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# How Mauritius' outward-focused economy survived previous shocks

By Harshana Kasseeah

29 Apr 2020

Mauritius is a small island nation located in the Indian Ocean. Like other countries, it faces drastic changes to its social and economic landscape with the appearance and spread of Covid-19.

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An additional challenge for Mauritius is that it is highly dependent on the global economy for food and for its core industries. Its small island economy rests on a strategy of being open to imports and exports. Given the small domestic market, being open gives the economy the opportunity to grow.

The country's core industries – tourism, financial services and business process outsourcing – all rely on business and customers from abroad. The services sector alone contributed around 75% to the country's GDP in 2019.

In 2018, exports were led by fish, clothing and sugar. Sugarcane occupies 85% of the country's cultivated land. Major markets for these goods were Europe, South Africa and Madagascar.

The current pandemic is bound to have an impact on the island's economy because of its outward focus. Most of its international markets have been hit, some quite severely, by Covid-19. Many countries have also suspended all international travel, which will affect the tourism industry.

This will have adverse effects on the Mauritian economy. The first estimates point to a GDP contraction of 3% to 6% in 2020.

This isn't the first time Mauritius has felt the effects of major shocks, but with prudent economic measures it has been able to pull through.

Fortunately, Mauritius has entered Covid-19 with some strengths, namely its well-diversified economy, relatively low unemployment, low inflation, strong social security safety nets and a strong financial sector.

## Previous shocks

Mauritius is often touted as an African "economic success story" because of these strengths, steady growth and stability.

This is a result of the country's outward-focused strategy. Following a period of protectionism – which helped to protect its growing local industries from external competition – it ensured there were few trade barriers and low customs duties. This allowed for a remarkable transformation from a mono-crop sugar producer to a leading sub-Saharan Africa exporter of manufactured goods. It meant Mauritius rose from a low income economy to an upper middle income economy in a relatively short span of time.

But being reliant on external markets also means being exposed to external shocks. Over the past 15 years Mauritius has experienced a range of shocks which resulted in high inflation and surges in unemployment.

In 2005, a major export shock came when an arrangement called the Multi-Fibre Arrangement ended. This had given Mauritius preferential access to European Union and United States markets. Mauritius couldn't compete with low-cost Asian textiles and clothing. As a result over 25,000 people lost their jobs.

One year later, Mauritius experienced its first sugar shock when the EU lowered sugar prices by almost 36%. This sharp cut had a significant impact on the country's foreign exchange earnings. The situation was further compounded when the EU abolished quotas in 2017.

Shortly afterwards, the 2007-2008 world food crisis led to large increases in the price of rice, wheat and maize. Mauritius, which currently produces enough food for just 25% of the country's needs, could not meet local demand for staples, such as rice and wheat.

In addition to this the 2007 global financial crisis dealt severe blows to the textile and tourism sectors.

## Outward focus

In the context of this pandemic, there are major concerns for some of Mauritius' key industries.

Mauritius is highly dependent on its tourism sector: tourism contributes 8.6% to the country's GDP and about 30,000 people were directly employed by the sector in 2018. There are also many related businesses, such as souvenirs, taxi services and restaurants, that rely on it.

But tourists are predominantly international. And with no visitors coming in from abroad because of the pandemic, there will be a major impact on the country's economy and employment.

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Another concern is not having enough food. Mauritius imports around 70% of its foodstuffs. For instance, in 2018, it is reported that Mauritius spent $1.1bn on its food imports. This includes basics such as rice, flour, wheat and cooking oil.

Most of these goods come from France, South Africa, India, Australia and New Zealand. To my knowledge, export bans haven't yet been imposed, but there's a real fear that food supply chains may be disrupted. In addition, the Food and Agriculture Organisation of the United Nations has already warned that an imbalance between food supply and demand could result in price spikes and increased price volatility.

## Overcoming shocks

Nevertheless, Mauritius has faced adverse situations before and overcome them. This can be attributed to the country's macroeconomic, political and socio-economic stability.

Shocks were dealt with through a mix of monetary and fiscal easing. For instance, a stimulus package was introduced in 2008 to protect vulnerable sectors and prevent job losses from the global economic downturn. It provided direct support to companies to help them ride out the storm of the financial crisis.

The government introduced a work-mix training programme to prevent layoffs. Workers worked some days and attended training programmes on others. A government fund reimbursed employers for the days workers were in training.

Mauritius also used diversification as a tactic to overcome shocks.
For instance, reeling from the end of global textile quotas and reduced sugar prices in the European Union, Mauritius became a financial centre, focusing on cross-border investment, cross-border corporate banking and private banking and wealth management. This is a core part of the Mauritian economy, contributing almost US$1bn to GDP (8% of the total) and more than 11,000 jobs.

Because of this diversity, in spite of the Covid-19 lockdown, there are still sectors of the economy which are operating on a reduced capacity or on a work from home basis. These include banking and offshore services.

Policymakers in Mauritius have been pro-active in dealing with the difficulties that arose with the lockdown.

The finance ministry introduced a wage assistance scheme for employers and a self-employed assistance scheme. In addition, banks will provide a moratorium of six months on capital repayment for existing loans for those affected by Covid-19.

One big concern is over food. The country has never really experienced drastic food shortages or food shocks. Following the food and financial crisis of 2007-2008, the government implemented strategies to foster local production and reduce dependency on imported food commodities. But despite many incentives to encourage agribusiness, these measures haven't worked and the country is far from self-sufficient

Despite these challenges, Mauritius has proved its resilience in the face of external shocks and has entered this situation with some key strengths which should help it weather the worst of the storm.



## ABOUT THE AUTHOR

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