The Republic of Mauritius and the African Continental Free Trade Area: Opportunities and Challenges in a post COVID-19 environment

By Isabelle Tsakok

Abstract

The African Continental Free Trade Area (AfCFTA) gives Mauritius the golden opportunity to access Africa’s vast market of 1.3 billion people, with an estimated GDP of $3.4 trillion. This opportunity could not have come at a better time, as Mauritius suffered a heavy blow from the COVID-19 pandemic in 2020. It also lost its preferential trade agreements on sugar and textiles in the 2000s, and has struggled with diminished export and productivity growth.

To turn this opportunity into a new engine of growth, Mauritius must once again transform itself from an economy that relies on labor-intensive sectors to a new foundation of knowledge-intensive sectors of the fourth industrial revolution (4IR). This is a daunting challenge, especially in the fiscally constrained environment post COVID-19.

The successful experiences of the European Union, ASEAN and MERCOSUR (though to a lesser extent) show that their visionary leaders transformed their shattered countries into vibrant economies delivering sustained growth and poverty reduction by relentlessly pursuing and expanding regional market integration. Mauritius can derive useful insights on how to move forward not only from these successful experiences but also from its own ability to turn crisis into opportunity by developing new and diversified markets.
Introduction

Markets matter. This is abundantly clear to the small island nation of the Republic of Mauritius. Mauritius was strategically located in the time before the Suez Canal was opened (Nov. 17, 1869). At that time, when international trade was primarily carried out by sailing ships, vessels stopped to replenish supplies in the only excellent harbor in the Indian Ocean: Port Louis, now the capital of Mauritius. With steam ships going through the Suez Canal, the backwater nature of Mauritius was made painfully clear by the well-known Meade and Titmuss Reports (1960). With its socio-economic problems exacerbated by a booming population on a tiny island, the reports pointed out the bleak economic prospects of a one-crop, isolated and remote island. At that time, the population growth rate was 2.8% per year; with a population density of 910/sq. mile.

Despite tremendous progress since independence (1968), the pre-COVID-19 period proved to be particularly challenging for Mauritius. In the last decade or so, it has lost its preferential trade agreements for its two main exports: (i) for sugar, the ACP import quotas with the EU, in 2017; and (ii) for textiles: the Multi-Fiber Agreement lasted 1974-94; the Agreement on Textiles and Clothing (ATC) lasted 1994-2004; and the African Growth and Opportunity Act (AGOA) with the United States lasted 2000-08. Mauritius has had to weather the global financial crisis (2007-08) and the economic slowdown in Europe, its major market (at least 50% of its total exports, goods and services) Thus, from around 2010, Mauritius was already struggling with diminished export markets, lower investment, and slow productivity growth.

Then came the COVID-19 pandemic. The response of the Government of Mauritius in terms of a hard lockdown and subsequent quarantine measures was rapid and effective. Between April 2020 to March 2021, Mauritius was largely ‘COVID-19 free’. But then, a second outbreak occurred. Hit by the shutdown of global tourism, with cascading negative effects on the local hospitality industry, loss of exports (-36.3%); declines in consumption (-16.8%); and in investment (-26.7%), Mauritius’ GDP in 2020 shrank by 14.9% instead of the predicted growth of 3%-4%. Mauritius had the worst COVID-19-related GDP loss in Africa (WBG, April 2021).

Mauritius is thus in urgent need of new sources of growth in a world that is more competitive and yet more closed because the pandemic has disrupted many lines of business. At the same time, the African Continental Free Trade Area (AfCFTA) is opening many other market opportunities as Mauritius now has access to a continent-wide market of 1.3 billion people with a combined GDP of $3.4 trillion (WBG, 2020). What opportunities and challenges does AfCFTA present for Mauritius at this difficult time in its search for new sources of growth, and what should Mauritius do to exploit these once-in-a-century opportunity?

This Policy Brief looks at the main opportunities and challenges that post-COVID-19 Mauritius faces. It draws on insights derived from the experiences of three cases of regional market integration: the EU, ASEAN, and MERCOSUR, to assess these opportunities and challenges. These experiences and insights were discussed in ‘Regional Market Integration, Agricultural Transformation and Poverty Reduction: A review of experiences in selected cases of regional market integration’ (Tsakok, Aug. 2021).

Brief Overview of Salient Features of Mauritius from Independence in 1968

A poor, isolated, and overpopulated country: At independence from the United Kingdom in 1968, with a per-capita GDP of $260, Mauritius was still dominated
Mauritius’ success in transitioning towards a diversified and inclusive growth economy proved Meade and Titmuss wrong: At one of its lowest points in the 1970s—a 30% drop in sugar prices in 1976 and the second oil price shock in 1979—Mauritius’ leaders took the risk of reform. With assistance from the World Bank and the International Monetary Fund (IMF), they used two structural adjustment programs and five successive IMF stand-by arrangements (1980-86), to re-orient the economy from inward-looking to export-orientation and to invest in new growth poles. Specifically, Mauritius undertook the following key measures: (i) two substantive devaluations; (ii) reform of the tariff regime including elimination of all quantitative restrictions; (iii) setting up an Export-Processing Zone (EPZ), including incentives for private investment in the EPZ; (iv) rehabilitation and restructuring of the sugar sector; and (v) promotion of tourism in terms of facilitating air access and increasing hotel capacity (World Bank, July 1989). In an island where ethnic tensions can flare up during bad times, the social contract of shared growth underlying this approach worked miracles. The wealthy class of sugar plantations, banks, and big businesses agreed to the funding of a welfare state to redistribute income and opportunities, and to protect the most vulnerable. Shared growth and the delivery of free education and healthcare services to all has virtually eliminated extreme poverty and promoted social cohesion. The Government’s entire budget is allocated to socio-economic development of the island, as Mauritius does not have a standing army. The transition created a large middle class which was nearly 80% of the total population in 2007 (WBG, Jn. 2015).

Increasing income inequality is a threat to social cohesion: From 2007 to 2012, the income growth of the bottom 40% increased by only 1.8% compared to 3.1% for the population at large. The consumption of the richest 10% of households in Mauritius, which was 7.8 times that of the poorest in 2007, increased to 8.1 times by 2012 (WBG, 2017). Therefore, income inequality as measured by the Gini Index also increased from 0.34 to 0.37, which means that any unit of growth was less

Institutions promoting stability, social cohesion, and good governance critical in its success need to be strengthened: The institutional framework Mauritius inherited has been a major stabilizing factor. A British colony from 1810-1968, it has inherited the Westminster system of parliamentary democracy with the separation of powers between the legislative, judicial, and executive branches, enshrined in the Constitution of Mauritius. Mauritius has a multi-party system with elections every five years. It has successfully maintained macro and political stability even during difficult times; enforcing respect for the rule of law and private property rights. For a decade, Mauritius led the Mo Ibrahim Index of African Governance. For 2019, it obtained the highest Overall Governance score, at 77.2. Unfortunately, its overall governance score declined over the decade (2010-19) due to weakening social protection and deteriorating human rights. For Africa as a whole, governance has declined, for the first time in a decade (Mo Ibrahim Foundation, IIAG 2020). Also, Mauritius was named a High-Risk Third Country for money laundering by the European Commission in May 2020. It was however removed from this list on October 21, 2021. (JD/SUPRA) Corruption continues to be a problem (it has worsened compared to 2012, but somewhat improved compared to 2019), as the Transparency International Corruption Perception Index (CPI 2020) indicates: out of 180 countries, Mauritius ranked 52, with a score of 53.11

8. Mauritian law is an amalgam of both British and French legal traditions.
9. Somalia has the lowest score at 19.2.
10. Mauritius has undertaken some key reforms to address its deficiencies in its Anti-Laundering Money and Counter Financing Terrorism (AML/ CFT) regime. It is therefore on track to be removed from the ‘grey list’ in October 2021 (JD SUPRA, June 29, 2021). Indeed, it was removed from the list on October 21, 2021. The next step is for the European Commission to review information by the Financial Action Task Force (FATF), and if confirmed, it will delist Mauritius from the Black List.
11. For comparison, New Zealand and Denmark, the least corrupt, ranked 1 with a score of 88; more corrupt than Mauritius, South Africa ranked 69 with a score of 44; the most corrupt out of the 180 countries, Somalia, ranked 179 with a score of 12. Of African countries, Botswana is the least corrupt, ranked 35, with a score of 60. (Transparency International, 2020)
effective in reducing poverty. During the same period, economic vulnerability increased: from around 10% to nearly 13% of the population. Even the size of the middle class declined from nearly 80% (2007) to around 77% (2012). In fact, the distribution of income from property and labor has progressively become more unequal. (WBG, Apr 2021) Continuation of this trend would undermine social cohesion, one of the strengths of the Mauritian response to crisis, thus threatening the sustainability of growth itself.

The COVID-19 pandemic has laid bare key structural weaknesses in the Mauritian economy: Growth was already lackluster when COVID-19 hit, because Mauritius had lost its preferential markets in sugar and textiles in the early 2000s, accelerating the need for a profound transformation of the Mauritian economy from labor-intensive to services and knowledge-intensive industries, in which Mauritius was less-competitive. This structural transformation demands highly-skilled workers, of which there is an insufficient supply in the Mauritian labor market. Already, the Enterprise Survey showed that there was a 30% increase in the skills mismatch index between 2001-10. (WBG, Sept. 2015). This problem persisted and in fact worsened during the pandemic. (WBG, April 2021). This mismatch is a major factor in the polarization within the labor market, as highly-skilled workers benefit from a disproportionate increase in relative wages while low-skilled workers remain unemployed as they are unable or unwilling to compete with migrants for the low paying unskilled jobs. In addition to increasing income inequality, these skills mismatches, coupled with labor market rigidities and declining investment, have been major contributors to lower productivity growth and lower competitiveness. The pandemic has not only been a major drain on government’s finances but also hurt the employment opportunities for low-skilled labor, especially for women and young people, much more than for the highly-skilled. Unemployment never fell below 6.5% in the 2000s, well above its 3% level in the early 1990s (WBG, Apr 2021). In addition to having an excess supply of low-skilled labor, Mauritius will soon have to address the social protection implications of a rapidly ageing society at the same time as the relative decline of its working-age population. The population of those aged 65 and older, currently nearly 17% of the total population, is projected to be 25% by 2030, 30% by 2045, and 35% by 2058. The working age population—15 to 59—is expected to fall from the current 65% to 58% of the total population by 2058 (WBG, Apr. 2021). These demographic trends imply that the dependency ratio will rise, which in turn has major implications for the scale of social protection programs needed, and therefore for the required growth in productivity and GDP to generate the finance for these programs, and the efficiency with which the programs are to be run.

Vision for Mauritius: A High-Income Country Based on an Inclusive and Knowledge-based Economy

Investment in skills development is a necessity for Mauritius to be driven by the fourth industrial revolution (4IR): Mauritius successfully diversified from sugar to textiles, tourism, and finance while retaining sugar. With the loss of its preferential trade agreements on textiles and sugar, and with COVID-19 virtually wiping out tourist arrivals in 2020, Mauritius must accelerate its transformation to become a knowledge- and innovation-based economy. The Government of Mauritius (GOM) has laid out a National Skills Development Strategy (NSDS, 2020-24) to develop digital skills and skills needed in the ICT sector. The workforce of the 4IR must deal with artificial intelligence, robotics, 3-D printing, and the Internet of Things (IoT), among other things. Since the education and training required, both off and on-the job is well beyond a

12. Mauritius is still among the top 25% in terms of Gini equality when compared to other middle-income countries. (WBG, 2015).
13. Foreign workers or migrants come mainly from: three quarters from Asia (mainly India, Bangladesh, Sri Lanka, China); the rest from Africa, Europe (mainly France), North America, and Oceania (2011 data). In 2013, foreign labor represented 4% of the Mauritian labor force, increasing from 1990 to more than 25,000 in 2013 (International Organization for Migration (IOM), 2014).
14. Both public and private investments fell from an average of 30% of GDP in the mid 1990s to 22% between 2001-05 (WBG, Sept 2015).
15. Common examples of the IoT are: shipping container and logistics tracking; wireless inventory trackers; smart home security systems; wearable health monitors; connected appliances; biometric cybersecurity scanners; ultra-high speed wireless internet; autonomous farming equipment; and smart factory equipment. The list is growing.
Asia into Africa. It is strategically located between Asia and Africa and therefore is already a gateway to a limited extent. Having been under both French (1715-1810) and British (1810-1968) colonial rule, Mauritians are bilingual, which facilitates access to both Francophone and Anglophone Africa. As a member of both SADC and COMESA, many non-African businesses have already set up their operations in Mauritius to access trade advantages with the continent. In 2018, intra-African exports from Mauritius averaged 23% of its total exports, and 13% of its total imports. Most of its intra-African exports are in textiles (African Press Organization, May 2021). Similar to Singapore, which is a major financial center for the ASEAN and Asia, Mauritius aims to be a center of financial and IT services, including flows of FDI into the continent. What insights can Mauritius obtain from successful experiences of regional market integration in the EU, ASEAN and MERCOSUR?

Main Factors that Impact the Contribution of Regional Market Integration in the EU, ASEAN and MERCOSUR: Some Insights for Mauritius

Transformative growth driven by vision and built on stability: The three cases of regional market integration, the EU, ASEAN, MERCOSUR, all started when their leaders determined that their vision of peace and prosperity for their region could become reality through regional market integration, unfolding over decades. In all cases, they can either face the continuation of violent conflict and mediocre growth, or they can lay the foundations for a better pathway for inclusive growth and prosperity. They chose the latter, thus unleashing powerful forces of productivity and growth. For example, the war-torn and food-scarce EU of the six founding fathers (1957) grew into the peaceful and food-secure EU of 27 members by the 2000s. For ASEAN, a region which endured severe conflicts from the late 1940s until well into the 1950s and 1960s, regional market integration decisively promoted decades of peaceful and dynamic development. Today, the region is known for its substantial poverty reduction, resilience, and dynamism. Even MERCOSUR, for which regional market integration was more problematic in the 2000s, greatly benefitted during its ‘golden age’ in the 1990s. Mauritius’ leaders have the vision, and the island nation has successfully maintained stability and social cohesion despite severe shocks in the 1970s and again in the 2000s. It has also managed peaceful transitions of power since independence (1968). Mauritius can now power its transformation into a knowledge-based economy by fully exploiting the vast market integration opportunities made possible by the AfCFTA since January 2021.

Insights on what worked and what did not (or are problematic): Transformative growth in the EU, ASEAN and MERCOSUR was the result of guided market-orientation, not of laisser-faire capitalism. The caliber of national leadership and of governance made the critical difference, in particular during the earlier decades. Specifically:

Promoting:

- Mission-oriented leadership at the helm: Armed with their vision of prosperity through peaceful regional market integration, national leadership was able develop new institutions and coalitions that have stood the test of time in strengthening cohesive instead of divisive forces that invariably undermine growth. Thus, the EU was able to create supra-national institutions: the European Commission, European Parliament, Council of the European Union, and European Court of Justice. To date, and except for the departure of the United Kingdom in Jan. 2020—Brexit—these institutions have been able to rein in the divisive forces of traditional nationalism. The highly diverse ASEAN region took a different approach to cement its commitment to peacefully resolve political conflicts while promoting economic competition and growth, including attracting FDI inflows. Instead of supra-national institutions settling disputes, ASEAN requires total consensus.

- Regional market integration successfully promoted by policies, institutions, and investments that sharply reduced cross-country barriers: The EU created the Single Market, removing internal barriers—physical and regulatory—while protecting the trade borders of

16. Mauritius was then known as “Isle de France”.
17. The six founders of the EU were: France, West Germany, Italy, Belgium, The Netherlands, and Luxembourg.
the ever-expanding EU. Since the 2010s, the EU has been lowering these frontiers by signing FTAs with many countries, including South Korea (2015), Canada (2017), Singapore (2019), and Japan (2019). Today, the EU is the world’s largest economy, accounting for over 20% of global GDP (European Parliament, May 2021). ASEAN countries also reduced trade and non-trade barriers and invested in the infrastructure needed to increase the competitiveness of their domestic economies for regional and global trade. The ASEAN Economic Community (formed in 2015) is now considered the fifth largest in the world. It is also a critical hub for global trade as over $3.4 trillion of global trade transits through the ASEAN region every year (US-ASEAN Business Council, July 2019).

Opportunities and challenges for Mauritius in a Post-COVID Era

Opportunities: The AfCFTA offers Mauritius the opportunity to use market access to penetrate an entire continent of 1.3 billion people, with a rising middle class, and to re-invigorate its economy by embracing the 4IR. It must develop industries and skills of the future. This requires, among other things, investing heavily in its human capital, and removing regulations that inhibit competition and stifle innovation and productivity growth. Embracing 4IR which requires developing a knowledge-intensive economy, suits Mauritius well since it is without mineral wealth, unlike continental Africa which is natural resource rich.

Challenges: To make full use of this opportunity, Mauritius will have to re-invent itself, as it has done in the past every time the door closed on a cherished industry. Given the constrained fiscal environment in the post-COVID-19 period, and given the existential threat of climate change, the fundamental challenge is daunting: it has to do more with less, that is, transform itself within constrained resources. In particular, it needs to:

- Attract private-sector investment including foreign resources: Private business requires a supportive enabling policy, institutional, and infrastructural environment, with good prospects of making profit. From 2009-19, investment as a share of GDP fell from 25% to 21%, and private investment by one fifth to 15%, while productivity of capital has been stagnant (WBG, April 2021). Various structural and regulatory problems, such as scarcity of skilled labor, rigid labor-market regulations, market concentration that undermines fair market competition, and subsidized state-owned enterprises (SOEs) including in energy and transport, have undermined private investments, their productivity and profitability. Competing for FDI is a high priority in a world of shrinking FDI flows. To attract such private investment, the Mauritius Competition Commission needs to promote pro-competitive policies and regulation, and not limit itself to only consumer protection. A new Intellectual Property Rights Law has been adopted but it still needs detailed implementing regulations to become operational.

- Develop new competitive lines for exports: Mauritius has an urgent need to develop its competitiveness in high-skilled, knowledge-intensive merchandize and service exports, such as medical devices, watch parts, banking, telecommunications, and shipping. To be competitive, Mauritius must ensure its currency is not overvalued, as seems to have been the case pre-COVID-19. In addition, the development of new products, services, and labor skills will require increased investment in innovation and R&D. For example, only 9% of Mauritian businesses spend on R&D, whereas the share is 14% in high-income countries and 16% in other African countries (WBG, June 2021). State support should also be redirected from mature industries to remove across-the-board bottlenecks instead, and to support new technology and new processes. With the right skills and regulatory framework, Mauritius can position itself as a service hub for the continent, a gateway for Asia and other OECD countries.

18. Africa has enormous natural wealth: e.g., 30% of the world’s mineral reserves; 12% of the world’s oil reserves; 40% of the world’s gold, and up to 90% of the world’s chromium and platinum. (UNEP) https://www.unep.org/regions/africa/our-work-africa

19. Yeyati and Fillipini (WBG, 2021) argue that the decline in competitiveness and the widening trade deficit pre-COVID-19 may also be associated with the large financial flows of the global business sector. The current exchange rate averages MRU 40 = 1 USD.
• Sustainably manage its limited land and marine resources in a climate change environment: Mauritius is among the top 10% of countries most exposed to natural disasters. It faces environmental threats including rising disaster risk related to climate change and depletion of its marine resources. Climate change is likely to significantly impact on Mauritius’ economic growth. Mauritian has prepared a climate-change adaptation strategy. The challenge is for Mauritius to put in a place a sound and predictable regulatory regime so that private business can make long-term investments to better adapt and exploit any emerging economic opportunities.

Conclusion:

The Government of Mauritius mounted an effective response to the COVID-19 pandemic in 2020, in terms of a hard lockdown and subsequent quarantine measures. Mauritius was considered ‘COVID-19 free’ between April 2020 and March 2021, when COVID-19 came back again. The heavy toll that COVID-19 exacted on Mauritius is evident as its GDP shrank by nearly 15%, the worst COVID-19 related loss in Africa. Already weakened prior to this big blow by its loss of preferential trade agreements on sugar and textiles in the 2000s, Mauritius was fully aware that it urgently needed to find a new engine of sustainable, inclusive, and resilient growth. Investing in 4IR technologies holds the promise of such a new engine that can transform Mauritius’ economy. Mauritius successfully transformed itself when it was on the brink of collapse in the early 1980s to become an upper middle income country by 2020. Faced with this incredible opportunity of market access to the entire African continent with an estimated GDP of $3.4 trillion, hopes are high that it will again rise to the occasion.

20. For example, rising temperatures will favor vegetative growth at the expense of sugar accumulation; rising sea surface temperatures will affect the tourism industry; and changes in ocean chemistry will negatively impact the coral reef systems, essential for the island’s fisheries and biodiversity; increased severe cyclones will undermine the economy and drain the government’s finances (WBG, In. 2015).

21. According to JHU, nearly 66 % of the population of Mauritius has been fully vaccinated (Sept 2021) https://coronavirus.jhu.edu/region/mauritius

Bibliography


About the Author, Isabelle Tsakok

Isabelle Tsakok is an adjunct professor at SIPA and a Senior Fellow at the Policy Center for the New South, previously known as OCP Policy Center, who focuses on rural development, agricultural economics, policy analysis, food security and poverty reduction. She holds a PhD in Economics. Dr. Tsakok has worked on development issues for over twenty-five years, first as World Bank staff and since retirement as a consultant. She has specialized in policy analysis, program and project formulation and evaluation, research and training activities in agriculture, agro-business, rural development and poverty reduction. She has worked in most regions of the developing world: Africa, Asia - South, Southeast and East, North Africa and the Middle East and Latin America.

About the Policy Center for the New South

The Policy Center for the New South: A public good for strengthening public policy. The Policy Center for the New South (PCNS) is a Moroccan think tank tasked with the mission of contributing to the improvement of international, economic and social public policies that challenge Morocco and Africa as integral parts of the Global South.

The PCNS advocates the concept of an open, responsible and proactive « new South »; a South that defines its own narratives, as well as the mental maps around the Mediterranean and South Atlantic basins, within the framework of an open relationship with the rest of the world. Through its work, the think tank aims to support the development of public policies in Africa and to give experts from the South a voice in the geopolitical developments that concern them. This positioning, based on dialogue and partnerships, consists in cultivating African expertise and excellence, capable of contributing to the diagnosis and solutions to African challenges.

The views expressed in this publication are those of the author.