STATEMENT

ON

THE STATE OF THE ECONOMY 2020-2021

9th September 2021

THE MAURITIUS CHAMBER OF COMMERCE AND INDUSTRY

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Executive Summary

Economic prospects for 2021 are improving following the pandemic induced global economic recession in 2020. Vaccinations campaigns are speeding economic recovery while monetary and fiscal buffers continue to support firms, jobs and protect livelihoods. Fiscal Responses have been timely and massive across the globe and, at the same time, have raised the debt to GDP ratio. Growth and recovery remain uneven, with advanced economies way ahead in resuming contact intensive business activities while tending towards a fully vaccinated population.Vaccines remain a challenge in developing countries.

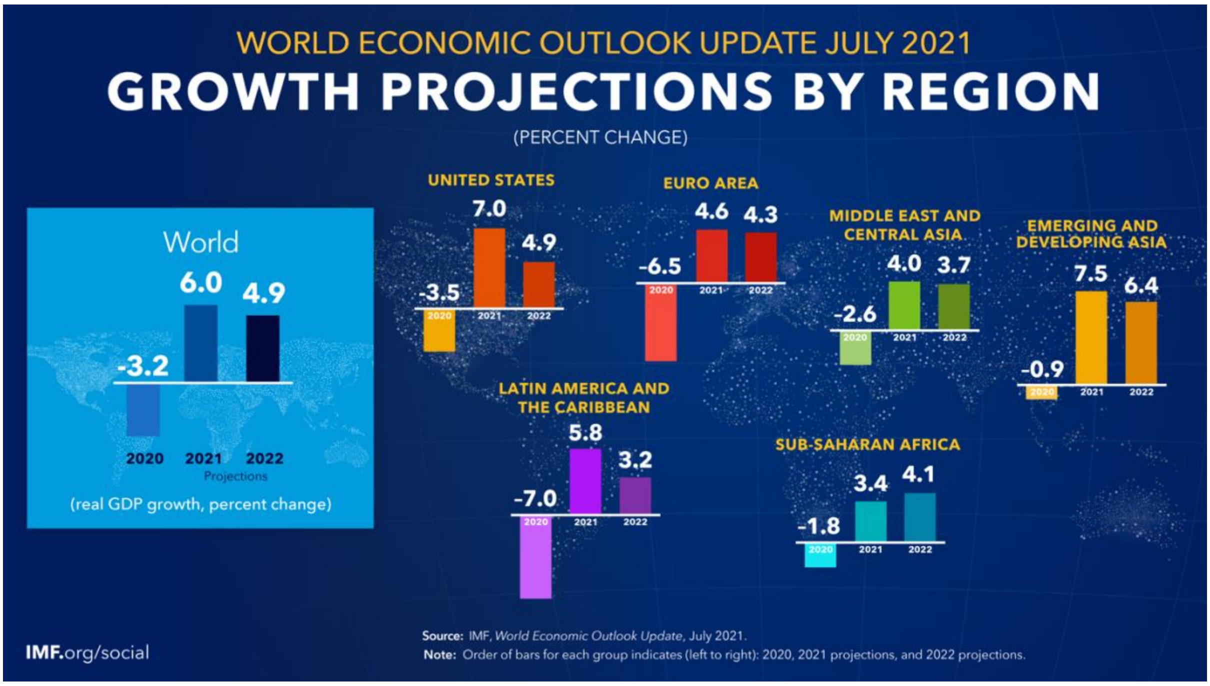
Last year's experience has exposed how structural weaknesses can weigh on economic resilience. The impact on small island economies have been manifold in terms of connectivity, supply chains, freight and currency stability. However, Mauritius is on a steady path of recovery with the full reopening of borders and no quarantine obligations as from the 1st of October 2021, yet, there are several structural deficiencies and weaknesses that need to be addressed and reforms undertaken to build resilience and sustainability; boost productivity and facilitate reallocation; and most importantly, help people adapt to change.

A collective effort between the public and private sector is key to ensure effective implementation of the new Industrial Policy 2020-2025 and create the second industrial revolution in Mauritius. Furthermore, investment opportunities should be encouraged in new sunrise sectors such as blue economy, renewable energy and also position Mauritius as knowledge driven economy with the aim to export expertise, knowledge and experience to the African continent.

STATE OF THE ECONOMY 2020-2021

The year 2020 has been an inflection point in weakening the economic fundamentals of many countries due to the Covid-19 outbreak. Since then, the pandemic has disrupted global supply chains, has fragilised livelihoods and has accentuated structural weaknesses in businesses across all sectors, not only in Mauritius but throughout the World. The pandemic has led to an induced economic coma which is complex and distinct, as compared to a standard recession, triggered by a bubble bust or financial phenomenon. As of 31 July 2021, the global cumulative registered cases reached **197.1 M** and associated deaths of **4.21M**

1. The Global Economy in 2020-2021



The global economy suffered an economic contraction of **3.2%** in 2020, mainly attributed to forced economic isolation and lockdown, leading to loss in business activities, closure of borders impacting on travel, tourism, and global consumer demand. The IMF expects a rebound in the global economy with a projected growth of **6%** for 2021. The ongoing vaccination campaign across the globe has restored confidence and raised hopes of a turnaround. Although all regions are expected to grow this year, the pace of the recovery remains uneven. The advanced economies have been quick to vaccinate their population to allow more contact-intensive activities to reopen gradually and restore growth more rapidly, however inequities in vaccine supply are already evident in emerging and developing countries, thereby facing challenges in procurement, allocation, distribution, and uptake of vaccines.

The emerging and Developing Asia is forecasted to attain a swift recovery with a growth of **7.5%** for 2021 with India and China, expected to register a strong recovery of **9.5%** and **8.1%** respectively in 2021 on the back of effective fiscal stimulus, massive public investment and ongoing central bank liquidity support. Moreover, recovery sub Saharan Africa remains sluggish with a projected growth of 3.4% for 2021.

1.1 Global Food and Commodity prices building inflationary Expectations

The IMF in July 2021, projected global inflation to attain **3.5%** this year compared to **3.2%** in 2020. Inflation expectations are in the rise and growing risks of global inflationary pressure are looming with significant hike registered in global food and commodity prices since last year. The **FAO global food price index** stood at **124.6** as at **June 2021** representing a record rise of **36.4%** compared to **June 2020.** The sharp rise is explained by a surge in international prices of vegetable oils, cereals, maize and sugar. It is also important to note that, oil price has recovered from its April 2020 negative price to attain **USD $ 64** per barrel in **January 2021** and **USD$ 72** per barrel as of **June 2021** as countries ease on travel restrictions and open to the global markets following a massive contraction of **72.1%** in passenger air traffic as of December 2020 according to the International Air Transport Association.

1.2 Surge in Global Unemployment & Decline in Global Wages

There has been widespread disruption to labour markets around the world. Women and young people have been the main victims of unemployment and such losses have been particularly severe in sectors such as travel, tourism and accommodation leading to a rise in global unemployment rate from **4%** in 2019 to **5.2%** for the year ended 31st December 2020. Furthermore, according to ILO's Global Wages Report 2020-2021, there has been an estimated **12.1 %** drop in working hours globally accompanied by a **10.7 %** decline in global labour income – equivalent to **US$3.5 trillion** and downward trend in nominal wages across the world, disproportionately affecting lower-paid workers. Very few countries like UK, Australia, Sweden, Denmark, Canada, Singapore and Mauritius have put in place job retention and wage assistance schemes to keep people in employment during periods of inactivity.

1.3 IMF & Central Banks' Intervention around the World

On the global economic front, the IMF on 2nd of August 2021 has reviewed upward its Special drawing rights to a combined total of **US$ 650 billion** with the objective to enhance global liquidity, build confidence, and stabilise the global economy.

Likewise, central banks across the world have intervened with expansionary monetary policies to stimulate economies and ensure monetary stability. Central banks continue to pursue their accommodative monetary policy stance to support the growth momentum. The Federal Open Market Committee of the US Federal Reserve Board of Governors maintained the target range for the federal funds rate at **0.00-0.25** % at its meeting held on 16 December 2020, on account of a moderate rise in economic activity and improved labour market conditions. The Bank of England maintained the Bank Rate at **0.1%** on 16 December 2020. The European Central Bank, at its meeting held on 21 January 2021, left interest rates unchanged at, **0.25%.**

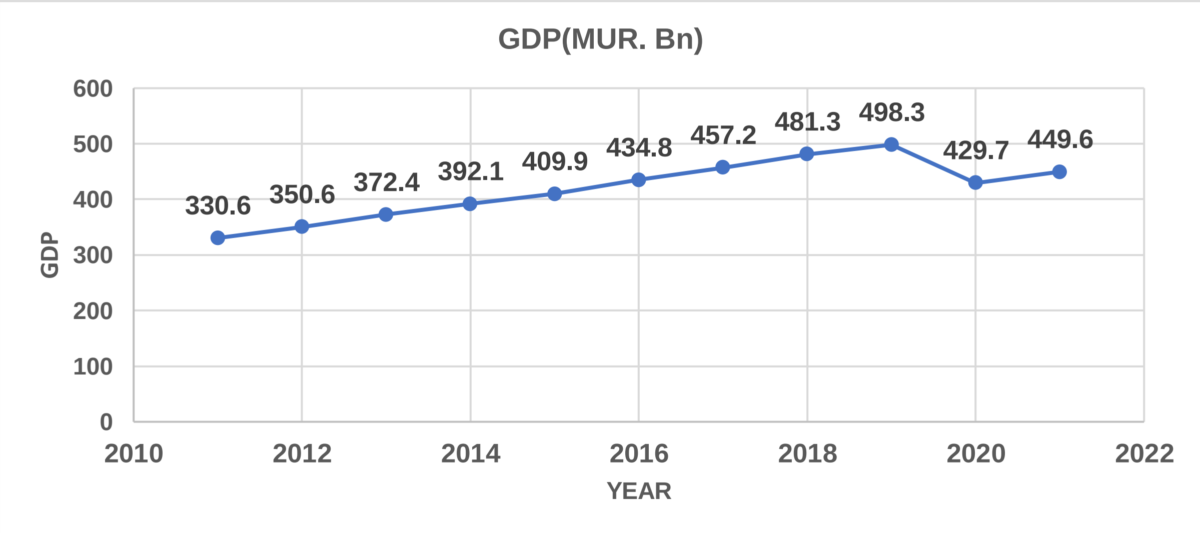
Central banks have also adopted unconventional monetary policy tools, by displaying their "Commitment effect" in providing assurance to investors of keeping the interest rates to its lowest for an extended period. Central banks also made use of both quantitative easing; to increase the size of the central bank's balance sheet beyond the level needed to set the repo rate near to zero and qualitative easing, by regular intervention in the bonds and securities market. The Federal Reserve of the USA has injected a historic record of **US$ 2.3 trillion** in its financial market during the last one year. The Reserved Bank of India has also transferred **US$ 24.8 bn** as dividend to the Government of India to ease fiscal pressure.

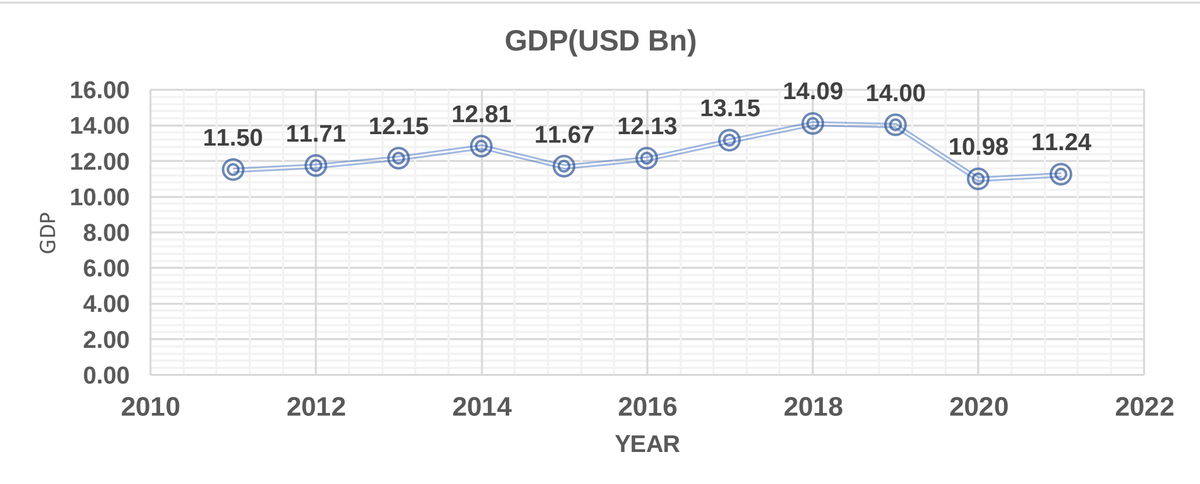
1.4 The Global Fiscal Response

Governments around the world have deployed significant funds to boost health expenditure, welfare payments and wage subsidies to firms to retain employees. The timeliness of fiscal responses has been effective in preserving the economic and social fabric across the globe. The US Government has introduced US$ 5.2 trillion as fiscal stimulus, representing **13.2%** of its GDP. Fiscal Response in Africa has been challenging due to limited fiscal space the required stimulus. According to the United Nations Commission for Africa, across the continent, 45 African governments have announced some form of fiscal stimulus in response to the pandemic, with South Africa, being the largest with a fiscal response of **US$38 billion.** Many African countries have also repurposed their existing budget plans and reduced the capital expenditures to ease up the fiscal pressures and adopted supplementary budgetary laws to streamline the necessary response funding. For the West African Economic and Monetary Union (WAEMU), it was necessary to suspend the fiscal deficit rule in order for member countries to borrow more than **3%** of GDP to finance the required stimulus responses.

2. The Mauritian Economy in 2020-2021

The pandemic has reiterated the vulnerability of the Mauritian economy to withstand any external shocks, coupled with significant downfall in tourism receipts and closure of the Mauritian border. The Mauritian economy experienced an economic contraction of **-14.9%** for the year **2020** following a growth of **3.1%** in **2019**.The resumption of business activities during the last half of 2020, has been reassuring even though most of the sectors have registered a contraction. The tourism sector has been the hardest hit with a contraction of around **-80%** in 2020 followed by the manufacturing sector with a contraction of **-17.8%.** The only two sectors that have registered growth rates are the **ICT sector (5.9%)** and the **Financial Services sector (1.0%)** respectively.





For 2021, the Mauritian economy is projected to grow by 5**%** from its 2020 growth baseline to reach **MUR 449.6 bn**. The economic rebound is expected to be driven by significant public investment in infrastructure, new metro lines, social housing and renewable energy projects under the public sector investment programme for 2021. Private sector investment is also projected to register a gradual hike with investment in agro industry, healthcare, renewable energy, manufacturing, and pharmaceutical sector emanating from the investment approval of the Economic Developing Board for 2021.

Headline inflation as of June 2021 stood at **2.2%** compared to **0.5%** for the 12-month period ending December 2019. However, inflationary pressures are expected in 2021 due to higher freight charges, hikes in global food prices, currency devaluations, followed by several regulations and labelling requirements that will impact on the cost of doing business and reflecting on the general prices. Evidently the above-mentioned conditions impacted on **unemployment,** which has been on the rise from **6.7%** in December 2019 to **9.2%,** as at end of **June 2021**. This increase in unemployment is mainly attributed to economic inactivity in tourism-related sectors.

2.1 The Triple Deficit in the Mauritian Economy

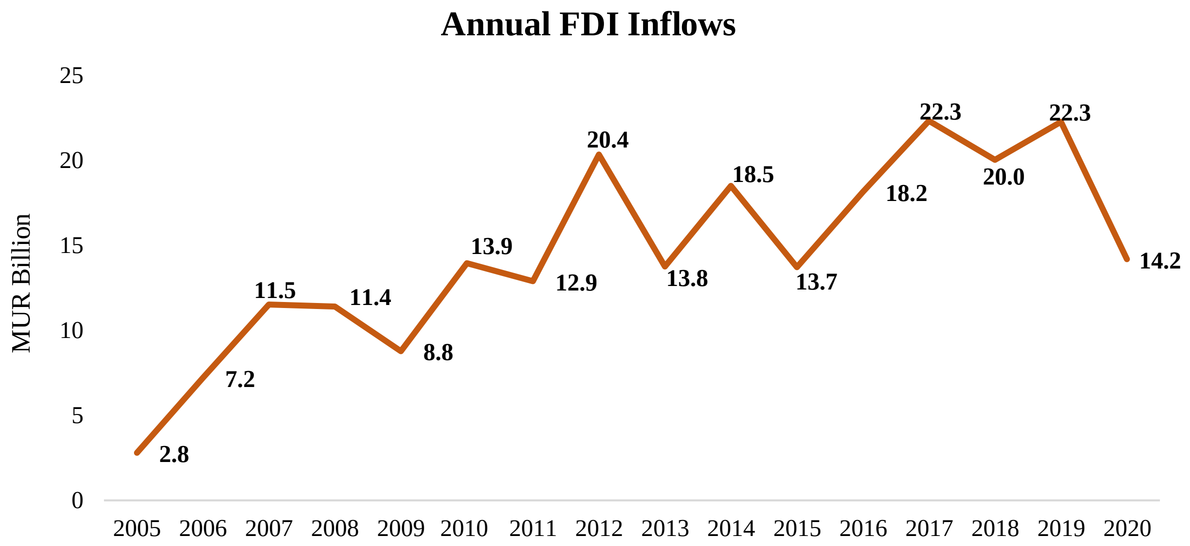
The Mauritian economy has been facing the triple shock challenges in containing its budget deficit, current account deficit and saving-investment gap. The projected budget deficit for 2020/2021 is 5.6% of GDP. The current account account deficit as at 31st December 2020 stood at **MUR 54.4** bn compared to **MUR 25.6** bn for 2019. There has been a one off significant hike in the current account deficit from **5.1%** of GDP to **12.6%** of GDP due to closure of border impacting drastically on travel and tourism receipts. Additionally, the country's overdependence on imports is also a cause of concern which needs to be addressed.

The third widening deficit pertains to the saving- investment gap. Gross Domestic Savings have been on constant decline since 2008. The highest gross domestic savings rate registered in Mauritius was in 1986 representing **28.6%** of GDP, followed by **21.1%** in 2007. The gross domestic savings have tumbled significantly to reach **8.2%** of GDP in 2020. The same trend is noted in Gross Fixed Capital Formation which represents both public and private investments. GFCF as a percentage of GDP has dropped from **19.6%** in 2019 to **17.9%** in 2020. The Saving-Investment gap stood at **9.7%** of GDP for 2020 estimated at **MUR 41.6 bn**.

2.2 FDI Flows in Mauritius

According to the UNCTAD's World Investment Report 2021, Mauritius was among the top 5 largest destinations for FDI among Small Island Developing States (SIDS) in 2020. However, under the strains of the pandemic, FDI inflows to the SIDS fell by 40%, to USD 2.6 billion compared to 2019 levels. This drop eliminated the gains recorded in 2019 and FDI inflows in 2020 stood at levels last seen in 2012.

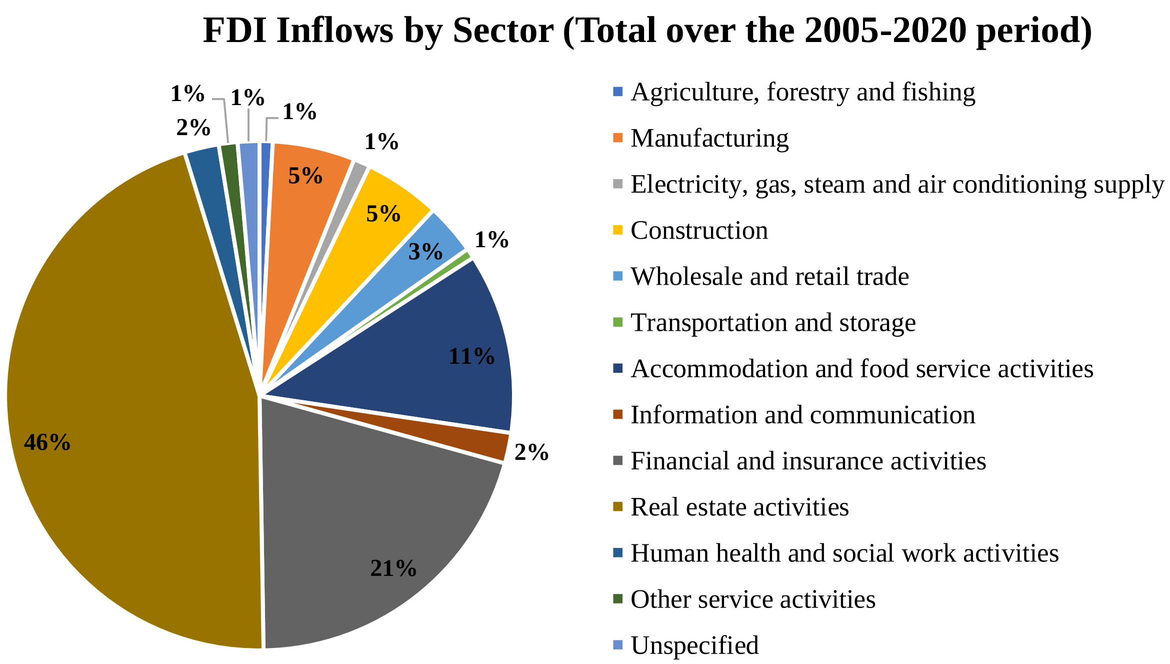
Over the 2005 – 2019 period, that is, prior to the onset of the COVID-19 pandemic in Mauritius, FDI inflow into the country grew by 696.4%, from MUR 2.8 billion in 2005 to MUR 22.3 billion in 2019. This was mainly on account of rapid growth in the Real Estate and Financial & Insurance sectors. However, 2020 witnessed a sharp drop in FDI inflows to Mauritius with sectors such as Accommodation & Food service activities, Information & Communication, Financial & Insurance activities, and Real Estate activities facing the largest declines in absolute value.



Source: Bank of Mauritius

Sectoral Classification of FDI

As shown below, the largest recipient of FDI inflows in Mauritius has been the Real Estate sector, accounting for, on average, 46% of total inflow of foreign direct investment over the last 15 years. This share rose from 37.8% in 2005 to 72.6% in 2019 and 60.1% in 2020.



Source: Bank of Mauritius

While the Real Estate sector commanded a major share of FDI into Mauritius, more than 70% of the FDI for this sector was directed to IRS/RES/IHS/PDS/SCS over the last 3 years with the main aim of promoting the development of a mix of residences for sale to non-citizens, citizens and members of the Mauritian Diaspora.

Over the period analysed, the 3 main recipients of FDI have been the Real Estate, Financial & Insurance and Accommodation & Food Service sectors. Given that in the former, the bulk of the FDI is directed towards schemes which do not generate much value addition to the economy, focus should be on attracting FDI in productive sectors that are growth driven and generating employment.

3. Challenges & Way Forward

3.1 Macroeconomic Policy for Economic Stabilisation

Since April 2020, the Government has come up with a set of policy mix to address and alleviate spilled-over consequences arising from the pandemic in Mauritius. A broad range of policy measures have been put in place to soften the impact of plummeting revenues on households and businesses. Measures such as tax relief, loan guarantees, Government Wage Assistance Scheme which have been effective since April 2020 are expected to phase out as from October 2021. It is imperative for the Government to plan and initiate a smooth transition towards the economic support exit.

3.1.1 Monetary Policy – Restoring Conventional Policy stance and practice

The Bank of Mauritius (BoM) has introduced several support measures since last year to households and businesses. Incentives include one year moratorium on household loans at commercial banks, extending line of credit from US$ 300M to US$ 500M, swap arrangements of US$ 100M to support import-oriented businesses. There has also been the timely intervention of the BoM to review donward the key repo rate to **1.85%.**

The BoM has also set up the Mauritius Investment Corporation Ltd (MIC), as a de-risking entity to support systemic and distressed companies. The two objectives of the MIC is firstly to mitigate contagion of the ongoing economic downturn to the banking sector, thus limiting macro-economic and financial risks; and secondly to secure and enhance financial wealth for current and future Mauritian generations while ensuring the stability of the banking sector. Monetary policy will also need to remain accommodative until significant economic recovery is attained. A steady inflation and stable financial markets should remain the topmost priority of the central bank. Moreover, delays have been noted towards the introduction of green bonds in the market which offer an exciting opportunity for both investors and issuers to encourage sustainable growth in environment friendly investments.

3.1.2 Exchange Rate Policy - Correcting Exchange rate disequilibria

The abruptness and speed of the economic meltdown during the last 18 months has caused serious damage to the foreign currency market in the country impacting massively on the business community. The Mauritian Rupee has shown sign of stress in maintaining its currency value vis-à-vis the USD, Euro and GBP. There is an urgent need to correct markets disequilibria and stabilise the value of the Mauritian Rupee. The BoM has continued to intervene on the domestic foreign exchange market to smooth out undue volatility in the rupee exchange rate and ensure that the rupee broadly reflects domestic economic fundamentals. Nevertheless, there has been a significant depreciation of the rupee in the last one year. The pandemic year has further intensified and dragged a depreciation of **22.7%** against the USD with the change in value of $1 at **MUR 35.2** in January 2020 to **MUR 43.2** as at the 30th of June 2021. The outcome has been destructive to the competitiveness of businesses in Mauritius coupled with exorbitant hike in freight charges.

3.1.3 Fiscal Policy – Right balance between Fiscal Stimulus & Fiscal Discipline

Suitable fiscal policy interventions, through the Covid-19 financial support packages, have served to relatively cushion the immediate impact of the sudden drop-in economic activities on firms and households, while at the same time preserving the country's productive capacity since last year. Government spending has been significant and has reflected on the growing public sector debts to reach **95%** of GDP as at end of June 2021. Consequently, the Government is currently in an economic trilemma consisting of (1) containing the debt level, (2) adopting an expansionary fiscal stimulus to shore up recovery and (3) to widen and consolidate social protections. It is paramount for the Government to have the right balance among its objectives, hence ensuring financial prudence while providing the required economic stimuli to re-ignite growth with the international full reopening of Mauritius this October.

3.1.4 Foreign Trade policy- Leveraging on the Potentials of the FTAs

The external trade has demonstrated encouraging signs with renewed export orders. Indeed, it is to be noted that export performance has been commendable during the fourth quarter of 2020 with exports increasing by **3.2%** compared to the corresponding period of 2019. Mauritius registered total exports to the tune of **MUR 128.9 bn** and total imports amounting to **MUR 209.2 bn** for the year 2020, resulting in a **trade deficit of MUR 80.3 bn**. South Africa ranked at the top, commanding **12%** of our total exports in 2020, followed by the United Kingdom (10%), the U.S.A. (10%), France (8%) and Madagascar (7%). As for imports, China (17%), the United Arab Emirates (12%), India (10%), South Africa (8%) and France (7%) remained our top 5 source markets in 2020.

2021, a year that is undoubtedly redesigning the global trading landscape, has also seen the coming into force of three major Free Trade Agreements (FTAs) signed by Mauritius: the Africa Continental Free Trade Area (AfCFTA), the Mauritius-China FTA and the Comprehensive Economic Cooperation Partnership Agreement (CECPA) with India. Those

FTAs cover not only the trade in goods but also, the trade in services and investment. Through these agreements, Mauritius is affirming its position as a leading hub in the Asia-Africa corridor, especially now that the shift from globalisation to regional concentration is a reality. Mauritius is geographically and strategically well-positioned to harness the potential of AfCFTA and act as a nexus along the India-Africa and the China-Africa Trade Corridor. Combined, the FTAs can serve as catalysts to boost trade and commerce. Taking into account previous agreements signed by Mauritius, for instance the Turkey FTA or the Pakistan Preferential Trade Agreement, the business community is facing a huge potential, representing 70% of the world market. To tap in these opportunities, it is vital that private business operators explore new possibilities in terms of joint ventures with foreign companies or move towards value-added products. In this vein, the Mauritius Freeport, as a tax-efficient and modern logistics hub, is to play a crucial role to attain this objective, thus facilitating the import of goods in semi-finished form, adding value in Mauritius, and then re-exporting them to both Africa and Asia.

The current context, however, poses several challenges that need to be urgently addressed. Amongst them are drastic increases in freight charges, ranging from **270%** and **400%** with regards to containers coming from Europe and China respectively, language barriers, and glitches noted in traffic & maritime connectivity, rules of origin and calculation methods.

Significant port delays have also been observed, heavily impacting on the cost of trading via Port Louis. It is high time to implement the Single Maritime window for vessel clearing, and hence, revitalise port services while making sure that port efficiency is at its optimised. The promotion of trade of goods and services, investment and commerce in the region would not be possible without boosting air and maritime access. A complete transformation of our existing network, leading to speedy connectivity is a must if we want to make the most of new business opportunities that are open to us.

The setting up of a Trade Development and Intelligence unit under the Economic Development Board (EDB), along with the creation of an E-Export Directory and an Export Development Programme, as announced in the last Budget, are bound to improve export readiness of business enterprises.

3.2 Accelerating Structural Reforms

The pandemic has created new headwinds, aggravating structural and systemic weaknesses. The result has inevitably resulted in an economic and social deterioration. Hence, it is the time now to embark on new structural reforms and welcome innovative policies.

3.2.1 Legal and Regulatory Reform

Regulatory reform is a necessity by the Government although regulations can have both positive and drastic effects on businesses. If the private sector is the main driver of economic development, it is the government which establishes the climate in which businesses operate. While private sector firms thrive more easily in a sound regulatory environment that creates a level playing field, all too often, regulations miss their principal objectives and lead to crippling businesses.

It has been observed that several regulations have burdened entrepreneurs and have dented business competitiveness, as with those pertaining to the plastic ban, tax on sugar sweetened products, imported fish, and the will to control the prices of pharmaceutical products. Most of these regulations are being decided without any prior consultation with the private sector, as a result of which, the cost of doing business in Mauritius is being heavily impacted. It is worthy to note that Business Regulation Reforms can be fruitful and have a maximum impact when undertaken in a coordinated and consultative manner.

The Business community is awaiting the earliest setting up of the RIA office for policy discussion and review. It is imperative that predicitability, visibility and clarity in business practices prevail. These conditions will be possible only if the Government: (i) provides timely notification of new proposed regulatory measures, (ii) is open to and invites consultations on new and amended regulatory measures, (iii) conducts appropriate assessment of the impact of proposed regulations.

3.2.2 Labour Reforms - skills mismatch, productivity, Training & Development

The current challenging context calls even more for a culture of productivity and competitiveness across all sectors of our economy. Fostering and attracting high skills are the impetus towards innovation and transformation. In 2017, Mauritius was ranked **45th** on the Global Competitiveness Index worldwide. In 2019, it regrettably lost 8 places in the ranking due to the decline in the average labour productivity in Mauritius, from 4.1% in 2009 to 2.5% in 2019. This bottleneck should be continually addressed, to create an environment conducive to innovation, investments in Research and Development (R&D), collaboration between universities and the private sector, and the protection of Intellectual Property. Innovation requires a skilled workforce in terms of both hard and softs skills. In addition to upskilling the local workforce, there is a need to attract and retain overseas talent to address the skills mismatch and to move up the value chain in the knowledge economy. Innovation should be induced and accommodative.

3.2.3 Pension Reform

Mauritius is experiencing an ageing and declining population, with far-reaching consequences on government finances. The number of people aged 60 and above stood at **239,041** as at December 2020, representing **18.8%** of the total population. It is expected to attain **23%** by 2027 and **35%** by 2057. Moreover, in 2017, there were **4.3** active people to support every elderly person, this ratio is expected to drop to **2.4** in 2037 and **1.7** for each older person in 2057. Demographic challenges call for the proper balancing social protection and fiscal sustainability with demographic challenges. **MUR 29.6** bn has been spent on the basic retirement pension in 2020 representing **6.9%** of GDP. The pension system, in its present form is a time bomb which needs to be addressed. Now is the time to embark on a national consultative pension reform to ensure a financially sustainable, fair, equitable pension system. Several options exist in terms of pension reforms to include targeted pension, insurance pernsion contribution, incentives to promote private pension contribution etc.The Contribution Sociale Généralisée (CSG) has had repercussions on the cost of doing business in Mauritius. Open consultations between the Government and the Private Sector are welcome to revisit the CSG and come up with a mutually agreed formula, less burdensome for businesses. A range of reforms, with well-thought economic and social impacts, could be implemented to mitigate the projected increase in pension spending.

3.2.4 Fiscal Reform

A sustainable public financial framework is paramount for the Government of Mauritius vis-à-vis international financial agencies like Moody's, the Mo Ibrahim Foundation, the World Bank and the International Monetary Fund. It has been observed that welfare spending and recurrent government expenditure are putting stress on public funds and at the same time, increasing the risks of a widening budget deficit and debt accumulation.

A sustainable fiscal reform, nurturing a philosophy of financial prudence and fiscal discipline must be undertaken, with the objective of widening the fiscal space while, enabling a simple and efficient the tax regime. Over the years, the tendency has been to modify the simple tax regime by adding more taxes, increasing tax rates whilst raising tax deductions and exceptions. Several tax exemptions became limited according to ceilings such as the solidarity tax and the CSG, which have further complicated tax impositions and raised the level of taxation for some individuals and companies. A simple and low tax regime is a key to the attractiveness of Mauritius, as it would facilitate tax declarations and motivate individuals and companies alike to contribute to the economic development. Conversely complex tax computations and high tax rates encourage tax avoidance exercises and could lead to lower tax collections than anticipated. Moreover, Government should also put more effort in revenue mobilisation by incentivising informal business activities to register and comply with relevant authorities

3.2.5 Educational Reform

Over the past two decades, successive governments have introduced several educational reforms in Mauritius and the last one is still being implemented in the midst of the pandemic. Education reforms should not only aim at academic excellence but should also target skills development for better employability on the job market. One of the most important components to make this goal achievable is to align educational programmes to country objectives in sunrise sectors. The expansion of the scope of post secondary, vocational, and technical education can be achieved by creating further avenues in polytechnics, Artificial Intelligence, virtual learning and lifelong skills development prospects.

3.2.6 Institutional Reform

The private sector, as the main engine for growth, should be supported with efficient public administration, by diminishing the cumbersome regulatory and bureaucratic procedures specifically in institutions like the Port, the National and Land Transport Authority, licensing agencies, municipalities, and district councils. Good Governance and accountability should form the core of any institutional reform to improve the business climate and the ease of doing business in Mauritius.

3.2.7 Investment facilitation

Mauritius remains a business friendly destination ranked **13th** out of **190** countries in the World Bank Ease of Doing Business 2020. Numerous prospects and incentives for foreign nationals to invest, work, live or retire in Mauritius are possible, through the Premium Visa

Scheme and the allocation of a ten-year Occupation Permit amongst others. Over the past 20 years, international businesses and high net worth individuals have trusted the Mauritian jurisdiction for headquartering their international business and investment. Over and above the setting up of their Head Quarters in Mauritius, the Government should incentivise those global businesses to conduct their real economic activities in Mauritius, by targeting those specialised in bunkering activities, automation, software development, renewable energy and heavy engineering who are already domiciled here and should extend their business activities to Mauritius.

3.2.8 Reform towards Technological absorption & Digitalisation

The New business eco system is anchored with a growing attention to digital behaviour, remote working and learning, telemedicine, and delivery services; furthermore, other structural changes have also started to accelerate, including regionalisation of supply chains and a further outburst of cross-border data flows. However, it has been observed that both public and private sector organisations face the challenges of technological absorption, with low absorptive capacity to be the leading constraint to greater technology absorption due to shortage of skills and lack of expertise. Furthermore, in terms of E-Government, Mauritius currently ranked **63** in the E-Government Development Index should aim to improve its ranking. Both private and public sector organisations need to adapt to the age of Blockchain and digitalisation.

3.3 Ensuring Fair Competition & Market Transparency

One of the current challenges to do business in Mauritius pertains to the lack of transparency and clarity and market fairness regarding policy measures which can potentially distort the market and affect the level of competition. To this end, the implementation of policies and regulations should be carried out in a phased guided manner with a mutually acceptable transition time. The competition law in Mauritius should aim to encourage sound competition by ensuring the principles of market forces to prevail. Market forces should not be artificially manipulated as it disrupts market fundamentals. It is paramount to foster a transparent environment for conducting business activities, promote free market policies, justice meritocracy and the rule of law.

3.4 Enhancing Good Governance & Accountability in both Public and Private Sector

The nexus between Good Governance and Ease of Doing business is vital in building trust in the business community. The National Code of Corporate Governance should be anchored in both public and private sector organisations. Good corporate governance encourages better informed and longer-term decision making, as well as the efficient use of resources. It is imperative to introduce an assessment matrix and to establish a benchmark for frequent evaluation of both public and private organisations to assess their level of compliance towards the National Code of Corporate Governance. It should involve robust scrutiny, which places important pressures on improving organisational efficiency and at the same time tackling corruption.

3.5 Re-building our Industrial Base

The Industrial Policy and Strategic Plan (2020-2025) comprises 22 recommendations that will need to be effectively and timely implemented to transform the manufacturing base of Mauritius as globally competitive and sustainable manufacturing sector. The focus is to create a solid industrial foundation driven by smart production techniques, process innovation, high end technology with a skilled labour force to boost local production capabilities and improve on regional competitive and comparative cost advantages. Constant Public Private dialogue and participation are inevitable to ensure effective implementation of this new industrial policy. Moreover, the setting up of the Industrial Financing Institution (IFI) to embrace the transition towards this industrial upgrade is crucial. The oversight committee should closely monitor the implementation of the manufacturing sector skills development roadmap and a labour market flexibility framework. Consequently, it is imperative for the business community to embrace an innovative, skill-intensive and technology-driven strategy to enhance its competitiveness.

3.5.1 Reducing leakage of resources &over-dependence on external resources

Mauritius, as a Small Island Developing State, relies heavily on external resources in terms of raw materials, finished products, and labour resulting in excessive outflow of foreign currency and a loss of potential economic output. It is time to address this issue partially, starting with the encouraging local production and devise an import substitution strategy as recommended in the new Industrial policy 2020-2025. Outward remittances are also a source of leakage since, as the earnings of foreign workers are not being fully injected in the Mauritian economy. It is thus important to reduce such loss of resources and boost Mauritius' productive capacity to strengthen the country's industrial base. It is recommended that Government, through the Economic Development Board in consultation with private sector agencies, conducts an assessment of imported goods and services which can be locally produced and for which Mauritius can build a comparative advantage in the long run, compared to its regional counterparts and secondly, to ensure the development of skills and know-how required to build the cost competitiveness of local production. The industrial capacity of the country needs to be boosted and its export potential increased with rigorous implementation and monitoring.

3.5.2 Developing & Nurturing Sunrise Industries

Mauritius must set the base in developing sunrise industries. Beside the traditional sectors of growth, Foreign Direct Investment and expertise in sectors such as blue economy, renewable energy, circular economy, cane industry, pharmaceutical and nutraceutical need to be attracted. There is also a call to diversify the export base and explore new growth avenues.

i. Blue Economy

Mauritius has a huge marine ecosystem which has always been exploited by international competitors. There are immense opportunities in setting up fish processing and sorting, acquaculture and sea minerals as a new sector of growth. It is recommended that the government re-negotiate towards the renewal of the EU-Mauritius Sustainable Fisheries Partnership Agreement by including a proportion of fish stock to be processed and sorted in Mauritius. Government should also invite international Public-Private Partnerships to develop this sunrise sector. Government should also address the challenges faced by fishing operators such as warehousing, high storage cost and maintenance cost. Port development and cargo handling, which are key components in making the island a regional hub for seafood and processing of high-quality fish produce and other related products, also necessitate innovative technologies to downsize bureaucratic and cumbersome proceedings.

Aquaculture and deep-sea mining have tremendous business development potentials and should be explored by the business community. The transfer of expertise and technology to empower local start-ups to invest in this new sector should be facilitated. It is also important for government to incentivise firms to conduct research and develop aqua-based products.

A strong determination and commitment is required to effectively implement the blue economy strategy roadmap 2020-2024. There are tremendous potentials on facilitating seafood-related activities, including fisheries and aquaculture; shipping and maritime transport, freeport activities and bunkering, coral farming and rehabilitation, coastal and marine tourism in Mauritius.

ii. Moving from sugar to cane industry

The Mauritian cane industry has historically been dependent on the production and exports of sugar. Export levels have fluctuated over the years and are expected to show a declining trend in the future due to a lack of innovation in the sector and strong competitors in Africa, namely, South Africa and Eswatini. It is imperative for the Mauritian cane industry to diversify and attract investment to boost such diversification measures.

Sugar cane is a highly sustainable renewable source and possible diversification avenues include the use of bagasse to create electricity and the production of bio-polyethylene (building block of bio-plastic) from ethanol to reduce dependence on petroleum-based plastic and lower CO2 emissions. This, however, requires strong commitment from both the Government and the private sector for awareness creation and investment.

iii. Renewable and Green energy

The government's energy strategy aims at fostering the adoption of renewable and clean energies to curb the country's heavy reliance on fossil fuels and mitigate greenhouse gas emissions. The government has announced plans to ramp up the use of renewable energy sources for electricity generation from the current **13.3%** in 2020 to **60**% by **2030**, as announced in the 2021/22 Budget. It is important to note the investment priorities as incentivised by the government in areas such as wind farms, solar energy, biomass, wave, and waste-to-energy projects.

iv. Marine Bioenergy / Ocean Energy

Marine-based renewable energy is attracting interest worldwide due to its commercial potential. Business organisations are investing in technologies to marine bio enrgy using wind, sea waves, tidal and microbial fuel cells. Mauritius should optimise on its marine reources and develop business and investment opportunities. It is recommended that Government conduct a feasibility study on the investment potenials of Marine Bioenergy in Mauritius and seeks expertise from countries like UAE, Australia and India.

v. Pharmaceutical and Nutraceutical

The development of the pharmaceutical industry in Mauritius represents an essential component of the Government's economic agenda to diversify into new sectors of activity, especially in light of the COVID-19 pandemic. It is essential to invest local pharmaceutical production through joint ventures and strategic alliances.. The development of this sunrise industry would position Mauritius to tap on the huge African market, most of which are in high need of pharmaceutical products, on preferential grounds due to regional trade blocs. For instance Nigeria pharmaceutical imports is USD 2.8 billion for 2019 , followed by South Africa USD 2.4 billion and Kenya USD 530.8 million. the setting up of a pharmaceutical industry in Mauritius will increase intra-African trade. Nutraceuticals also offer diversification opportunities in the healthcare industry. Worldwide, preventive medicine and supplements are gaining prominence with the nutraceutical industry expected to reach a global net worth of USD 340 billion by 2024.

vi. Export of Services, Knowledge & Expertise

Many countries have achieved the three tiers of economic transformation from primary, to manufacturing and service-led economy. However, very few such as Singapore, Japan, Switzerland, Norway and Sweden have been successful in developing a four-tier economic transformation from a service-led economy to a knowledge-based economy.

Mauritius has the core competencies to export its inherent knowledge and expertise to Africa in the fields of sugar research and cultivation, tourism, financial services, teaching etc. There is huge potential to optimise on the trade in services chapter under the AfCTA and use the retired human capital in Mauritius and make them ambassadors of knowledge representing the Mauritian Grey Asset to the African Continent.

vii Developing the Cultural economy and the economy of Sports

Most countries attract tourists based on their cultural heritage, it is essential to set the foundation towards developing "L'Économie de la Culture" in Mauritius. With diverse cultures and rich history of Mauritius, many sites should be embellished not only as a matter of interest but mainly in terms of employment for a number of economic operators.

Similarly, the Sports Economy is largely unexploited in Mauritius where Sports are considered as leisure but rarely as a source of income. In both these sectors it is important that proper assessment and adequate legislation be adopted for these sectors to flourish and prosper.

3.6 Moving Towards Circular economy

Sustainable practices and the adoption a circular flow or resources to include the reduction of waste, reuse and recycle of resources in Mauritius are vital. In Mauritius, solid waste disposal is estimated at **1,488 tonnes** generated **per day**, which translates into **1.22 kg** per **capita daily.** The Government should provide a clear roadmap in facilitating and promoting a circular economy rather than just simply banning use of several products such a plastic bags and bottles. In the same vein, it should initiate a public private dialogue to come up with a sustainable circular economy road map that will not only improve the Cost of Doing business in Mauritius but will also sensitise and encourage the entire population to adopt sustainable practices. it is also recommended to undertake a comprehensive assessment of the waste management industry with the aim to implement waste reduction strategies and promote re-use and recycling initiatives. Moving forward, discussions towards the implementation of the Extended Producer Responsibility (EPR) should be undertaken.

3.7 Strengthening Regional & Multinational Solidarity

Substantial uncertainty experienced during last year has shifted the focus from globalisation to regional concentration. It is due to severe disruptions into the operations of global value chains, providing incentives to scale down segmentation and bring production closer into the region to ensure speed to market. These impediments have resulted in a contraction in both the country's exports and imports by 10.8% and 16.3%, respectively, in 2020.

Export competitiveness remains a holistic challenge for the Mauritian export sector. In fact, over the past years, Mauritius has lost market shares in its major traditional export sectors which include tourism, sugar, and apparel and clothing. It is crucial to explore synergy and cooperation in regional markets and enhance intra-regional trade. Intra African Trade is the lowest intra-continental trade as a percentage of total trade standing at **18%,** compared to **35%** for Latin America, **45%** for Asia, and **60%** for Europe in 2019. The SADC and COMESA Business council are called to play a vital role to develop and promote intra-regional trade through B2B meets, strategic alliances, joint ventures in the region and at the same time address issues such as harmonisation of product standards and rules of origin. Furthermore, Mauritius depends heavily on connectivity for tourism development and trade activities. Hence, enhancing intra-regional connectivity, both by air and sea remains a fundamental challenge that needs to be addressed at the earlies to expand tourism and export activities in the region. Furthermore, Mauritius has set up 2 warehouses in Tanzania and Mozambique and special economic zone in Senegal, Madagascar, and Ghana to develop and promote regional trade.

3.8 Positioning Mauritius as an Emerging Arbitration centre in Africa

Mauritius has good prospects to position itself as an emerging arbitration centre for business organisations in Africa. Mauritians are bilingual, the island is in an ideal time zone for international customers along with a favourable geographic location vis-à-vis South Asia, Australia and Africa which makes it a potential arbitration centre for Africa. The country is also politically stable with a long tradition of democracy and respect for rule of law. Mauritius also has excellent hotels and conference centres which serve as excellent venues for arbitration with good available secretarial support. The recent budgetary measure calls for court procedures in expediting commercial disputes to be seamless and delivered within a specified timeframe. This initiative will encourage potential investors to choose Mauritius as an investment platform. Furthermore, with the enforcement of the Free Trade Agreements with India, China and Africa, several opportunities will be unlocked in terms of trade dispute settlements and hence promote an effective and efficient judiciary.

3.9 Concluding Note

The Covid crisis affected all countries of the world. The World Economy came to a standstill and is reeling with numerous challenges still unresolved. Mauritius is one of the countries that was most hit by the pandemic. It became apparent that following the many years of economic growth since Independence, some gaps and inefficiencies have not come to the fore and, to a certain extent, remained unnoticed. The World Economy is witnessing paradigm shifts in technology, geopolitics, and trade. Mauritius, as a Small Island Developing State faces several internal and external challenges that need to be addressed at the earliest.Now, Mauritius finds itself in a level of economic prosperity that is similar to 10 years back, it will take a national collective effort to overturn this downfall.

Mauritius also runs the risk of witnessing a surge in informal economic activities in the wake of continuous increase in taxes and new complex legislations, mostly aimed to the structured and formal economy. In such a scenario, government revenue will be further impacted, and so will be our capacity to grow and develop.

New challenges include optimising on the full potential of the newly signed Free Trade Agreements, the development of sunrise sectors and the implementation of structural reforms. The effective and timely adoption of the new industrial roadmap 2020-2025 will be decisive in attaining a new cycle of growth, as will the enhancement of both labour and capital productivity and restore competitiveness across all sectors.

The ongoing cooperation and dialogue between the Public and Private sectors since independence has been pivotal towards the economic development and success of Mauritius and should remain so.

Putting the country back on a transformative journey, towards economic prosperity, business growth and inclusive growth, is up to us as a nation. It is a collective effort, aimed at protecting and enhancing our common wealth: our nation. 53 years after its Independence, Mauritius is once more standing at a crossroads.

The current context calls for a paradigm shift in terms of mindset. Individuals, households, businesses and most importantly, the Government, should abide to prudential spending and financial discipline. With substantial fall in revenue as explained above, the solution lies in financial discipline and hence the prominent role of the Ministry of Finance to not only set the tone but to ensure strict enforcement of financial guidelines.

It is up to us: the Authorities and the private sector to lead the people of Mauritius, as a Nation, to rise to the challenges and to emerge stronger from the pandemic.