Mauritius is an economic success story. The economy has sustained high 6 per cent annual growth for two decades - first driven by sugar, then textiles and clothing, and tourism, and most recently by financial services. Economic growth and structural change were achieved while maintaining national stability and social cohesion. A generation of Mauritians has enjoyed a rise in living standards that few countries can match, reaching an income per capita of $4,000 today. What was once, only another commodity producer, today is the leading manufactures exporter in sub-Saharan Africa.

Foreign direct investment has played a small but pivotal role in Mauritius. In 1970, the Government enacted an Export Processing Zone Act (the first in Africa), attracting small Asian investors to locate textile and garment manufacturing operations in Mauritius and benefit from the preferential access to the European and United States markets. The main exporters are now national companies. FDI is also important in tourism, another pillar of economic prosperity. In the 1990s, Mauritius entered the league of outward investors, as firms began to establish operations in lower-wage sites in the region. The "flying geese" pattern, visible in Asia and Latin America, is finally in the making in Africa, with tiny Mauritius as the hub.

Mauritius is one of the few countries to successfully deploy FDI to maximize the opportunities of preferential trade status, notwithstanding limited supply capacities and remoteness from world markets.

Now a middle-income country, Mauritius faces challenges of a mature developing economy. Rising labour costs are eroding the competitive edge in garments manufacture. Future growth will have to come from efficiency gains and upgrading of production in established industries and from the development of new growth poles, such as regional business and financial services. Unlike manufacturing where competition is global, services can be more regionally based, partly shielded from global competitors.

Will Mauritius move to the next stage of development? Put starkly, this depends on which of two options Mauritius pursues. The first option entails riding out the current development phase, which appears to have reached an inflexion point and settle for slow growth. Conversely, Mauritius can re-invent itself and enjoy another S-curve of growth for the next 20 years. This report pursues the second option.
To sustain high growth, Mauritius must shift more forcefully into higher value sectors, including financial services, business services and information technology. Wealth in these sectors is derived from knowledge networks and a sophisticated support infrastructure that demands substantial capital and expertise. FDI can help Mauritius establish the attributes needed to compete globally in these high value service sectors. Nevertheless, to attract FDI of this kind will require a focused promotional strategy and a substantial overhaul of the policy and operational framework for FDI in line with worldwide "best practice" standards. This theme is developed in the report as follows:

Chapter I summarizes FDI trends. Mauritius has not received significant FDI in nominal terms but FDI has contributed importantly to the diversification of the economy from an exporter of sugar in the 1970s to an exporter of textiles and garments. As Mauritius shifts increasingly into higher value added sectors, FDI will be critical for growth and international competitiveness.

Chapter II reviews the investment policy framework, outlining reforms that can lead to a more attractive FDI environment. It falls short of best practice in respect of openness to FDI and transparency of policy. Initiatives to improve FDI and growth performance would include removing the differentiation between local and foreign investors, undertaking the fast-track privatization of state-owned utilities, improving the institutional arrangements for FDI, focusing tax incentives and addressing issues of market competition.

Chapter III provides a strategic perspective on how Mauritius can re-position itself to compete in international markets and make the upward structural shift using FDI. The potential lies in moving into high value services, but this will require priority attention on innovative ways to put the local development of human capital on a faster track. More vigorous human resource development especially at the tertiary education level is a clear imperative in the repositioning of Mauritius to attract investment in high value services. Infrastructure and utilities are central to the efficient operation of the rest of the economy. The recent partial privatization of Mauritius Telecom is an encouraging step, and privatization and liberalization in this and other service sectors must be built upon to provide quality low cost services to business. Close monitoring of international competitive indicators is important.

Chapter IV examines FDI potential in regional financial services, information technology and the marine sector: Foreign investment can be used to build a regional financial services industry. There is potential to tap private and institutional funds to service the region's increasing demand for investment funds for infrastructure and other industrial projects. Scope for FDI opportunities in information technology are in three key sub-sectors but the challenge lies in removing the constraints of high cost of telecommunications services, and the limited pool of skilled professionals. There are still investment opportunities in marine resources, as this sector has not been fully exploited.

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