranked first in Sub-Saharan Africa and 45th globally. And the island retained in 2017 its first rank in overall governance in Africa as it has, for 11 straight years, topped the Mo Ibrahim Index of African Governance, the four categories of governance assessed being safety and rule of law, participation and human rights, sustainable economic opportunity, and human development.

Since Mauritius fares quite well on these rankings, Africa looks at it as a model. Admittedly, we must not rest on our laurels nor cover up in statistics and in indices the problems that exist. But we can take pride in the achievements of a small island developing state that is often referred to as Africa's growth success story.

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Economists become interested in economic history when they pass the age of 50. Born two years after Mauritius gained independence, I do not yet have a passion for history. However, we cannot ignore the past and we need to learn from it to look into the future. To interpret the causes and effects of events that occurred a long time ago is the task of the economic historian. For my part, I have chosen the simple approach of sticking to facts and figures.

So this is not a history book. It is rather a short descriptive account of the evolution of the Mauritian economy from 1968 to 2017: the traditional economic pillars (sugar, textile, tourism, banking), the non-bank financial services (leasing, insurance, pension, stock exchange), the new and emerging industries (Global Business, ICT, BPO, Ocean Economy), the infrastructural development (transport, banking), the economic policies (industrial, fiscal, monetary) and the Welfare State (education, health, social integration). Each chapter ends with a chronological list of milestones in Mauritian history.

During the country's 50 post-independence years, successive governments have taken 50 economic steps that have fostered growth and shaped the development of Mauritius. Also worth mentioning are the numerous initiatives of the Bank of Mauritius to build the economy. All these have supported economic diversification between 1968 and 1982 (from a monocrop economy to industrialisation), economic transformation between 1982 and 1995 (thanks to structural adjustment and to financial liberalisation), economic integration between 1995 and 2010 (opening up the economy to the global competition) and economic moderation between 2010 and 2017 (drawing on the resilience of the economy to the global financial crisis). Of course, economic history is not a succession of turning points but one of overlapping phases.

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