

# “Mauritius: African success story”



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# Mauritius: African success story

- I am only half-way through my investigations.
  - So I do not yet have real conclusions.
- Three approaches
  - Visit to Mauritius (January 2009)
  - Literature review (largely complete)
  - Econometrics of performance across African countries (only just started).



# There is no question that Mauritius has been a great economic success

- It ranks at the top in Africa, whether:
  - Judged by GDP per capita
    - Growth rate averaged 4.2% over 1977-2006 >> 0.7% Africa)
    - Level  $\approx$  \$6,900 in 2008.
    - As a result, despite small size, **total GDP** > median countries (Chad, Namibia...)
  - Or Human Development Index
    - E.g. life expectancy.
  - Or measures of governance.



# *Index of African Governance*

Bob Rotberg & Rachel Guisselquist  
(for 2007, published Nov. 2009)

1. Mauritius
2. Seychelles
3. Cape Verde
4. Botswana
- ...

27. Kenya

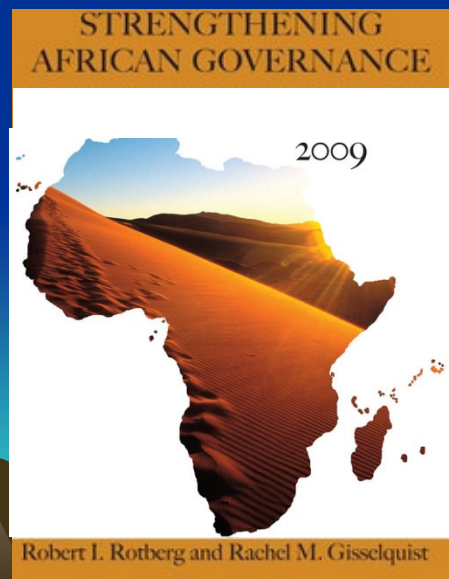
...

50. Congo (DR)

51. Chad

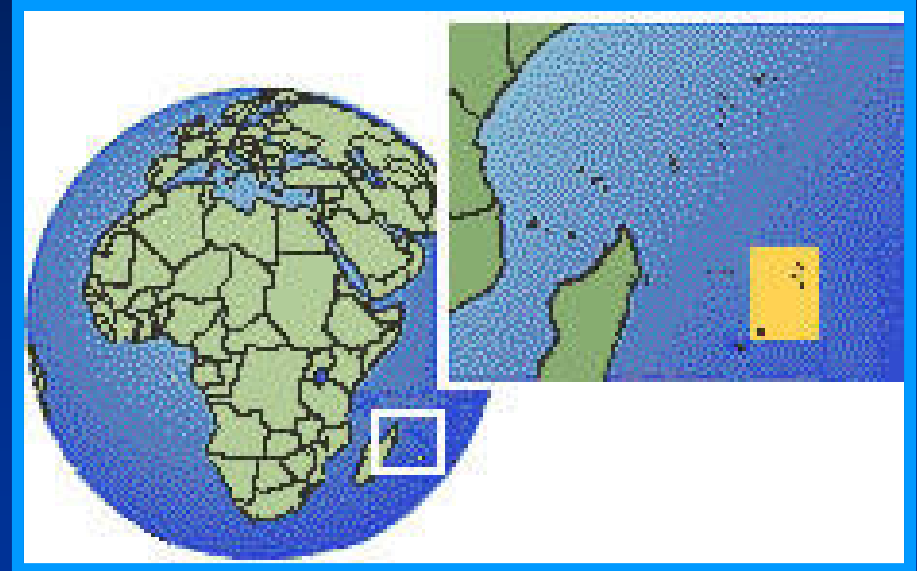
52. Sudan

53. Somalia



# Mauritius: “African success story?”

- One might ask:  
Q: “Is it African?”
- A:
  - Geographically, yes.
  - Culturally ??

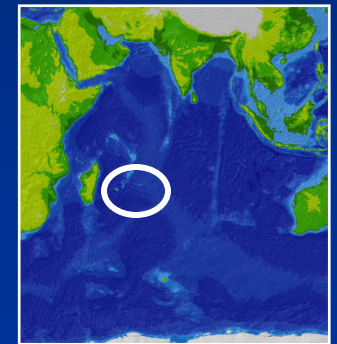


- Regardless, the important questions are:
  - How did Mauritius achieve its success?
  - Are there lessons for other countries?

# Stages of Mauritius' development



- First: Globalization at its worst?
  - Immediately, Europeans kill off the dodo bird !
  - Initial sugar economy based on slavery.
  - Cholera from passing ships.



- Then: Globalization at its best.
  - Immigration in 19<sup>th</sup> century
  - Development of industrial sector, esp. clothing
  - Achieves rapid growth through exports

# Traditional 3 stages of development:

– Commodities (sugar)



– manufactures (textiles & apparel)



– services (tourism,  
financial services,...)



# How was economic development accomplished?

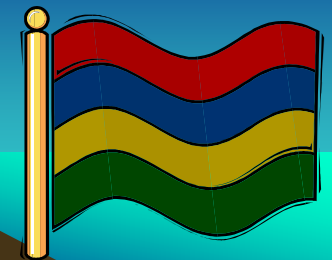
- **Initial conditions?**  
But they were considered poor at independence (1968).
- **Sugar wealth?**      But natural resources are often a curse.
- **Openness?**      -- Sachs view.  
But rejected by Subramanian who says trade policy was not liberal.
- **Export Processing Zone?**  
-- Rodrik view.      But EPZs failed elsewhere.
- **Foreign ideas, via Chinese FDI?** -- Romer view.  
But textile & apparel success depended on preferential treatment from US & EU.
- **Good institutions**      -- Subramanian view.  
– Q: Does Mauritius have good institutions?



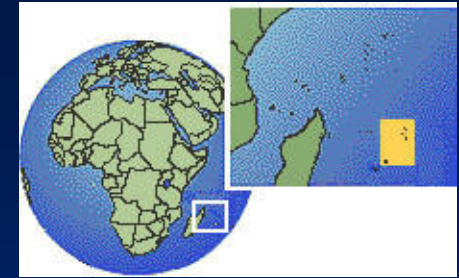
# Initial conditions, as assessed by two Nobel Laureates



- James Meade (*Report to Government of Mauritius*, 1961):  
“Heavy population pressure must inevitably reduce real income per head...That surely is bad enough in a community that is full of political conflict...the outlook for peaceful development is poor.”
- V.S. Naipaul (*The Overcrowded Barracoon*, 1972):  
“The disaster has occurred... now given a thing called independence and set adrift, an abandoned imperial barracoon, incapable of economic or cultural autonomy...”



# Geography



- Small size, remoteness & tropical location are usually handicaps in economic performance.
- But Seychelles and Cape Verde are right behind Mauritius in the rankings.
- Of top performers in Africa, only Botswana is not a small island country.
- Of small island countries, only Comoros lacks success.
- This can't be a coincidence.



# What do the successful island economies have in common?

- Successful, in Africa
  - Mauritius
  - Seychelles
  - Cape Verde
  - Sao Tome & Principe
- Another famous success
  - Singapore
- Unsuccessful, in Africa
  - Comoros
- Another less successful ocean economy, originally based on sugar, & majority ethnic Indian
  - Fiji

**In each of these successes, island was uninhabited.  
100% of the population came from somewhere else.**



# Ethnic composition

- While Botswana is relatively homogeneous ethnically,
- Mauritius is ethnically diverse, resembles Trinidad or Fiji.
- Resemblance also to Singapore (or Hong Kong or Dubai?) :
  - Historically an entrepot, on trading routes
  - Everyone immigrated from somewhere else =>
    - Population self-selected for initiative?
    - No indigenous population to resent latecomers
    - Avoided internal conflicts of Sri Lanka, Indonesia, Latin America...
    - Advantages of ethnic links to India & China (H.K.)
- Mauritius & Botswana are the only two African countries that have been continuously democratic.
  - Again, can't be coincidence. Inclusiveness.

# First regressions, to explain income across African countries

Dependent variable (2007): Income/cap		
<b>Rule of law</b>	<b>.04***</b>	<b>0.03***</b>
<b>Openness</b>	<b>.01**</b>	<b>.01***</b>
<b>Log population</b>	<b>-.30*</b>	<b>-.30*</b>
<b>Log Area</b>	<b>.21**</b>	<b>.22**</b>
Tropic area	.11	
Political participation	-.01	
R squared	.53	.51
Observations: 43		

# Which colonial heritage?

- Dutch?
  - Discovered the island, & named it
- French?
  - Left the landowning elite, &
  - gave the island its dominant language
- British?
  - Cars drive on the left
  - The Supreme Court is Britain's Privy Council.
- So what languages are on the money?
  - English, Hindi, & Tamil.



Whether through luck or skill, throughout its history,  
**Mauritius has been able to adapt to  
changed circumstances:**

(1) 19<sup>th</sup> century

(2) At independence, 1968

(3) Adverse trade shocks, 2004

(4) Global recession, 2008

Mauritius adapts to changed circumstances

# (1) 19<sup>th</sup> century

- Island passed to UK (1810)  
=> Abolition of slavery (1835)
  - Labor shortage on the new sugar plantations

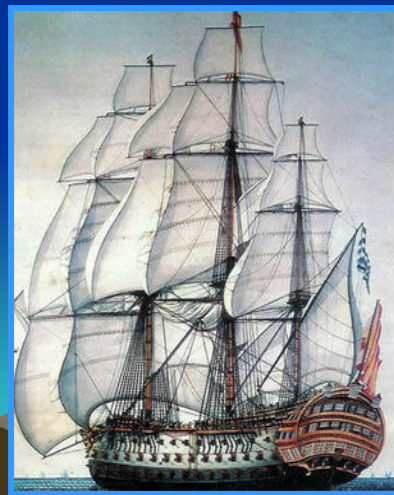
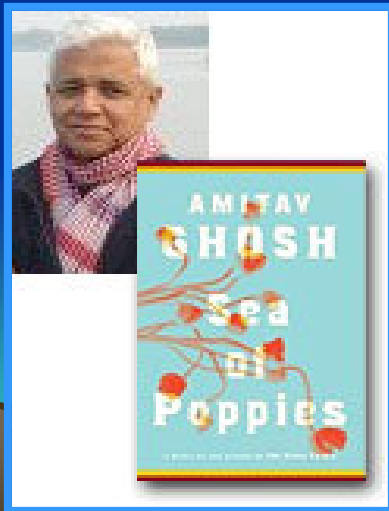




Mauritius adapts to changed circumstances

## (1) 19<sup>th</sup> century

- Indentured workers came from India
  - “The Great Experiment”
  - Sea of Poppies, by Amitav Ghosh



Mauritius adapts to changed circumstances

## (1) 19<sup>th</sup> century

- Indentured workers

- Aaprivasi Ghat, the Ellis Island of Mauritius
  - From 1849 to 1923, 1/2 million indentured laborers from India passed through the Immigration Depot.

- Today, 68 % of the population has Indian forbears.



Mauritius adapts to changed circumstances

## (2) At independence, 1968

- Bad initial conditions
  - Geography (small, remote)
  - Volatile monocrop (sugar)
  - Ethnic tensions (at that time)
  - Population growth
  - Regression to mean
- Distortionary trade barriers
  - Import substitution was the fashion



Mauritius adapts to changed circumstances

## (2) At independence, 1968

- Achieved trade-led growth anyway:
  - Luckily, EU compensated with preferences for sugar (ACP) & clothing (MFA).
  - No taxing-away of sugar
    - as other tropical crops in Africa.
    - Power of French landowners?
  - Links to India, China
  - Successful adjustment
    - Macroeconomic in 1982
      - Competitive currency
      - Trade reform from 1984



Mauritius adapts to changed circumstances

(3) “When we came to power in 2005, the situation was awful,” -- Rama Sithanen, Fin.Min. (Labor Party),<sup>FT</sup>

- 3 bad trade shocks
  - Lost sugar preferences, 2004
  - Losing clothing market preferences
  - Rise in world prices of oil and food 2003-08
- 2005 macroeconomics
  - slow growth,
  - large budget deficit,
  - balance of payments deficit

Mauritius adapts to changed circumstances

(3) “When we came to power in 2005...”

- Reform program, 2006
  - Tax reform (flat 15%)
  - Business facilitation
- Result:
  - Deficits down sharply by 2007. Primary deficit  $\approx 0$ .
  - Mauritius ranks even better on climate for business.



Compagnie Mauricienne de Textiles  
is fully integrated,  
from raw cotton to finished garments



Compagnie Mauricienne de Textiles.  
has adopted current technology from Asia





CMT. The textile plant is automated.



CMT: Clothing plants still need unskilled labor.



Compagnie Mauricienne de Textiles.

Clothing plants still need unskilled labor.



# Mauritius adapts to changed circumstances

## (4) 2008: Global economic crisis

- Mauritius had not yet been hit by recession.
- One reason: The government had a strong enough budget, & enough foresight, to ease in mid 2008.
  - A rare counter-cyclical fiscal policy !
- But the tsunami hit nevertheless, as for all exporters.
  - Openness => vulnerability to external shocks.
  - Large current account deficit.
- Probable trough early in 2009, recovery in the 2<sup>nd</sup> half.
- Official forecast is now 2.8 % growth for 2009.



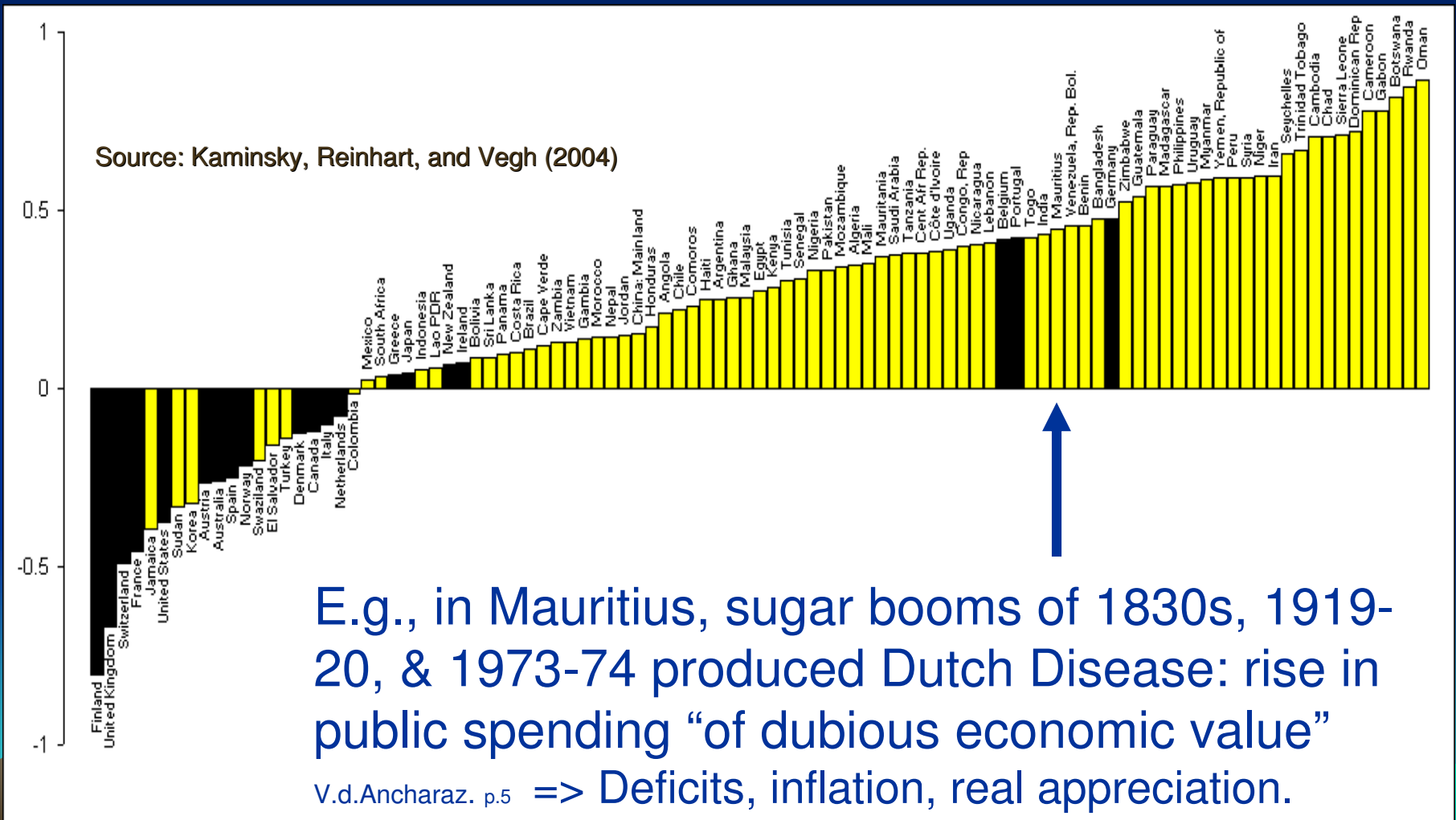
# The Natural Resource Curse and Dutch Disease

- Today, Mauritius is not a commodity economy;.
- but it was, before independence...
- When Mauritius was a sugar economy,
  - it suffered from periodic Dutch Disease cycles --
  - due, not just to swings in world price or domestic output,
  - but rather to big changes in rich-country barriers:
    - 1830s, 1919-20, & 1973-74
- One branch of the Natural Resource Curse emphasizes that certain commodities endowments originally give rise to bad institutions which later impede industrialization.



# Correlations between government spending & GDP

G is *pro-cyclical* for most developing countries:  
 rises in booms and falls in recessions; esp. commodity-exporters



# Natural Resource Curse authors

- **Auty** (1990, 2001, 2007, 2009), coiner of NRC: Economic growth requires recycling rents via markets rather than via patronage.
- **Isham, et al, (2005)** : the commodities that are damaging to institutional development, which they call “point source” resources, are, in addition to oil: other minerals, plantation crops, and coffee & cocoa (versus small-scale farm products).
- **Mehlum, Moene & Torvik (2006)**: “lootable” resources.
- **Sala-I-Martin & Subramanian (2003)** and **Bulte, Damania, & Deacon (2005)**: oil & minerals, not farm products, undermine institutional quality & growth.
- **Arezki & Brückner (2009)**: oil rents worsen corruption ...



## NRC authors, cont.,

- Engerman & Sokoloff (1997, 2000, 2002) :  
why industrialization took place in North America  
and not Latin America --
  - Lands endowed with extractive industries & plantation crops (mining, sugar, cotton) developed institutions of slavery, inequality, dictatorship, and state control,
    - whereas those climates suited to fishing & small farms (fruits & vegetables, grain & livestock) developed institutions based on individualism, democracy, egalitarianism, & capitalism.
  - When the industrial revolution came along, the latter areas were well-suited to make the most of it.
  - Those that had specialized in extractive industries were not, because society had come to depend on class structure,
    - rather than on individual incentive and decentralized decision-making.





# How did manufacturing take root after independence?

- Paul Romer says it was the idea of textile & apparel manufacturing, brought by Chinese businessmen.
- But equally necessary ingredients were:
  - Access of exports to American & EU quotas
  - Franco-Mauricienne capital, to some extent
  - Indian management
  - A politically, economically, and socially stable environment, with rule of law, etc.
  - No single elite was in a position to dominate the others

# Looking forward

- With the loss of preferences for clothing exports, and competition from China....
- the way forward is in “the 3<sup>rd</sup> sector”
- They describe it as banking, ICT, & tourism,
  - looking to Singapore as a model. (Join the club!)
- I would describe the model for Mauritius as a platform for firms from India & China wishing to do business in Africa.
  - Analogous to
    - Hong Kong into China (at least until 1997), and
    - Dubai into the Middle East (at least until 2009)
- Cosmopolitan, open, adaptable, stable.



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