

**Scenario Building Series No. 4, November 2004**

*"Two roads diverged in a wood and I-- I took the one less travelled by,  
And that has made all the difference", Robert Frost*

# **Competitiveness Foresight**

## **What orientations for Mauritius?**

A Discussion Paper



9 November 2004

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## **1 Foreword by the Minister**

We are being swept by globalisation: our future as a sugar producer is exposed to world market conditions, our textile and clothing industries are being placed under powerful competitive pressures and our high value tourism has got finite limits. This is the time to find the key to our puzzle.

However we cannot look in the rear-view mirrors for orientation. We cannot try to solve our problems with the same kind of thinking that created them. Instead of hanging on to the traditional protective nets, we need to be prepared to seize opportunities. When one door closes, others open. We should not look too long and too regretfully on the closed ones that we do not see the ones that open for ourselves. This is a moulting time.

I am given to understand that, among the participants in the very thought-provoking Competitiveness Foresight, a shift away from our traditional approach has been noted. However this new approach is perhaps not as deep and widespread as it should be to really move forward. It is therefore essential that a national debate, involving key stakeholders and the Mauritian citizens at large, be started. This is a time when hearts and minds count for so much.

To rebuild that tiger effect which helped us to make our name, we need a different set of priorities. To equip ourselves for the long term, to commit ourselves to constant innovation and enhanced performance, we need a new entrepreneurial spirit. Most of all, we need to trust ourselves. This is a time to put the future on our side.

Sangeet FOWDAR  
Minister of Training, Skills Development,  
Productivity and External Communications

## **2 Preface by the Chairman**

Competitiveness is a multifaceted concept, which can be tackled at various levels: country, industry, firm and individual.

Since the NPCC became operational in May 2000, it focused initially on the lowest common denominator, namely the individual as citizen, in order to achieve its vision of a Better Living for the Nation. This bottom-up approach of involving the grassroots in identifying problems and solutions in making Mauritius more productive culminated in the organisation, in January 2001, of Maryé Piké Nou Avansé, a think tank exercise which brought together policymakers and grass roots. Several recommendations were made, and many have since been implemented, some as a direct result of the setting up of a Productivity Committee (PC) on National Integrated Strategy (NIS) under the chairmanship of the then secretary to cabinet, Mr. L. Ramsamy.

Two years later, in January 2003, learning from the experience gained in the development of a productivity culture through the Muda-Free Mauritius Campaign, the NPCC produced a three year strategic paper, "Laying the foundations for a competitive future". The promotion of innovation and scenario building were among the eleven agenda items identified as the main thrusts over the next three years.

In this context a National Innovation Summit was organised in September 2004. One of the themes was "Finding new sources of competitiveness". A pre-summit working group came up with a series of questions that were discussed at the Summit. Given the complexity of the issues, no clear answers were forthcoming. It was therefore decided to organise a competitiveness foresight, i.e. to build alternative scenarios with respect to enhancing the competitiveness of Mauritius. For maximum value added and to ensure unfettered out of the box thinking, the discussions were held in camera with a group of knowledgeable persons invited by NPCC, NESC, and JEC. Thus, the NPCC provided a platform for the discussions and acted as a synergiser by bringing different stakeholders to think together for the future of Mauritius, awakened stakeholders to new ways of thinking and assisted them to act as a think tank to come up with ideas. To facilitate and guide the process, Mr. P. S. Mistry was invited to share his wide experience gained as an investment banker and consultant.

This paper presents the main ideas generated during the discussions spread over three days and, contrary to Marye Pike, is a top-down exercise related to country competitiveness. It is the fourth publication in the Scenario Building Series.

The views expressed here are not necessarily those of NPCC or of the other organizations, but represent rather the interrogations and deliberations of a group of stakeholders. Indeed, it was found that there is no easy answer. But a paradigm shift did take place during the debates and it is important that the rest of the population be aware of the future orientations open to us and the fact that there cannot be gains without pain. Hence, this paper raises more questions to which answers will have to be worked out by dedicated task forces, once a consensus is arrived at on the general orientation.

The NPCC would like to thank the Joint Economic Council and the National Economic and Social Council for inviting the private sector and the civil society to this exercise. The participants have devoted time and indulged in hard thinking to identify orientations for the future of Mauritius. We have tried to capture to the best of our ability all the different views and ideas expressed during the discussions. They may not have been reproduced verbatim, but we believe that the essence of the many interrogations is present.

May we also thank, last but not least, Mr P. Mistry, an international investment banker, who acted as facilitator, catalyst, guide and sometimes as the devil's advocate. He in fact offered us more than the five days of his invaluable time: he sparked off a considerable amount of ideas and debates during the sessions, and most importantly he dared take us on paths that were not trodden before, knocking over our certainties and our conventional ways of thinking. We wish to place on record our deepest gratitude to him.

We would also like to acknowledge the efficient support provided by NPCC staff<sup>1</sup> in the organisation and running of the brainstorming.

Jean-Noel HUMBERT  
Chairman  
NPCC

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<sup>1</sup> D. Appalswamy, D. Baguant, V. Goorah, R. Jutliah, D. Louise, F. Marechal-Charlotte, S. Mathaven, O. Narod, N. Sukurdeep, B. S. Toolsy

### 3 Introduction

#### 3.1 Why the Competitiveness Foresight?

One of the sessions at the National Innovation Summit, organized by NPCC on the 8 and 9 of September 04, had as theme: “Finding new sources of Competitiveness”. More questions were raised than answered and, hence, one of the conclusions of the Summit was to hold more targeted discussions on each of the themes. Since competitiveness falls within the ambit of NPCC, the Council had decided to follow up the Summit with a first roundtable discussion on the questions with respect to new sources of competitiveness, namely:

- a. *Have we reached the limits of our production possibilities?*
- b. *What type of innovation is required to take us on a high-growth path?*
- c. *Do we have enough competencies to identify the new sources of growth?*
- d. *Do we have enough resources to support new sources of growth?*
- e. *How do we make Mauritius more attractive to the outside world in the new environment?*
- f. *What are we willing to trade-off to have higher growth?*

Since these questions are of national importance and demand a holistic approach, it was considered essential to elicit and secure the views of the NESC and the JEC, reflecting the full participation of their respective constituencies, i.e. civil society and the private sector.

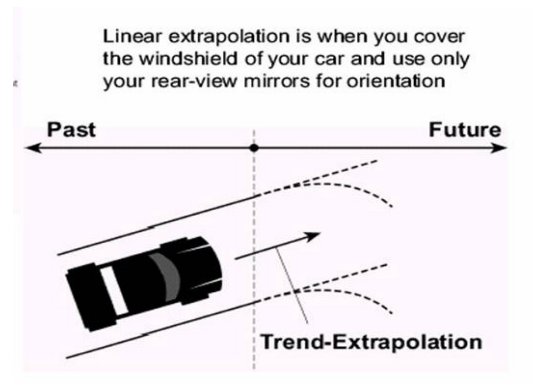
Thus, the National Productivity and Competitiveness Council (NPCC) and the National Economic and Social Council (NESC) jointly organized a Competitiveness Foresight - a round table discussion to come up with alternative scenarios for Mauritius - at the *Domaine les Pailles* from the 21<sup>st</sup> to the 23<sup>rd</sup> of September 04.

The number and composition of participants were as follows (full list of participants is at annex 1):

- Public sector – 17
- Private sector – 27
- NESC stakeholders – 12
- International organizations – 4

#### 3.2 What is foresight?

Foresight is based on the philosophy that future developments are contingent on human actions and decisions. Foresight is not a process of forecasting the future but rather an attempt to explore the space for human actions and interventions to shape the future. Foresight is aimed at producing orientations rather than predictions; it provides guidance



to all actors and reduces uncertainty. It includes multiple perspectives, multiple actors and multiple disciplines on different levels of governance. It is focused on opportunities and risks alike. It emphasizes the interrelations between the technological, economic, social, political and cultural sector of society.

### **3.3 The Roundtable discussions: Aims and Structure**

The round-table discussions were not an exercise to look at what went wrong, but rather to look ahead to sketch the outlines of where Mauritius could go and what paths were open to it to reach alternative destinations. The main aim was to come up with answers to the six questions raised at the Innovation Summit, more specifically to attempt to find answers to our key challenge today:

**With Mauritius' future as a sugar producer looking bleak, powerful competitive pressures being placed on textiles and garments exports, OECD placing limits on financial sector competition, and finite limits on high value tourism, what should the island's strategy for growth and development be for the next 10 years and beyond?**

The round-table discussions involved bringing together the right people and audiences to participate and contribute to disciplined, sharply focused brainstorming and deliberation with the assistance of an independent facilitator, Mr Percy Mistry, former Senior Financial Advisor to the World Bank, a merchant banker, and presently chairman of the Oxford International Group, a UK-based private equity investment firm which also provides strategic advisory services to governments, multilateral institutions and global corporations on economic policy, macro-financial issues, debt management and investment in emerging markets.

The discussions focused on the following themes: (a) Future economic interests of Mauritius, (b) Mauritius as an International city-state, (c) Foreign policy, (d) Global/Regional integration and (e) Mauritius as a Provider of global services.

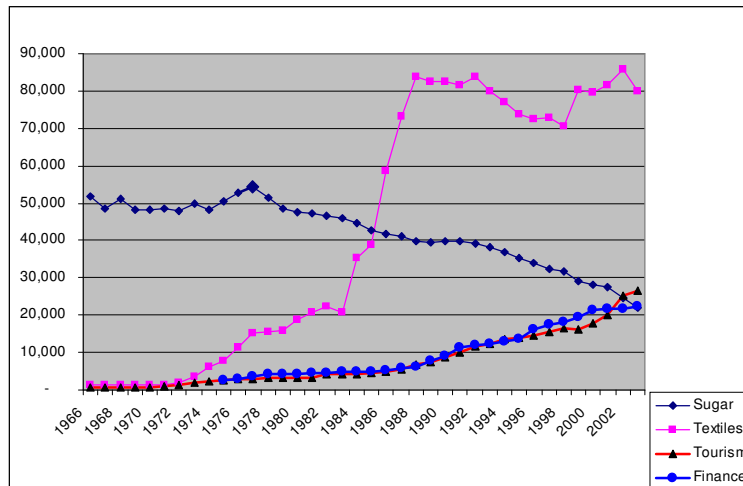
## 4 Background

At the National Innovation Summit, it was demonstrated that if innovation does not take place, decline inevitably sets in. (See Annex 2) Innovation is an important factor determining productivity growth and competitiveness of enterprises. Country competitiveness depends very much on the firms' and industries' competitiveness. Compared to other successful and competitive countries, e.g. Malaysia and Finland, Mauritius has not been doing very well in terms of innovation. (See Annex 2) Therefore, although the present economic situation of Mauritius is not dramatic, its trajectory raises concerns about building the solid foundations on which to improve our future competitiveness in order to secure sustainable growth in our income and standards of living in the context of greater globalisation.

### 4.1 Overview of the Mauritian economy

The engines of growth of the Mauritian economy have been, at different periods: sugar, textiles, and to a lesser extent tourism and offshore financial services. But they are now showing signs of running out of steam (Figure 1). While sugar's contribution to the national economy in terms of both job creation and value added has been declining since 1980's, garment manufacturing is also going through a downturn. Tourism is still growing, but not at the same rate as in the past. Other sectors have yet to take off in terms of job creation.

Figure 1: Employment by sector



### Unemployment trend

The greatest challenge confronting Mauritius is to lower the level of unemployment, which stood at 10.2% in 2003 and which has been increasing steadily for the last decade.



## **Macroeconomic indicators**

An analysis of Table 1 reveals (i) that Mauritius has enjoyed a growth rate averaging 4-5% per annum, (ii) the inflation rate has been kept under control, (iii) per capita income and (iv) total exports have been steadily increasing. On the downside, the budget deficit as percentage of GDP (around 6%) has been quite high and this, if not corrected, may lead to a dire financial situation, compounded by the high and growing level of public debt.

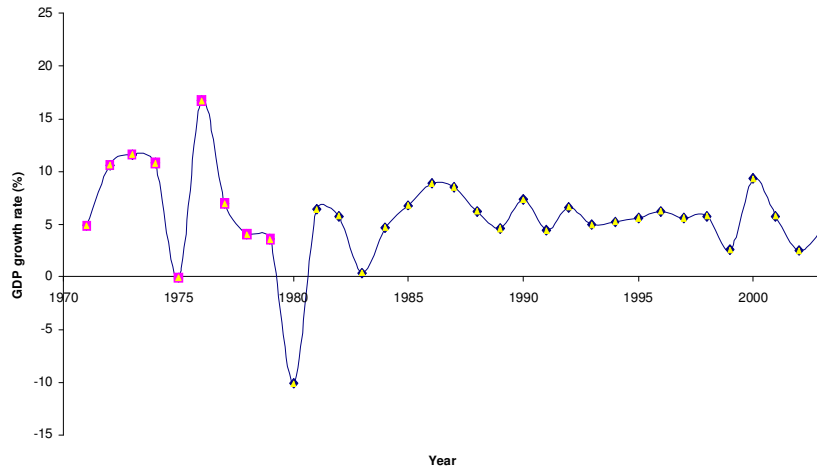
**Table 1: macroeconomic indicators for Mauritius (2000-2003)<sup>1</sup>**

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Population (000)	1,186.9	1,199.9	1,210.2	1222.8
GDP at market prices (Rs M)	119494	132092	141903	156906
Per Capita GDP (Rs)	100,677	110,086	117,256	128,317
Growth rate of Per Capita GDP (%)		9%	7%	9%
Real GDP Growth Rate (%)	9.3	5.8	2.5	4.4
Inflation Rate (%)	4.2	5.4	6.4	3.9
Budget Deficit (% GDP)	3.8	6.7	6.0	6.0
Internal debt (% GDP)	39%	40%	47%	55%
Total public Debt (% GDP)	65.8%	64.4%	70.5%	80.5%
Debt Service (% exports)	7.9	9.8	8.4	8.2
Gross Domestic Fixed Capital Formation (% GDP)	26.9	25.4	25.9	26.2
Foreign Direct Investment Inflows	276.8	11.5	27.6	5.1
Unemployment Rate (%)	8.8	9.1	9.8	10.2
Trade				
Total Exports (Rs M)	40,882	43,628	43,022	54,164
as % GDP	39%	37%	34%	40%
Total Imports (Rs M)	54,928	57,940	64,608	66,384
as % GDP	53%	49%	52%	48%
Sugar Exports (Rs M)	5,544	8,557	8,529	8,430
as % GDP	5%	7%	7%	6%
EPZ Exports (Rs M)	30,961	33,695	33,502	32,052
as % GDP	30%	29%	27%	23%
Tourist Earnings (Rs M)	14,234	18,166	18,328	19,397
as % GDP	14%	15%	15%	14%
Ratio of imports to exports	1.34	1.33	1.50	1.23

The country has experienced a low growth (5% in 2004 instead of 7-8%), mainly because our traditional sources of growth and export income, Sugar-Garment-Finance-Tourism (SuGarFinTour), are running out of steam. In addition, some macroeconomic indicators are a source of concern. For instance, the rising Public Debt and Recurrent Deficit put at risk the maintenance of the welfare state. Social expenditure has risen from 10.7% to 15.1% of GDP (1985-2001).

<sup>1</sup> Source: CSO, IMF, World Bank

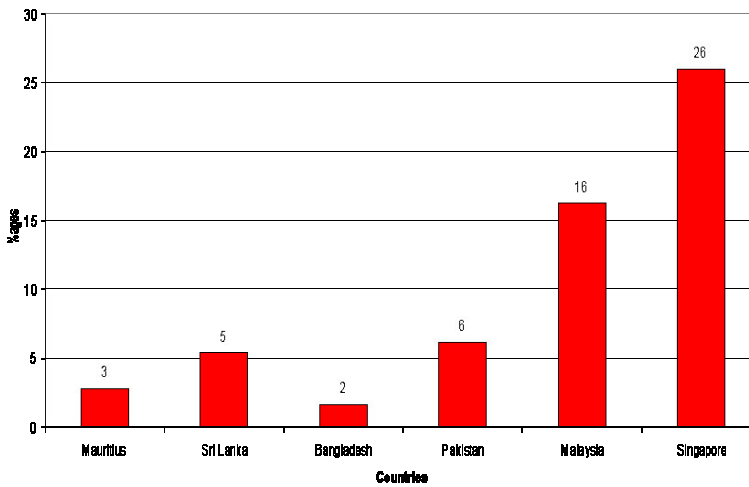
**Figure 2: Real growth rate, 1971-2003**



Since raising taxes to bridge the gap will reduce growth, the only option is to ensure a growth rate compatible with the aspirations and expectations of the population.

#### 4.1.1 Foreign Direct Investment

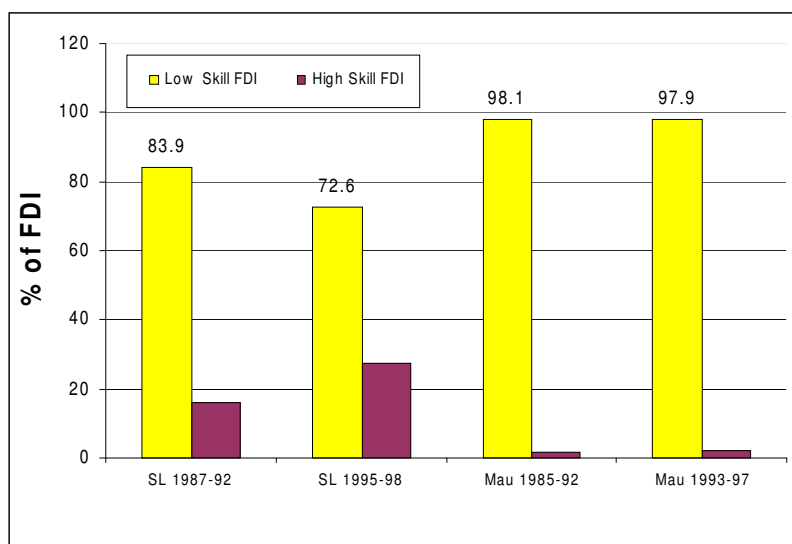
**Figure 3: Inflows as % of GFCF, 1993-99: Selected Countries<sup>1</sup>**



In the past years, Mauritius has been much less effective than other developing countries in attracting foreign direct investment (FDI). According to WTO assessments, this could be linked to the lower performance of existing sectors facing increasing production costs, as well as labour market rigidities, and the implicit protection of domestic business space.

<sup>1</sup> Source: Commonwealth Secretariat, *FDI Promotion in Mauritius and Sri Lanka*

**Figure 4: Low & High Skill Manufacturing - FDI in Mauritius & Sri Lanka (SL)<sup>1</sup>**



Comparisons of FDI performance with other competitors e.g. Sri Lanka, indicate that in Mauritius, FDI flows also been more focussed in reinforcing the low skilled jobs rather than moving upscale. Given the local context, Mauritius has been ineffective in attracting critical high-skill FDI to upgrade both our manufacturing base and allow new sectors to emerge.

## 4.2 External threats

### 4.2.1 Preference Erosion<sup>2</sup>

According to the International Monetary Fund (IMF), preference erosion refers to declines in competitive advantage that some exporters enjoy in foreign markets as a result of preferential trade treatment.

The success of the Mauritian economy has been largely dependent on preference treatments in the main export markets for sugar and textiles. Mauritius is beneficiary of several preference treatments from its key trading partners namely the EU, and the United States. Table 2 summarises the trade preference schemes that Mauritius enjoys.

**Table 2: Mauritius Trade Preference Schemes**

EU	US
Cotonou Agreement (formerly the LOME Convention)	African Growth and Opportunity Act (AGOA)- Wearing and Apparel Provision

<sup>1</sup> Source: FDI Promotion in Mauritius and Sri Lanka, Commonwealth Secretariat

<sup>2</sup> Source: IMF, Working Paper: *The Impact of Preference Erosion on Middle-Income Developing Countries*, September 2004

In a WTO driven world, the future competitiveness of the Mauritian economy is challenged by the erosion of these trade preferences and the emergence of low-cost competitors from which Mauritius is no longer protected by quotas and preferential tariffs.

The IMF believes that Mauritius is one of the economies that are most vulnerable to a fall in export revenues following the phasing out of trade preference treatments. This is because of its high reliance on sugar and textile exports (i.e. its undiversified export base). Mauritius is also exposed due to its high dependence on the EU and US markets and the high degree of preferences in these markets.

Sugar exports to the EU have benefited from the Sugar Protocol. But, following a recent WTO ruling triggered by complaints from Brazil, Australia and India, the Sugar protocol prices are most likely to decline with negative impact on the Mauritian economy.

The IMF study has calculated the percentage fall in export revenues for Mauritius under three different assumptions for export supply elasticities (e). These are summarised in Table 3.

**Table 3: Percentage Loss in Total Export Revenues**

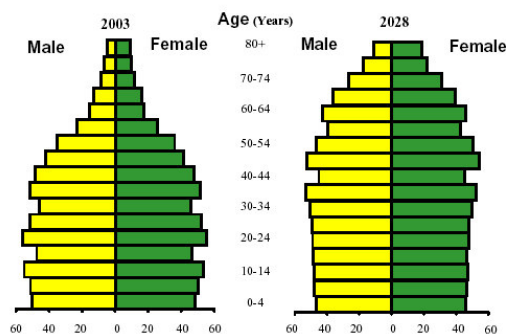
Elasticity	e=0	e=1.0	e=1.5
Percentage loss in total export revenues	-11.5%	-19.6%	-23.7%

### 4.3 The Ageing Population

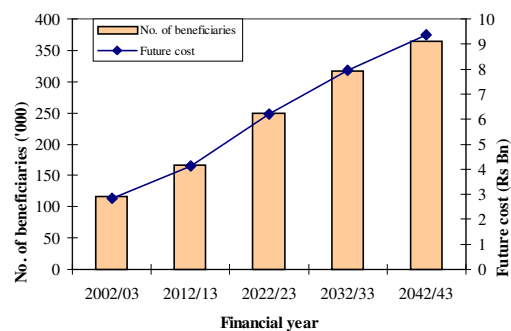
The rise in social welfare spending will result from the increase in old-age pension due to the ageing population trend on the island. Figure 5 shows the population pyramid for the year 2003 and the projected pyramid for the year 2028. As seen, the ageing population problem is expected to worsen in the future.

**Figure 5: Trends of ageing population and social welfare spending**

**Population pyramid ('000)**



**- Projected number of beneficiaries and future cost of BRP, 2002/03 - 2042/43**



**Table 4: Government Finance- Community and Social Services (Rs M)**

	<b>2000/01</b>	<b>2001/02</b>	<b>2002/03</b>
Education	4,357	4,755	5,588
Health	2,547	2,884	3,151
Social Security	6,160	6,698	7,012
Others	2,430	3,747	4,142
<b>Total</b>	<b>15,494</b>	<b>18,084</b>	<b>19,893</b>
<b>As % of GDP</b>	<b>13.2%</b>	<b>14.4%</b>	<b>14.5%</b>

Government expenditure on welfare is also expected to rise due the higher spending on education and health care services because of the Government's human capital development programme.

#### **4.4 Regional groupings**

Mauritius is also signatory of four regional groupings namely the Common Market for Eastern and Southern Africa (COMESA); the Southern African Development Community (SADC); Indian Ocean Commission (IOC); and the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC).

The main objective of engaging in these groups is to enhance cooperation among member states on the economic front and trade relationships. Members also try to make maximum use of natural resources of other member countries by investing in the opportunities for extraction and downstream processing (value-addition) offered by them.

Under the COMESA, (Common Market for Eastern and Southern Africa), Mauritius enjoys tariff-free trade with 8 other African countries and reduced-tariff trade with 11 others. The COMESA comprises 20 member states of Eastern and Southern Africa with a total population of about 385 million. These member states are: Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe.

Mauritius has adhered to seven SADC Protocols, including a Trade Protocol. The latter is operational since 1st September 2000 and paves the way for a phasing out of a minimum of 85% of tariffs as from that date and within eight years, and all tariffs by 2012. A free trade area is expected to be created by 2012. The SADC was established in August 1995 with a view to enhance the standard and the quality of life of the people and to make the maximum use of natural resources of its member countries. SADC groups 14 member states, namely Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

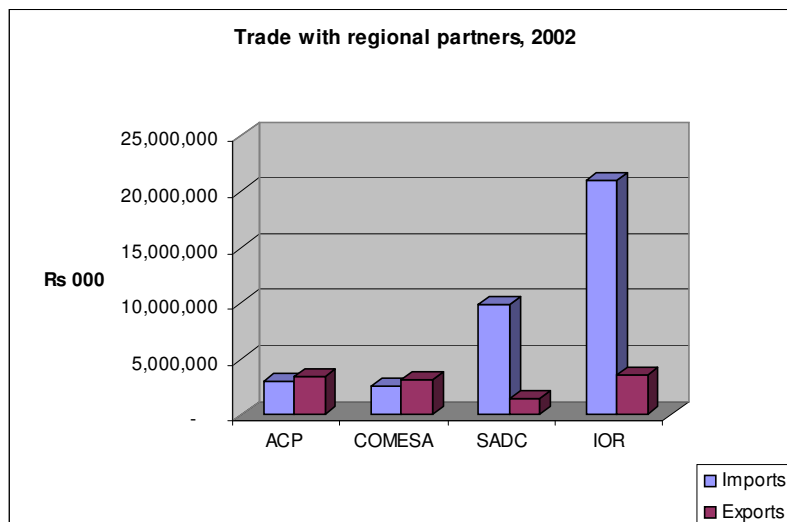
The Indian Ocean Commission includes Madagascar, Seychelles, Comoros, Reunion and Mauritius. The objective of the IOC is to enhance cooperation among member states on a range of fronts, mainly diplomatic, economic, cultural and scientific

cooperation. Among other achievements, customs duties have been removed reciprocally in Madagascar and Mauritius on originating goods under the aegis of IOC.

Mauritius also forms part of the Indian Ocean Rim - Association for Regional Cooperation. Established in 1997, this association's objective is to establish a regional framework for improving trade relationships among member countries. There are 18 members, totalling a population of over 1595 million: Australia, Bangladesh, India, Indonesia, Iran, Kenya, Madagascar, Malaysia, Mauritius, Mozambique, Oman, Singapore, South Africa, Sri Lanka, Tanzania, Thailand, United Arab Emirates and Yemen, with Egypt, Japan, China, UK and France as dialogue partners and the Indian Ocean Tourism Organisation as observer.

However, as seen in Figure 6, Mauritius has a substantial negative trade balance with the member states of the two major regional groupings, namely SADC and IOR.

**Figure 6: Trade with regional partners, 2002**



## 5 What orientations for Mauritius?

Given the above background, it is believed that some new orientations must be worked out if the living standards of all Mauritians are to be continuously improved. Where should the country go, how do we get there, what are the potential obstacles and what are we willing to trade off? These are some of the questions that have to be answered.

### 5.1 The Vision

Theoretically, it would appear that Mauritius has only two options:

- It can tinker at the edges and hope to grow at around 4 % by pursuing the economic agenda that was put in place under the structural adjustment programme. This would be equivalent to stagnation; tantamount to jobless growth, leading very fast to recession.
- Or we can choose to grow at 7-8% per annum. Growing by 7-8% per annum will lead to doubling per capita GDP by 2014. (See Figure 7, Table 5) In other words, we should be aiming, by 2015, for a GDP of US\$ 10-11 billion and GDP per capita of US\$ 8,000 – 10,000 as compared to US\$ 4,000 today.

Figure 7: GDP Trend under 2 Scenarii

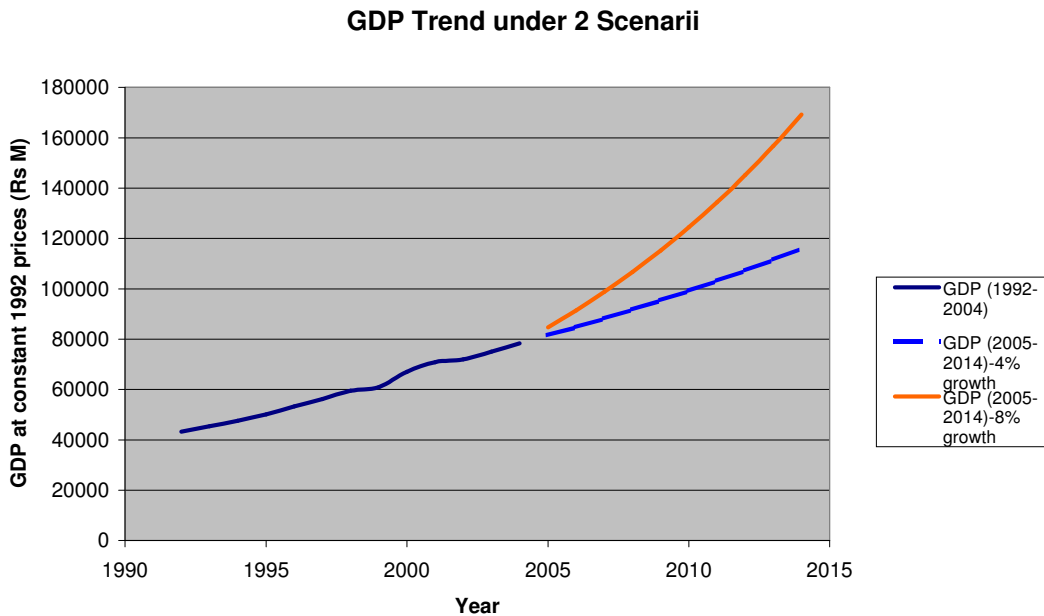


Table 5: GDP per capita under different scenarii of economic growth

Average Annual Growth rate (%)	3	4	5	6	7	8
Year where 2003 GDP per capita doubles (Population growth of 1% per annum)	2039	2027	2021	2018	2015	2014

To achieve continued increases in income and standards of living commensurate with Mauritius' achievements since 1982, and in order to assure the future political and social sustainability of the island's unique heritage of inter-racial harmony along with its model of social justice, Mauritius needs to be a competitive, market-based economy that should aim for at least 7-8% growth per annum. Without such a level of growth Mauritius will find it increasingly difficult to deliver on its commitment to social justice and equity. We cannot have growth without equity because growth becomes politically and socially unsustainable if its benefits are captured only by the business elite. But, by the same token, the broad population of the island and its civil society must accept the reality that Mauritius cannot have equity and social justice without a high level of growth for the simple reason that the public budgetary costs of delivering equity and social justice become unaffordable. The kind of Welfare State that the broad majority of Mauritians want is sustainable only if as a nation we ensure a real growth of 7-8% or more per annum.

How do we achieve this vision? What are the potential constraints? What should be the objectives? Who should be the drivers? Is there any option other than to be more open, realising that such openness may result in Mauritius becoming an international city-state? Becoming an international city-state does not automatically mean Mauritius becoming a soul-less concrete jungle. It can still be a garden-city state with large rural spaces, provided its planners and policy-makers pay attention to the preservation of its environmental and cultural heritage.

## **5.2 Rationale for openness**

As suggested in section 4, Mauritius is now in a situation where the economy is emitting several signs of approaching distress i.e. slowing growth, growing unemployment, a widening fiscal deficit, increasing internal and external public indebtedness, growing bureaucratic inefficiencies, relatively uncompetitive domestic private enterprises, and an increasing welfare cost burden -- all pointing to the clear unsustainability of the present strategic trajectory depending for a living on the four pillars of sugar, garment, tourism and financial services (SuGarFinTour).

Exacerbating these internal distress signals of Mauritius is the fast evolving international context with new rules and new players coming onto the scene: the end of quotas and preferences, a trading regime increasingly WTO-ruled, intense competition in traditional sectors from other low cost economies, (i.e. large ones like China and India with their own massive domestic markets to sustain their industrial engines as well as smaller but competitive ones like Bangladesh, Sri Lanka and Vietnam), the failure of regionalism to provide Mauritius with growth options (although it may provide options for Mauritian firms to invest elsewhere regionally), the increasing globalisation of the world economy especially of world finance and world trade, and the growth of business process outsourcing (BPO) made possible by rapid changes in information and communication technology (ICT) as a new phenomenon in the global reorganization and redistribution of economic activity.

The questions that arise from the above analysis are: Has the response of Mauritius to globalisation been inadequate as it tried to adhere to its strategy of relying on protected markets to grow (Sugar and Garment)? How does Mauritius cope with the



new situation? What options does it have? Does it really have an alternative to complete openness? Is the future in services, rather than in manufacturing or agro-industry? Finance-Tourism can provide continuing mainstays for the future but they are support pillars not 'high-growth potential' areas.

Let us look at what has been tried in the past: In the years 1968-80 autarchic development based on notions of self-sufficiency within a closed economy was the major orientation. That clearly did not work because it led to virtual economic collapse and to the intervention of the IMF and World Bank in helping Mauritius to achieve fundamental structural change. Then in 1981-1996 it has been quite successful (more so than Africa and South Asia but less so than East Asia) with an approach of partial openness practised on an asymmetric non-reciprocal, selective basis (i.e. open on the export side for goods and services but closed on the import side for factors) emphasising the SuGarFinTour strategy. But in those years Mauritius has still remained 'effectively closed' to foreign investment (except on its own terms) and to foreign investors and entrepreneurs as well as to most foreign transnational corporations. Now its partially open asymmetric regime is also running out of steam. So what is left? Go back to being closed? Stick to a partial openness paradigm? Or go for more complete openness as a strategy to become and remain competitive in a globalising world?

### **5.3 Changing Direction**

In order to grow, it is clear that Mauritius must change its direction. Its 'competitiveness' in textiles/garments and sugar has so far been bolstered by quotas that provided preferential access to key export markets. Sugar has additionally benefited from a remunerative price, which is now under serious pressure, and the sector's scope for further development is quite limited. But, Mauritius has built up capacity and core competencies in sugar and garments that it might profit from if its firms invested in more competitive locations in the region or even further away. And that may provide the country with dividend and remittance income from overseas investments.

It does not, however, solve the more fundamental problem that Mauritius, now a relatively high cost producer, confronts in these sectors: that of sustaining a reasonable growth rate in an increasingly competitive environment and, for sugar in particular, limited scope for further expansion. It cannot hope to remain competitive only by making marginal improvement in productivity.

If that is the case are there other areas of manufacturing or agro-industries (e.g. high value horticulture) where Mauritius might be more competitive? Possibly; but has it enough domestic firms with core competencies in these areas? To make risks manageable, it will need to open itself to global firms with the available technologies and market connections. But Mauritius itself is too small a market for attracting inward investment in manufacturing or agro-industry. For inward investment to come to Mauritius, the island must be globally competitive in those areas of investment for at least the length of the life cycle of the large lumpy investments that need to be made in manufacturing and agro-industry to supply the global market.

Given its limited human resource base (whose current sophistication and expectations outstrip its current income generating capability) that wants to move up the income scale the main option for Mauritius (in a globalising economy that brooks no preferential treatment) seems to be in services where investment capital needs are lower and 'factors' (people, capital, ideas, networks) more mobile. Indeed it already relies on two pillars of services: offshore finance and tourism. It needs to expand those pillars and needs to develop new ones. Which ones?

#### **5.4 The new directions?**

If Mauritius' economic interests lie in newer areas that involve providing a wide range of outsourcing services that globalisation has created a need for, then which services should it focus on? Where do its comparative and competitive advantages lie? What are the implications for the human capital requirements that provision of such services necessitates? How should Mauritius address these?

##### **A. IT Enabled Services (ITES)**

The main options for increasing and diversifying sources of export income lie in areas where ICT/BPO is making rapid inroads (see Annex 3), as well as in transport services, and in potentially new areas of outsourcing such as the provision of global health and education services as well as global media and entertainment services. It needs to develop much larger and more sophisticated domestic construction capability to respond to the needs of its own real estate development as Mauritius transforms to accommodate globalisation and also to compete for construction contracts abroad (especially in Africa).

Apart from activity diversification Mauritius also needs to focus on market diversification. With its historical and cultural Franco-Anglo connections, Mauritius has been too reliant on preferential access to the EU through quotas, thus taking a market concentration risk that has now materialised. It needs to retain its presence in established EU and US markets through improved competitiveness and productivity. But it also needs to make efforts to enter the markets of the present and future i.e. India, China, East Asia, the Middle East and Central Asia. So strategically it needs to focus its attention on both activity and market diversification looking to anticipate and accommodate the future rather than succumb to its vicissitudes.

But it was generally agreed that there is no single big idea (other than the idea of openness) or new sector that will save Mauritius. The world is changing and in entirely different ways. ICT/BPO is changing the work scene and creating job location shifts and opportunities that Mauritius can capture or be bypassed. The main constraint is not resources or financial capital. It is attitude, human, social and institutional capital (Annex 4). Relieving those constraints requires greater openness to human capital, trade and finance.

## **B. Mauritius as an International City State**

Is there a niche for another international city state/entrepot in the Indian Ocean to play a role similar to that of Hong Kong, Singapore and Dubai? These city-states are different in many respects but similar in strategic outlook and the functional services they provide (freedom of movement of people, capital, knowledge, firms along with low taxation and light-touch regulation of economic activity) to the international community. Can Mauritius play a similar role? What does it need to do? What are the obstacles and transitional problems it will face? In Annex 5, some comparative indicators for Hong Kong, Singapore, Dubai and Mauritius are reproduced to show that each state has been able to forge its own development path. However, the other three states have outperformed Mauritius. Why? Should Mauritius aim to be an International City State?

An international city-state is defined as “a highly urbanized environment with exceptional infrastructure for transport and communications, an entrepot for trade, finance, ideas, people and networks, acting as a regional node that connects its region to the world credibly. It is a corporate state with minimal barriers to entry of human, financial or physical capital. In a word, an international city state is characterized by openness.”

Mauritius has the potential to become a city-state. There are however constraints linked to the political system and culture. The prevailing mindset is to control, to protect, to be inward-looking and to be closed to global human capital. Geography also does not favour Mauritius as it is a micro-dot in the Indian Ocean.

If Mauritius wants to become a successful ICS, it has to become more open by removing all barriers to trade, finance, and people. The whole island must become an EPZ – indeed, there should not be barriers internally between firms or industries. Its foreign policy would then have to be geared to connecting Mauritius much more closely to its geographic neighbours, (i.e. South Africa, India, and Australia) and to placing emphasis on new markets for its goods and services (i.e. China, East Asia, the Middle East and Central Asia) rather than remaining focused almost exclusively on maintaining its erstwhile colonial ties. Its health, educational and recreational facilities should be world class for two reasons: (i) in order to attract human capital of a calibre capable of adding value to its own indigenous human capital base; and (ii) to be competitive in taking advantage of the global BPO opportunities that are already emerging in these two key service sectors.

### **6 Key issues/constraints**

Changing economic trajectory is not an easy task, especially since a lot of people have got used to their comfort zones. Consensus has to be developed at the national level on the new destination before all energies can be mobilized to advance in that direction. Re-engineering the national economy entails some pain prior to enjoying the gains. What are the main obstacles that can prevent consensus building and the required paradigm shift?

Possible constraints on future growth could be (i) the political model of open democracy that is confrontational and divisive -- i.e. dysfunctional for Mauritius' purposes as a city-state that requires a unique combination of public and corporate governance -- rather than operating in a way that encourages unity and rapid consensus for resolving and moving forward on key issues of national interest; (ii) the IT, Transport and Telecommunication Infrastructure which is inadequate for the demands of a totally wired broadband society capable of making its living in a global world; (iii) the budgetary deficit that limits room for manoeuvre and constitutes a constraint that will become even more binding unless growth momentum is revived with a change in strategy and direction; (iv) cultural inhibitions on the part of every segment of Mauritian society which may obstruct greater openness; and finally (v) the absence of a vehicle for implementation.

## **6.1 Socio-political constraints**

To arrive at a shared vision for Mauritius, it is imperative that everybody should be able to voice his/her opinion without fear on the problems and future perspectives of Mauritius. Does this culture of open and constructive debate exist when the political competition model is based on patronage and clientelisme? Or has such an open political culture, so essential for the conduct of a properly functioning democracy, been diminished by a climate of implicit fear that speaking one's mind will result in punitive sanctions of one sort or another? If so, what kind of democracy does Mauritius really have? The prevailing political atmosphere and culture involves the government, the private sector and the civil society: everyone is perhaps equally responsible in bringing it to the present impasse. But apportioning blame for this state of affairs is not the point. It detracts from attending to the real question, which is: how to deal with and reverse or eliminate the now established mentality of clientelisme?

The political system encourages perhaps too much confrontation and conflict while competing for votes (completely disproportionate to the circumstances of a small island economy attempting to make its way and earn a living in a less benign world). Although it might be pointed out that all democratic systems function that way and leave it at that, the reality for emerging economies is that a functional democratic political system must also encourage constructive dialogue and rapid consensual problem-solving. This is especially true for an island that is smaller in size (and less flexible in capability) than a medium sized multinational corporation and one that faces a more demanding external environment than it did before. If one accepts that line of reasoning, and the premises on which it is based, then it becomes clear that urgent transformation is needed in the way politics is played out and the way that politics is translated into governance if Mauritius is to have a tenable future.

The questions that arise from the discussions are: Is there something wrong with Mauritian democracy if people are afraid to speak out and offer alternative opinions? Has the political system become so dysfunctional that it focuses too much on itself (hence the perpetual election mode) and not on the wider constituencies it is supposed to serve? Is there a nexus between government and the privileged traditional domestic private sector that makes Mauritius a reservation for established Mauritian companies with limited knowledge and insufficient capacity to make the adjustments and transformations that are necessary for Mauritius to succeed in a

WTO-driven world? If that is so, how must the political model be changed and the government-business nexus broken? What role does the bureaucracy (civil service), media and civil society play? Does Mauritius have the necessary institutional checks and balances to keep both the government and the private sector honest? What does one do about the deficiencies and how does one rectify them? Wouldn't greater openness solve some of these problems by opening Mauritius up to global standards of politics, market regulation and governance? Is there a need for a new social contract?

## **6.2 Absence of an integrated strategy**

Strategy development is currently not coherent and is done in a piecemeal manner. Mauritius has developed several separate segregated exigent strategies, which have in fact emerged in reaction to specific problems at different moments in time. In this approach, neither the economic interests of Mauritius nor the orientations for growth are defined. There is therefore a lack of integrated strategy. Thus, it is no surprise that the foreign policy is not fully responsive to the economic interests of Mauritius.

Moreover, there is no feedback mechanism to adjust and correct strategic or tactical direction when results are not being achieved. Moreover, the feedback mechanism to adjust and correct strategies when results are not being achieved is not very effective. The latter may be due to the culture of fear where people are afraid to provide negative feedback.

Even if we agree on broad macro-objectives or targets (i.e. GDP or GDP per capita), we are confused about how macro-desires translate into meso (sectoral / industry) or micro (firm / individual) targets or the meso / micro implications / consequences of our macro-desires.

It is unlikely, in the kind of world that is emerging, that there will be any single big idea or big industry that Mauritius can pick and choose in order to drive future economic growth. Almost all astute observers of the international scene (institutions like the IMF and World Bank as well as individuals who specialise in strategic thinking) now generally agree that relying on a strategy of 'picking winners' is a high risk (if not unviable) strategy even for the most sophisticated and competitive economies. For example, Singapore has been trying to find and pick new winners for the last two decades and has failed to do so. The world no longer operates in that fashion. ICT driven BPO is changing the nature of work and the global allocation of activities (and therefore patterns of international trade in goods and services) in dramatic ways that cannot be readily discerned or divined very far in advance.

Instead of the single new big idea, there will be several engines of future growth. But for these engines to produce output, goals must be set and a time frame for action agreed upon. There is a need for a roadmap for a competitiveness strategy. The most important thing is to create a climate in which successful people, as well as flexible enterprises and competitive industries (that do not require very large commitment of up-front capital) from all over the world are attracted to Mauritius in a 'natural' (i.e. in response to the stability and suitability of macroeconomic policies and

the overall business and socio-political climate Mauritius has to offer) rather than 'forced' (i.e. in response to selective incentives) manner.

### **6.3 Institutional Capacity**

There is a need for robust public and private institutions that have a strong capacity to formulate and implement globally competitive strategies. They represent the permanence of the State. Governments go but institutions are made to last and to ensure continuity. Institutions in Mauritius are not, unfortunately, improving their services because there is an absence of efficient feedback mechanism and there are too many institutions duplicating activities and sending mixed signals to investors. Private sector institutions also need to be restructured so as to integrate new emerging BPO sectors.

### **6.4 Lack of Entrepreneurship**

It was found that there is a general fear to take risks. Banks are awash with funds but are short of projects. This is why it is important to open up to foreign investors who have the projects and technology. They constitute effective and efficient vectors for transfer of technology and innovation. In that respect, it was pointed out that BPO started in India with foreign firms opening back offices in India. It was later that Indian firms joined the business.

### **6.5 Attitude/ Mindset towards openness**

A lot of resistance to the term city-state arises because people visualize it as turning Mauritius into a concrete jungle. Basically, the issue is not the physical shape of how Mauritius will emerge. It is more fundamentally a conceptual issue of openness. Openness has to be an intrinsic part (an underlying approach) of a strategy for achieving sustainable growth in a globalising world and not pursued as a philosophy or mantra for its own sake. But the major stumbling blocks to openness are the command- the control mindset of the public sector coupled with the basic social conservatism of all Mauritians, and the inherent protectionist proclivities of the domestic business elite that prefers to protect domestic business space for itself and is wary of sharing it with more knowledgeable and competitive foreigners. The main factors of resistance to openness are:

- An absence of genuine internal openness
- Fear of being swamped by foreigners
- Barriers (even for locals) to have access to resources
- Vested local interests resisting foreign competition
- Lack of meritocracy in the public and private sectors
- Lack of employment opportunities
- Reluctance on the part of government to relinquish control

Being open implies letting foreign companies in with minimal interference to expand new opportunities for Mauritius and to consider global firms as part of the private sector. Openness can only work if it is accompanied by a national consensus and

sense of purpose (state, private sector and civil society should be looking in the same direction) aimed at using it for the overall benefit of Mauritius and all Mauritians.

However, a key question that has to be investigated is: What can Mauritius offer the international business community at this stage of evolution of a rapidly integrating global economy and trading platform that Singapore, Hong Kong and Dubai cannot offer?

In some obvious but superficial senses Mauritius does have quite a lot to offer new businesses and high net worth individuals in the global economy and particularly in the ICT/BPO driven service industries. To begin with it is less expensive and more pleasant an environment climatically and culturally than any of those three other centres. It has an established open democracy and a commitment to the rule of law (in theory if not entirely in practice as yet). It is religiously diverse, multicultural, ethnically diverse yet socially harmonious and plural. It is relatively virgin territory for newcomers on the international global business scene and particularly appealing to less established entrepreneurs (but those with a very bright future) in the ICT/BPO arenas from source countries like India, Australia, Eastern and Central Europe, Russia and South Africa. And it is relatively easy for English-speaking people to communicate and establish themselves although it has the additional advantage of being bilingual and offering opportunities to tap BPO possibilities in the Francophone world. But it also has many disadvantages that need to be overcome in terms of some factors already mentioned (e.g. government attitudes and practices, social exclusiveness, inadequate infrastructure, and insufficiently diverse or sufficiently skilled human resources base etc.) and some that have not (e.g. fiscal and taxation policies, immigration policies and practices, etc.).

## **6.6 Changing Mental models**

The overtly nationalistic ethos (as perceived by foreigners) will need to be changed if a strategy of openness/inclusiveness is to succeed. But with that ethos, how does the political system cope with selling to all Mauritians a vision of openness to all-comers as the only real guarantee for achieving cutting-edge competitiveness and assuring prosperity in the future? What selling strategy needs to be woven with what strands of thought? How can Mauritians be convinced that openness is not a threat to their existence or identity but an opportunity to secure their future and that of their children? What national debate and dialogue needs to take place for a transformation that involves profoundly more than simple policy change? That fundamental issue needs to be tackled openly but sensitively.

## **6.7 Human Resources**

Mauritius is suffering from a severe brain drain. Its best brains prefer to live and work abroad rather than accept the constraints of a tight society in a small island economy. Many young Mauritians currently being educated abroad prefer to stay abroad with the perceived lack of opportunities for employment and for upward social and economic mobility in the public and private sectors.

At the level of management, there are not enough brains in both our public and private sectors. This has a negative impact on the current organisational performance and overall productivity and innovativeness (as well as the propensity to take risks) on the part of individuals and society in Mauritius who are outside established and entrenched business families. Meritocracy and internal openness should be improved so that we can make better use of our indigenous human capital. In that sense the absence of sufficient openness (internal and external) is actually already hurting Mauritius because it is creating the kind of perception that prevents its own home-grown talent from being effectively utilised in its own space.

It was identified that in terms of policy and in terms of laws rules and regulations on the books Mauritius already has quite an open environment for attracting foreign brains and high-level skills. However, in practice, the behaviour of officials and managers, in both the private and public sectors is, not conducive to support this openness. In other words, the climate may be good but the weather is inclement.

## **6.8 Marketing**

One of the causes for the lack of penetration of Mauritian products in the regional markets may be that Mauritius is not producing what the regional (i.e. mainly East African and IOC) market wants. The main imports of these regional markets are oil, capital and intermediate goods and not necessarily the kind of consumer goods (especially fashion and couture garments of a high price and quality aimed at much richer markets in Europe and North America) that Mauritius specialises in producing; although the regional market does import an array of other cheaper consumer goods from Europe, India and China. Thus, market knowledge, as well as the congruity of the match between regional market demand and Mauritian supply, needs to be improved.

Clearly regional markets import a vast quantity and array of services (transport, finance, construction, healthcare, education, vocational training, ICT/BPO, consulting, advisory and technical assistance) that Mauritius could ostensibly provide quite competitively; and there may be a large market in these export services that Mauritius has not yet exploited even a fraction of the potential that exists.

But many of these services are financed by official aid flows that favour sources of supply (even if more expensive and less efficient or appropriate) from donor countries. For Mauritius to tap into the market potential for these services it needs to both: (a) improve its own capabilities and capacities in these areas – and they also entail utilising ICT/BPO capabilities in one form or another; and (b) develop triangular relationships with aid providing donor countries (especially in Europe) that permit Mauritian suppliers to bid for providing such services even though they are donor financed. That is a difficult market to break into, dominated as it is by a large number of specialist consultants tied in one way or another with bilateral and multilateral aid agencies. But the task is not impossible and needs further application of effort.

There is a need to have focused group(s) to work on the strategy for branding Mauritius as a source and not as a specific product/service supplier. Mauritius is not adequately visible in the international arena (i.e. it does not have the same generic



brand image appeal as Singapore, Hong Kong and Dubai as yet) due to the sectoral mindset that so far has led institutions to promote their specific products, namely freeport, tourism, EPZ, financial services, etc, instead of selling the Mauritian label as representing excellence, whatever be the field.

## **6.9 Leadership**

Mauritius needs competent leadership in the public and private sectors with a clear vision combined with determined execution capabilities at all levels. The importance of leadership has been the theme of a recent speech by the new Prime Minister of Singapore. Since it touches on many of the issues that confront Mauritius today his speech is annexed for information. (Annex 6)

## **6.10 Foreign Policy**

Must Mauritius change its foreign policy focus to better reflect its future economic interests? If so which are the countries where its future commercial interests lie? Which countries that were important in the past are likely to be less important in the future? How should Mauritius' foreign policy change to reflect its new interests?

Mauritius has up to now been highly Euro-centred for obvious reasons. In the future, Europe may not continue to be our main market with the gradual erosion of trade preferences. Asia and other countries in the East have not been tapped and can become future important markets as well. The Indian Ocean Rim project seemed to have looked into this direction before.

Is it not time for Mauritius to look east and to strengthen its ties with India and China as well as with the regions and sub-regions that surround these two giant countries? Is Mauritian foreign policy adapting to the changing world environment adroitly enough or rapidly enough? Is there enough flexibility in the system to react to the new international challenges? Mauritius cannot afford to be everything to everybody. More focused priorities must be set.

In the new context that is emerging, Mauritius must be driven by a strategic vision that clearly identifies the relevant countries under different policy objectives, namely:

- Global Geopolitics: USA, EU, India, China, RSA
- Primary Self-Interest: RSA, India, Australia, EU, Middle East (IOR?)
- Immediate Neighbourhood: African Coast, Indian Ocean Commission
- Future Integration: EU (one proposal put forward was that some form of EU association or even eventual accession might be pursued); South Asia, Australasia
- Defence/Security: US (Chagos), RSA, India
- Labour Market Access: RSA, India, Australia, EU, ME
- Capital Market Access: RSA, India, EU, US, ASEAN
- Trade Access: Asia, EU, NAFTA, Africa
- Technology/Knowledge Access: India, EU, US, RSA

However, in defining a foreign policy aimed at defending the interests of the country, it is necessary to evaluate these four dimensions:

- Economic: Maritime Boundaries; Access to Finance, Technology, Labour Markets, Trade, Inward Foreign Investment, Inward Human Capital Flows, and Knowledge.
- Security: Protection of the sovereignty of Borders and Maritime Zones; Effective Exercise of Sovereignty; Risk Management
- Human, Social, Cultural: People-to-People Linkages with UK, France, India, China, ASEAN, Africa
- Global Network Access: Plugging into established emerging, evolving BPO and outsourcing intra-firm and intra-industry networks (finance, tourism, media, entertainment, manufacturing, IT, telecoms) as well as networks yet to emerge in new service areas e.g. global health and education services.

During the discussions, the point was made quite strongly by business community representatives that, where connecting Africa with the rest-of-the-world is concerned, South Africa may be more of a competitor than a partner to Mauritius. It was felt that South Africa is pursuing an aggressively mercantilist foreign policy to serve its own commercial interests regardless of the impact on its SACU or SADC partners. If Mauritius does not take that into account and pursue a similarly effective foreign policy designed and aimed at securing its own security and commercial interests it is likely to fail.

So what foreign policy should we pursue? There seems to be a weak linkage between the foreign policy objectives and the economic or security interests of Mauritius. Should the thrust of our foreign policy remain geared at keeping preferences and quotas alive for as long as possible and belonging to as many regional and global organisations as possible? But for what overall purpose?

To frame a more effective and targeted foreign policy and articulate/execute it, Mauritius must first decide on its overall economic strategy for the future. Is it going to be a strategy of continuing with the present state of affairs? Or will it be a policy of openness aimed at creating the best overall platform in the world for doing global or regional -- and in that sense regional could be African or the Indian Ocean Rim (i.e. involving India, Thailand, Malaysia, Singapore and Australia as well) – business for every transnational corporation or high-net-worth individual or entrepreneur/innovator in the BPO sphere from anywhere in the world? The answers to those questions will provide the framework for a more coherent, focused and better executed foreign policy aimed at serving Mauritian interests.

The discussion also yielded the idea of a multifaceted Foreign Policy Advisory Group involving senior leaders from the private sector and senior statesmen from present and previous governments.

## **6.11 Global / Regional Integration**

How has Mauritius' involvement in regional integration arrangements (SADC, COMESA, IOC, OAU-AU) and partnerships (the EU-Cotonou linkage) helped to further its economic and security interests? What have been the costs/benefits of

these arrangements? What expectations have been fulfilled or left unfulfilled by these arrangements? What kind of enhanced regional partnerships should Mauritius seek and with which countries to achieve greater gains?

Mauritius is a member of different regional groups. These groups have similarities as well as dissonances and there are costs associated with membership. A cost benefit analysis needs to be done in relation to the following:

- Extent of Trade/Market Penetration: Low intra regional trade.
- Extent of Financial Benefits: capital market access, ease of investment in the region.
- Extent of Labour Mobility
- Movement to Single Market – Rhetoric vs. Reality? Compare with ASEAN where there are no institutions but where intra regional trade amounts to 45% of total trade. In Africa, there are plenty of institutions. Is Africa more a production than a consumption platform?
- If the costs far outweigh the benefits, then the different options would have to be worked on.

Other important questions that cropped up in the context of regional integration are as follows:

**(a) Do these memberships impede relations with other trading partners: e.g. NAFTA, EU, ASEAN, and India?**

Firms have to decide where they have more to gain. While it may make political sense to link up with NAFTA and EU, the real growth markets are ASEAN, China and India. So, the question is whether the short-term expectations of Mauritius have been fulfilled from the Regional Integration Agreements (RIAs) in terms of enhanced trade, investment and labour mobility. Mauritius must also be clear about what it should trade off because it cannot expect only to gain without making concessions to the other parties. It should weigh the benefits of existing with potential partnerships, namely with EU, India/S.Asia, Middle East, ASEAN, China, Australasia. The Middle East seems to be a region that has been ignored by local business. Although Dubai is booming, there is no Mauritian presence. Why?

**(b) Is accession to EU an option?**

If Mauritius opts to maintain its present trajectory and go for 4-5% growth per annum, it could consider seeking accession to/association with the EU in the same way as Malta and Cyprus. What are the possible impediments to such an option? Although contiguous to Reunion, Mauritius is neither a British nor French dependency but an independent sovereign country that is nowhere near Europe. It has strong historical and cultural European and Francophone ties. But are they sufficient to justify economic union in the eyes of other members of the EU? What signal would such an option send to other members of the ACP?

Conceptually and theoretically, there is no good reason why some form of an association arrangement should not be considered by the EU. Given the size of the Mauritian economy and population, the EU would have little to lose by permitting a

very close form of economic association (if not complete accession) that assured unhindered reciprocal two-way mobility of people, investment, trade and capital flows and might perhaps even have something to gain by way of extending its geopolitical influence and reach well beyond Europe. But although Mauritius would gain by having access to a larger developed market and more opportunity for the employment of its population it would have some disadvantages: e.g. it would be opting to become a member of an economic union espousing social and economic policies singularly inconducive to global competitiveness; it would open itself up to an influx of managers and professionals from Europe who might displace or out-compete locals in particular jobs. At the same time it would impede the flow of similar high-level human capital from other source countries and regions: particularly from India, China and East Asia. All these pros and cons need to be thought through carefully before developing a position on this seemingly attractive theoretical option.

### **(c) What kind of partnerships?**

For a remote island economy like Mauritius relationships with global firms may be more important than with countries or regions in order for it to be plugged more effectively and seamlessly into the global trading as well as global production/marketing platforms. However, to be able to attract high-level human capital as well as financial capital from these sources and to tap into their global client service networks, Mauritius must ascertain what it can offer these firms and high net worth individuals (HNWI's) other than what other ICS offer and which are better than what they can obtain in their home country.

The option open to Mauritius is: instead of trying to work out all the costs and benefits of partnerships, focus on creating a propitious open ICS environment and leave the rest to markets, taking into account the budgetary constraints.

### **(d) Is the region a production or consumption platform?**

Some countries around us may be production platforms for Mauritian firms (e.g. Madagascar, Mozambique, Tanzania, Lesotho, Swaziland). Others may provide some possibilities for the consumption of products produced in Mauritius (e.g. South Africa, Botswana, Namibia).

But the opportunities offered by these regional possibilities are swamped by the production and consumption platforms of India and China. Regardless of what happens in Africa, it is likely that, in the coming years, with the further entrenching of the WTO-driven global trading regime, and the continued reduction of preferences and limited duration protection provided under globally approved (and compatible) regional arrangements, the global production platforms that China and India represent (with global TNCs establishing themselves firmly in both those countries to produce not just for the domestic markets of those countries but for export markets as well) will compete in the African (regional) market. Can Mauritius compete against these countries (as well as others such as Bangladesh and Vietnam in garments and Brazil for sugar) in its own regional market or wider global markets? Or should Mauritius and its firms seek to become an integral part of the emerging Indian and

Chinese global juggernauts by aligning itself with them as a useful BPO source and point-of-entry into the regional market?

### **(e) What roles do Regional Integration Arrangements play?**

There are clear costs involved in belonging to and being represented in all these organisations. But what are the qualitative and quantitative benefits in political and economic terms? If global openness is a strategy that Mauritius wants to pursue then what role do RIAs play? Do they help to globalise faster or do they impede progress towards openness? Are the RIAs that Mauritius is a member of likely to be the stepping stones or the stumbling blocks to achieving openness and global competitiveness? If openness is good shouldn't Mauritius open itself up unilaterally? In which case how would these regional arrangements help? It did come up in discussions at the roundtable that one way in which some RIA's help (e.g. SADC and COMESA) is in giving Mauritian investors preferential access and protection when they invest in other African economies. But do they? Do they lower or mitigate political risk? In fact the conclusion reached in the discussions was that the issue of RIAs was really a sub-issue concerning foreign policy and should be dealt with in that context.

## **7 Grey Area**

### **7.1 Is there a future for manufacturing?**

There are some conflicting views about whether there is a future for manufacturing in Mauritius over the medium-long term. In the short term, adjustments and restructuring have to be pursued. Manufacturing here refers mainly to manufacturing of garments and textiles, and sugar processing. The quest for being as competitive as possible in a line of activity that is already established and where Mauritius has market connections seems quite rational.

But there is a limit to how much competitiveness can be bought for how long simply through greater capital investment, better labour training and thus improved multi-factor productivity. Besides there is a large opportunity cost in devoting such additional investment and productivity effort to an activity that has a limited future (even if it is well established) when equivalent investment and effort could be devoted to new activities in which Mauritius might be more competitive and profitable over the longer term. It is a matter of efficient allocation of limited resources and of maximising returns on investments.

## **8 Some Elements for a Strategy**

The discussion brought out clearly that, if ITES were to become potential areas of opportunity for Mauritius, there was no alternative but to open up fully and adequately. The strategy of being selectively open to only the "right kind of companies", the "right kind of investors" and the "right kind of people" was an infeasible option even if one could begin to define what the "right kind" of any of these was at any moment in time. As with garments and quotas, what is "right" today would almost certainly turn out to be wrong for tomorrow. That does not mean the

wrong choice was made in the first place. It just means that what was once an opportunity has become a liability because of changing domestic and global conditions and circumstances. Choices have to be guided by the market forces at play.

The only real option therefore is to create an “open systems architecture” type environment in Mauritius that permits talent, ideas, capital, capacity and people to flow in and flow out without barriers in accordance with trends, technological changes, innovation and developments in global activities and markets. Resort to the previous methodology of attempting to pre-decide and over-determine what is good or bad may no longer work.

Instead of trying to come up with the next “big idea,” Mauritius should focus on creating a platform that is conducive to all ideas being put into action permitting them to succeed or fail on market terms as long as the risks were being taken by those who could afford them and knew how to manage them. In the brave new world of ITES Mauritian companies simply do not know enough nor are they plugged in to emerging global BPO networks. It is not an area of core competence as yet. It is a competence that will need to be developed. The easiest way is to import that competence by the expedient of openness and a comparative “platform” advantage.

For Mauritius to piggy-back on capturing a small fraction of the rapidly burgeoning global BPO market it will have to be totally open and welcoming to firms that want to use Mauritius as a platform without imposing any barriers to their entry, operation or exit. But to create the platform Mauritius has to reconfigure its own “systems architecture” and that is what it should concentrate on rather than trying to come up with a detailed grand plan that again attempts to define specific industries to be attracted and incentives to be provided. There is no place for a pre-deterministic approach in a future of rising uncertainty. One has only to ensure that all the necessary conditions are put together so that opportunities — including the unexpected — can be tapped to their very best whenever they arise.

Therefore, in working out the elements of a strategy, the main question that we must ask is whether Mauritius is competitive at the level of the :

- **Individual** – at all levels of the labour force
- **Firm** – small, medium, large in all sectors
- **Industry** – does “firm” competitiveness translate into “industry” competitiveness?
- **Country** – the determinants of competitiveness here are the Political system, Quality of governance, Openness or ease of entry and exit, Market functioning at the macro, meso and micro levels, Transaction at the domestic – global interface.

The answer is probably ‘No’ or ‘could do much better’ at all levels. So how to improve? We must clearly identify our arena for competition taking into consideration our size, our geographical position, our strengths and our weaknesses. The choice of Mauritius may be niche services. Which ones?

The temptation is very strong to target, even if just for illustrative purposes. What is desirable is not necessarily feasible, especially if the technical talent does not exist

locally. Hence, since pre-determinism may be difficult, the other solution is to let the market decide. However, it is important that the markets should function properly.

Government's role is to ensure that all markets (for factors - i.e. land, financial and human capital and knowledge, goods and services) work properly and are appropriately regulated. It can do so by:

- Practising openness which is reciprocal, non-selective, symmetrical
- Creating the best operating platform
- Developing a world-class regulatory capacity to ensure that competition is level and completely clean.

To make that move forward, the mindset that government drives development in all its many facets has to be changed to that where the role of government is to facilitate and support business, which should be the main engine of development and investment. Among the things that government will have to do are the following:

- It must reduce its high overhead cost
- Parastatals have to become efficient and results oriented or else they should be privatised and subsidies to them removed so as to force market discipline on them
- Space for discretionary application of unnecessary rules has to be shrunk to zero. Mauritius should refrain from seeing every event as a special situation and then create specific regulation, schemes and licences to manage the situation and then employ people for this. In this way, many unnecessary regulations can be curbed.
- To create the best operating open platform for all kinds of business ( whether manufacturing or services), Mauritius has to create the best regulatory capacity in each field and market. Open platform for manufacturing should be phased.
- Mauritius has also to create the capacity and mindset to cope with occasional market failures because markets will not always work as anticipated in Mauritius. Markets work best when risks are taken and managed. But that process requires that some risks will materialise and therefore that some failures will occur. In Mauritius there is too high a degree of risk aversion on the part of both domestic business houses and government. Failures are seen as something that should be avoided at all costs rather than being seen as part and parcel of the process of 'creative destruction' through which markets enforce discipline and encourage optimal outcomes in terms of rewards for competitiveness and efficiency.
- Mauritius has to eliminate the protective nexus/ collusive cartel to protect domestic space for traditional domestic houses and let them compete with other local houses and foreign firms on level terms in all areas. Mauritius has to open up land market and legislate to capture part of benefits of land development to go into a social fund and to create social housing.

The point was also made that the local private sector institutions will also have to restructure to respond the new situation created by the global context. Furthermore, the concept of private sector should not be restricted only to local firms but should also include foreign enterprises.

## 9 The Way Forward

A series of questions have been raised and the general consensus was that there are not two options open to Mauritius. If we want to keep our welfare state and deliver on political promises to meet the rising income and standard of living expectations of the population, then we have to target a growth rate that is above 7 to 8 per cent per annum. To achieve this we have to take some bold decisions, which will affect the social fabric. We will have to tackle the constraints enumerated in section 6 of this paper if we wish to refocus our strategy on services and especially ICT based BPO. It may also be worthwhile to develop the construction services sector (with domestic and export capability).

But to fully develop these options we can no longer rely on selective, asymmetric, non-reciprocal openness – we have to open up as an ICS. This raises immediately a series of issues that have to be addressed thoughtfully:

- What internal stresses and strains will such a change in orientation create? How will they be handled?
- For such a strategic shift in orientation to occur a painful transition will have to be undergone. What will that transition entail? How will it be financed? How will domestic dislocations be taken care of? How will political support be garnered? How will the Mauritian electorate be taken on board so that there is as near universal a societal consensus as possible that this change is necessary and positive (i.e. to be embraced rather than resisted)?
- What future will Mauritius face if this transition to openness is not made -- i.e. what are the costs of inaction?

In brief, multidisciplinary technical teams must be set up to:

- a) examine fully the consequences and work out the implications for opening up in terms of essential changes in policy and the administration of policy as far as the following are concerned: i.e. fiscal policy, monetary policy, exchange rate policy, immigration policy, urban development policy and FDI entry/exit policy, changes in government behaviour and business behaviour etc.
- b) outline a marketing strategy for selling brand Mauritius to the world as the best platform on which to undertake globally orientated ICT/BPO business, and
- c) to work out a roadmap for managing "the transition".



## Annexes

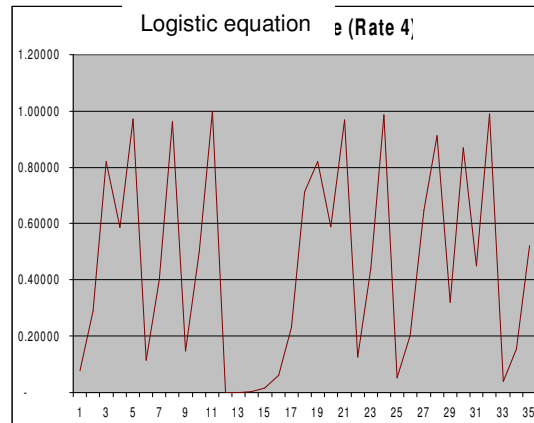
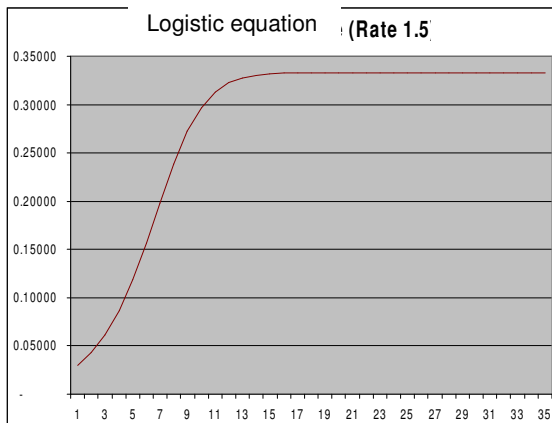
### Annex 1: List of participants

1	Mr	Y.	Abdullatif	32	Mr	R.	Mudhoo
2	Dr	J. C.	Autrey	33	Dr	R.	Ng Kee Kwong
3	Mr	V.	Bhowon	34	Mr	A.	Pellegrin
4	Mr	R. B.	Bhuckory	35	Mr	J.	Poncini
5	Mrs	D.	Brijmohane	36	Mrs	S.	Poonosamy-
6	Mr	M.	Cheeroo				Madoorappen
7	Mr	P.	Chellapermal	37	Mr	V.	Punchoo
8	Mr	R.	Chellapermal	38	Mr	I.	Rajahbalee
9	Mr	L.	Coombes	39	Mr	M. R	Ramasamy
10	Mr	A.	Currimjee	40	Mr	H.	Ramburn
11	Mr	A.	Currimjee	41	Mr	J.	Ramjadda
12	Mr	L. A.	Darga	42	Mr	S.	Ramjutun
13	Mr	S.	Govinda	43	Mr	M.	Ramphul
14	Dr	N.	Govinden	44	Dr	C.	Ricaud
15	Mr	J. N.	Humbert	45	Mr.	L.	Rivalland
16	Mr	R.	Imrit	46	Mr	C.	Sayed-Hossen
17	Dr	D.	Jhurry	47	Mr	H.	Schiander
18	Mr	M.	Julienne	48	Mr	B.	Sharma
19	Mr	I.	Khoodoruth	49	Mr	N.	Shimadry
20	Mr	D.	Kurrumchand	50	Mr	R.	Sithanen
21	Mr	T.	Lagesse	51	Mr	T.	Taylor
22	Mr	M.	Lam	52	Mrs	A.	Timol
23	Mr	J.	Lollbeeharry	53	Mr	J.	Tonta
24	Mr	N.	Luchmun-Roy	54	Mr	N.	Treebhoohun
25	Mr	R.	Makoond	55	Mr	M.	Vayid
26	Prof	J.	Manrakhan	56	Dr	M.	Verdickt
27	Mr	D.	Maunikum	57	Mr	J.	Vyравene
28	Mr	M.	Meetarbhan	58	Ms	E.	Wiehe
29	Ms	J.	Minerve	59	Mrs	D.	Wong
30	Mr	P. S.	Mistry	60	Dr	A.	Yeung
31	Mr	V.	Mooneegan				

## Annex 2: Presentations on Innovation and Competitiveness:

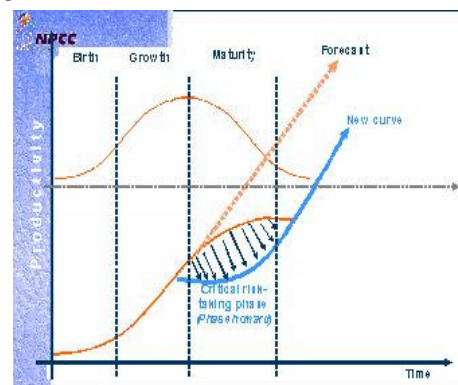
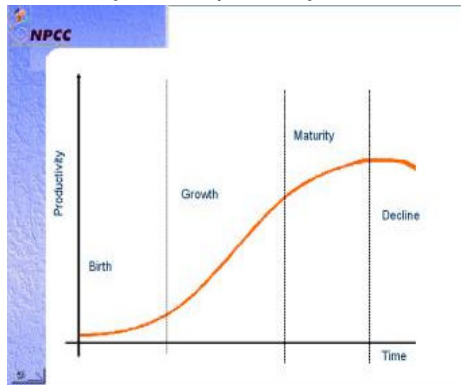
The necessity to find new sources of competitiveness was highlighted during two presentations made at the National Innovation Summit. The first one was made by Mr José Poncini on “Finding new sources of Competitiveness, What will take us on an upward curve?” The second presentation, by Mr Nikhil Treebhoohun, compared Mauritius to other highly innovative countries

Mr José Poncini’s presentation focused on the challenges faced by the Mauritian economy. The current economic system – including the traditional sectors sugar, textile and garment, tourism – seems to have reached its limits in terms of growth potential, in an international economic context which is fast changing. Under such conditions, the predictability of future growth trend becomes difficult. He used the logistic equation to show that a closed system inevitably ends in chaos. In fact his demonstration is very much in tune with the discussions during the competitiveness

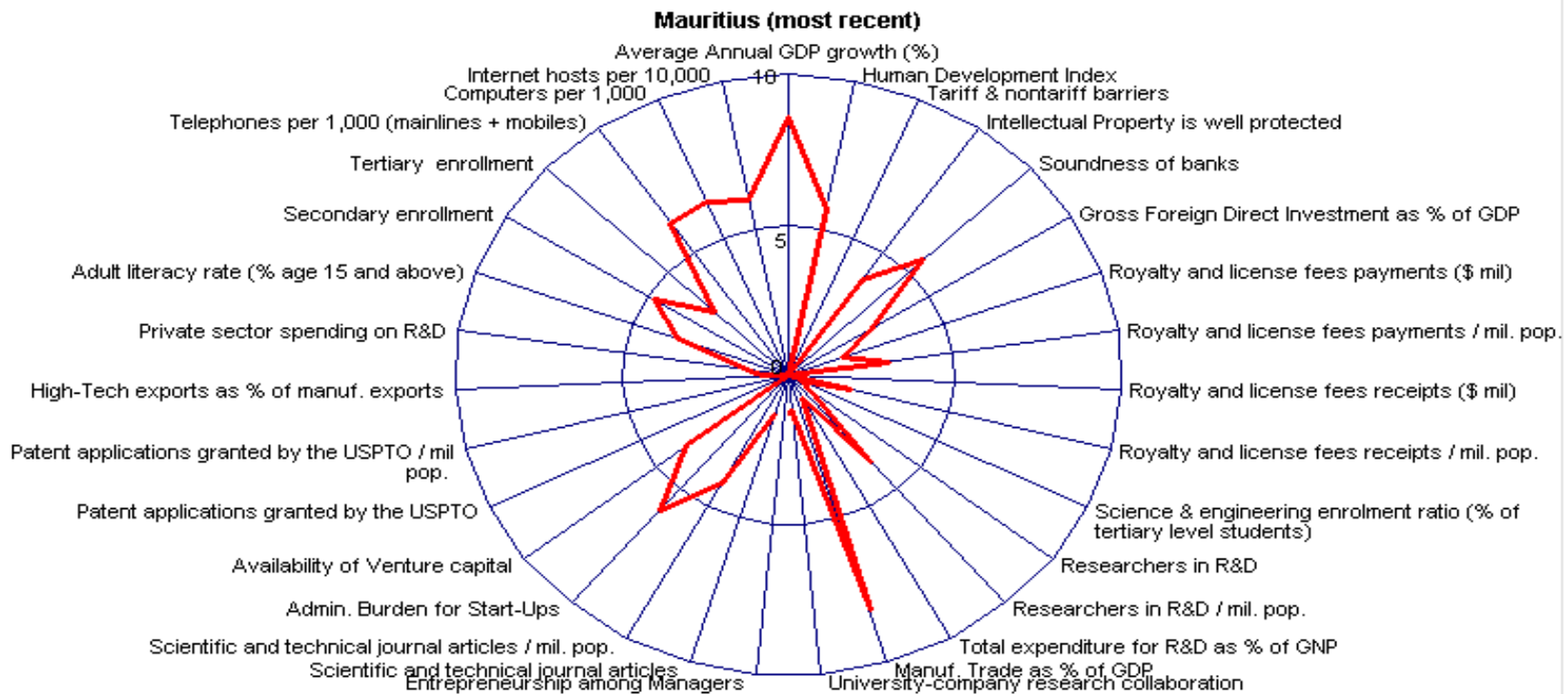


foresight.

Mr. Poncini dwelt on the different phases of the growth cycle, which includes birth, growth, maturity and decline. These phases are expressed through the S-curve. When one S starts its declining phase, it is essential that other Ss take over so that the system stays dynamic. The new Ss refer to new orientations, new directions or innovations likely to keep the system moving.

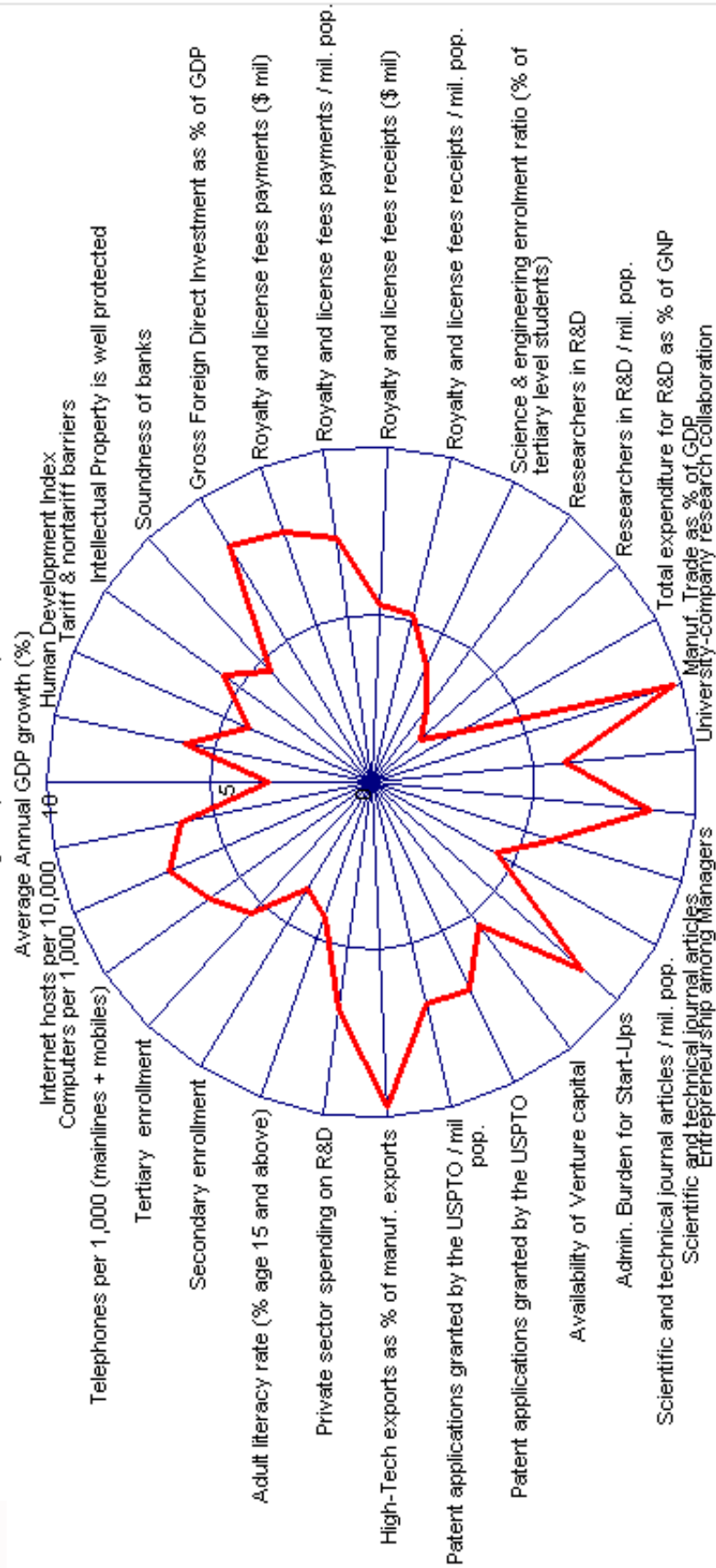


Mr Nikhil Treebhoohun made a presentation on the state of the Mauritian economy, contrasting our innovation abilities with Malaysia and Finland.



## Variables for Innovation Systems

### Malaysia (most recent)





### **Annex 3: BPO**

There seems to be consensus on the fact that if there is any future for manufacturing in Mauritius it will be niche manufacturing. The future lies in the exportable services sector. What are these? It would be totally unrealistic to adopt a deterministic approach to identifying these exportable services as the BPO sector has evolved very rapidly in the last three years. Flexibility is needed in approaching the changes in the world. It is important to have a set of global firms in Mauritius. It is important to be open not only in law but in attitude as well.

BPO is revolutionising the world of services and is having a major impact on global job location and redistribution. It is also affecting industrial structures as industries become “componentised” e.g. autos. Smaller plants may result. Because of outsourcing, logistics supply chain management industry has emerged.

BPO is embedded in the following major industries:

- Finance, Corporate Analysis & Research
- IT Hardware & Software
- Air Travel and Shipping
- Tourism (global management of the hotel reservation service for hotel chains, not only for Mauritius but for the whole world)
- Business Consulting Services (established firms are needed as there is much of intrafirm outsourcing, e.g. Accenture New York to Accenture India)
- Accounting & Audit Services
- Legal Services
- Market Research, Advertising, Marketing
- Media, Leisure and Entertainment
- Back Office Business Processing for Manufacturing

BPO is spreading rapidly to:

- Academic/Pure Research in All Disciplines
- Industry Based Applied Research
- Front-End Design Functions and Applications
- Government Agency Services (Tax, Licenses, Passports)
- Business & Public Consulting Services
- Medical Practice and Health Care Delivery Services (management of patient records)
- Management of Real-time On-line Patient Records
- Educational Services: Primary, Secondary, Tertiary
- Assessment & Grading Services
- Vocational Training & Adult Learning
- Retirement Services & Geriatric Care
- The Global Gaming, Betting, Risk-Taking Industry
- Small Enterprise Service Functions
- Micro-credit delivery monitoring

Mauritius may have special advantages in exploiting health care, education, gaming and retirement market niches. Can Mauritius be BPO centre for East/Southern

Africa? Yes, but it must move very quickly because there are a lot of countries embarking along that road.

#### **Annex 4: Human, social, institutional capital**

Human capital comprises of people, skills, knowledge, judgement, experience, choice, risk-taking, and entrepreneurial ability

Human capital creates social capital, which comprises:

- Trust in the contractual commitment (implicit v/s explicit) in human interactions
- Culture
- Compliance v/s non-compliance culture and behaviour
- Trust or mistrust of the unfamiliar and foreign of individuals and the whole society
- Values we attach to ideas, behaviour and traditions

Institutional capital – human and social capital combine to determine how collectives work:

- In the private sector, there is corporate, voluntary action and religious / spiritual institutional capital
- In the public sector, there are politics, government, agencies and parastatals

#### **Annex 5: Some Comparative Indicators for City/Island States**

<b>Characteristics</b>	<b>Dubai</b>	<b>Hong Kong</b>	<b>Singapore</b>	<b>Mauritius</b>
Land Area (Sq. Km.)	3,900	950	620	2,000
Population (Million)	1.01	6.82	4.21	1.22
GNI (02/03-US\$B)	32.41	168.03	88.10	4.68
GNI Per Capita (US\$)	32,380	27,690	22,190	3,860
GNI Growth Rate (1990-2003)	10.5%	2.5%	3.2%	5.4%
Price Deflator/Inflation (90-03 av.)	1.1%	1.0%	0.7%	6.2%
Value-Added in: Agriculture	0.2%	0.0%	0.0%	8.1%
(as % of GDP) Industry	39.2%	13.0%	36.0%	31.2%
(02-03) Services	60.8%	87.0%	64.0%	60.7%
Exports of G&S as % of GDP	74	151	140	61
Imports of G&S as % of GDP	72	142	138	57
Trade as % of GDP	146	293	278	128
Gross Capital Formation (% GDP)	45.3	23.1	24.7	22.1
Government Revenues (% GDP)	3.5	5.2	26.4	20.3
Budget Balance	+ 1.1	- 1.1	+ 3.5	- 5.1

FDI: Inwards (\$Bn)	0.11	13.20	6.11	0.31
Outwards (\$Bn)	3.23	4.51	4.14	na
External Debt (\$Bn)	0.00	0.00	0.00	1.80
Phone Connections (F+C) per 1000	1,146	1,507	1,258	559
Personal Computers per 1000	153	422	622	117
Registered Internet Users per 1000	401	435	504	100
Paved Roads as % of Total Roads	99.2%	100.0%	100.0%	96.4%
Aircraft Departures (in 000's p.a)	42	91	72	14
Planned Construction Investment (2005-2010) in US\$ Bn	35	5	4	na

## **Annex 6: The four principles of Singapore governance**

Prime Minister Lee Hsien Loong spelt out the key ideas guiding leaders of this city-state when he addressed the Commonwealth Association of Public Administration and Management biennial conference on Sunday. All of the points raised are pertinent to the discussions that took place during the Competitiveness Foresight. We are taking the liberty to reproduce an extract from his speech:

“The circumstances which governments face have changed dramatically in recent years. Globalisation - the powerful force now sweeping the world - was not present 30 years ago. Today, goods and services, people and capital, fashions and fads, flow freely and rapidly between countries and across continents.

It is a profound global reality that countries can no longer be isolated from one another. No country, big or small, advanced or developing, is exempt from the effects of globalisation.

One of the major effects of globalisation is how it shapes the way governments operate. First, it makes the task much more complex. Because the world is so much more closely inter-related, many more variables can affect a policy, and must be taken into account.

Second, globalisation makes good governance a shared concern. Whether it is financial crises, terrorism or viruses, a crisis mishandled in one country can become a serious problem for many other countries. The contagion can spread through television, the Internet or on jet planes.

Third, globalisation restricts our degrees of freedom. Capital is mobile, seeking the best returns worldwide. Talent is also mobile, looking for opportunities globally and



welcome in many countries. If a government sets policies that disregard the concerns of its constituents, the country will pay a heavy price.

How can those of us responsible for the governance of our countries navigate successfully in such a demanding environment?

I believe successful governance must have at its core a set of principles or values that is enduring and relevant to the people living in that society. Strategies and tactics may change, but principles are anchors that give governments a firm footing even in uncertain or turbulent times.

In Singapore's case, we have, over time, evolved our own principles of governance, which include both universal and unique elements. One way they can be expressed is as four principles, which summarise our experience and values.

First, we believe that 'Leadership is Key'. We are a small country. If other countries are like big oil tankers, Singapore is only a speedboat. We are more vulnerable at sea, but also more agile and better able to avoid hazards. We therefore must have able leaders to steer our speedboat.

Whether in the political arena or in public administration, we need leaders who can articulate a compelling vision that will inspire Singaporeans and mobilise them to achieve their best for the country. We need leaders who will do what is right, and not necessarily what is popular.

They must have the moral courage and integrity to acknowledge and correct past mistakes, and recognise when an existing policy has outlived its usefulness and must be discarded or changed. This is why we have done our utmost to ensure that our public sector continues to attract its fair share of the nation's talent. This imperative drives our systems of recruitment, career development and remuneration.

Another universal principle is to 'Anticipate Change and Stay Relevant'. Given the pace and scale of change facing all countries, no public service can afford to be passive and reactive, following established rules and administering existing systems. We need to be open to new ideas and to keep questioning old assumptions, and never be trapped in the past.

This is easier said than done. In Singapore, we recently carried out an exercise to rethink the role of our civil service. We reached a few conclusions.

The civil service should take more risks, instead of always sticking to the tried-and-tested. It needs to be more familiar with businesses and markets, and be a facilitator instead of just a regulator of business. And it needs to function in a more networked fashion, to cope with new issues that are complex and multifaceted.

The third principle is 'Reward for Work and Work for Reward'. This principle reflects Singapore's political values. It has evolved over time and has become a basic part of the outlook of our people. Singaporeans understand that no one owes us a living, and given our set of circumstances - small, without natural resources and highly

dependent on the outside world - we can earn a living and safeguard our future only through our efforts and wits.

While self-reliance is a fundamental and unchanging spirit among our people, its actual implementation has to be continually calibrated and fine-tuned. If we depend entirely on individual responsibility and leave the weaker members of society to fend for themselves, we undermine the bonds which hold our society together. But if we provide too generous a safety net, it will eventually sap the self-motivation of the population and the country will stagnate.

Every government has to strike this balance, which will vary from country to country. But in Singapore, the concept of working for reward, and rewarding those who work, is deeply ingrained among workers and employers.

The fourth principle of governance is to create 'A Stake for Everyone, Opportunities for All'. The end goal of any governance system is not institutional strength, or even economic well-being, but nation-building. It is about creating an inclusive society where citizens not merely enjoy economic wealth, but feel a sense of ownership and belonging.

Our goal is to make Singapore a land of opportunity, a home we love, a community we belong to and a country we are proud to call our own.

This requires carefully balancing among competing forces. We need to promote a sense of collective responsibility in an age of individual empowerment. We need to build emotional stakes in our society even as globe-trotting is an everyday occurrence. And we need to preserve our core values as a nation amid a sea of competing ideas and influences.

Principles are empty words unless public officers believe in them, share them across agencies and translate them into policies and practices. It is less important that public officers are able to recite the principles forwards and backwards, than that they intuitively understand and apply them in the course of their daily work.

Principles are also not panacea for all issues of governance. Ours reflect Singapore's unique history and circumstances. They have served us well, but we also have had our share of mistakes and misses. We have to continue to seek answers to difficult issues, like all other countries. But these principles have helped by creating a common basis from which we can tackle and solve the many difficult issues, which arise in governing a country.