

MAURITIUS

Port Louis (gtai) – Mauritius is one of the few countries in Africa that ranks high in prosperity, democracy and political – and economic freedom. It should stay that way, thanks to ongoing efforts to diversify the economy. The island republic is especially recommended as a business link between Africa and Asia. Although Mauritius is not a major market for German companies, it offers a reasonable number of customers who can appreciate and pay for quality.

ECONOMIC PROSPECTS

Mauritian economic growth will range between 2.8 and 3.9% in 2018 and beyond. The country is highly dependent on the world economy, and in particular on trade with Europe and China. The influence of the central bank, which has recently tried to stimulate the economy with a loosening of monetary policy, is low. Positive stimulus is provided from investments in the port infrastructure and new fish processing plants, promoted under the slogan 'Ocean Economy'. The Mauritian textile industry, an important economic factor, continues to benefit from the United States' African Growth and Opportunity Act (AGOA). Fears that US President Donald Trump could overturn these customs allowances have not materialised yet.

Thanks to government infrastructure projects, the construction industry is strengthening again, after a prolonged slowdown. The tourism sector is also recovering, although the dependence on European guests can only be slowly reduced. However, even small fluctuations in the Euro rate have an impact on tourist numbers. The areas of financial services, information and telecommunication technologies as well as the business outsourcing sector continue to be successful. The small island in the Indian Ocean remains a showcase state: a small agricultural economy, which had no more than cane sugar could be converted into a modern state with a diversified economy.

The key to success were and are political conditions that give entrepreneurs and investors the necessary space and opportunities for business. By international standards – and certainly in African comparisons, Mauritius rates as outstanding in many indices: The country is the only African full-democracy, and occupies top positions in the Economic Freedom Index, the Ease of Doing Business Ranking and the Corruption Perceptions Index. In international tourism Mauritius is a top address and ranks highly with know-how

and quality like no other country in Africa. In areas such as business process outsourcing and ICT, Mauritius can benefit from its time zone between Africa and Asia and is recognised as a cosmopolitan, non-military multicultural state.

INVESTMENTS

According to the EIU, Mauritian investment grew by some 3.3% in 2017. For the next five years, growth of up to 5% is expected. The background is a series of ambitious government investment plans designed to fuel economic growth. The port infrastructures are to be expanded significantly to make Mauritius an attractive trans-shipment center. The government is also promoting an 'ocean economy' that will stimulate the fisheries sector and attract private investors for fish processing.

The construction sector is also being revitalised by public projects such as new roads, electricity and water projects and a new light rail system. There are ambitious mid- and long-term plans for the digital infrastructure to be developed with private participants. Possible barriers include cumbersome bureaucracy and the self-imposed ceiling on government debt, which as from 2018 amounts to 50% of gross domestic product (GDP); this mark is, however, not likely to be maintained in the foreseeable future.

CONSUMPTION

Private consumption will grow in real terms by an estimated 2.4% in 2018. In the following years, the EIU estimates that growth rates of between 2.2 and 3% are likely. In terms of real changes in state consumption, the EIU expects growth of 4% in 2018 and then rates of 2.5 to 3.2%. Inflation had risen to 3.7% in 2017, but is expected to fall to an anticipated 0.9% by 2020. Monetary devaluation in Mauritius is almost entirely attributable to changes in exchange rates and global commodity prices. The government is trying to counteract this with price controls.

Mauritian consumers enjoy a remarkable level of prosperity: by African standards they



| | |
|------------------------|--|
| Area | 2 040 km ² |
| Population | 1.26 million (2017) |
| Population growth | 0.1% |
| Official language | None |
| Capital | Port Louis |
| GDP growth | 3.8% (2017) |
| President | Parmasivum Pillay Vyapoory (acting since March 2018) |
| Ease of doing business | 141/189 (2015) |
| Currency | Mauritian rupee |

Sources: World Bank, World Fact Book

SWOT ANALYSIS

Strengths

According to Democracy Index 2016, the only full democracy in Africa.
 Best African country in World Bank's Ease of Doing Business Ranking.
 Most stable country according to the Fragile State Index 2016 (Fund for Peace).
 Relatively diverse economy.
 Comparatively well-educated and competent work force.

Weaknesses

Crippling bureaucracy.
 High dependence on world economies.
 Island location.
 No land reserves for building or agriculture.
 No mineral resources.
 Limited potential for energy generation.

Opportunities

'Ocean Economy'
 Business process outsourcing
 Other bilingual (English/French) online services in the time zone between Europe and Asia.

Threats

Cyclones, Tsunamis, rising sea level
 Social tension; large gap between rich and poor
 Overcrowding and environmental degradation
 Terrorism
 Termination of the AGOA Agreement by the new US administration

KEY ECONOMIC DATA

| Indicator | 2016 | 2017 | Comparative data Germany 2017 |
|--|--------|--------|-------------------------------|
| GDP (nominal, billions USD) | 12.2 | 13.0 | 3,686.7 |
| GDP per capita (nominal, USD) | 21,110 | 22,302 | 44,595 |
| Population (millions) | 1.26 | 1.26 | 82.7 |
| Exchange rate (1 USD = Mauritian Rupee (MR)) | 33.84 | 34.50 | |

Sources: IMF, German Federal Bureau of Statistics

FOREIGN TRADE (USD MILLIONS)

| | 2016 | 2017 | % change |
|------------------|--------|--------|----------|
| Imports | 4,408 | 4,635 | 5.1 |
| Exports | 2,359 | 2,376 | 0.7 |
| Balance of trade | -2,049 | -2,260 | |

Source: EIU

SELECTED MAJOR PROJECTS

| Project | Investment amount (USD) | Project Status | Comment |
|--|-------------------------|---|--|
| Port Louis Smart City Concept Plan | 1,500 million | Planning; various projects | Various private and public stakeholders |
| Extensive development of Port Louis harbour | Unknown | Various projects | Mauritius Ports Authority |
| Oil Refinery | Unknown | Planning | Ministry of Commerce |
| Wave Energy Project | Unknown | Feasibility study* | Carnegie Wave Energy Ltd., Australia |
| 26 km Light Rail Project | 583 million | Start of construction: Feb. 2018. Commissioning of the first 13km: 2019, completion: 2021. Anticipated extension by 11km. | 353 million USD loan from government of India. Contractor: Larsen & Toubro (Mumbai) |
| 8-year 'Renewable Energy Project' | 191 million | Started November 2017. Phase 1: Improving the electricity grid; Phase 2: Expansion of solar power generation on the island of Agalega.* | Financing commitments from the Green Climate Fund (GCF) and the United Nations Development Program (UNDP) |
| National Sewerage Master Plan | Unknown | Planning | Mauritius Wastewater Management Authority |
| Undersea Cable | 150 million | Tender issued | IOX Cable Ltd. |
| 67 MW Heavy Diesel Power Plant | 120 million | Under construction | Burmeister & Wain Scandinavian Contractor |
| 10,000 solar PV systems for rural households | 20 million | Financing secured* | 10 million USD preferred loan from the Abu Dhabi Fund for Development (ADFD) and the International Renewable Energy Agency (Irena) |

Source: gtaï, press reports; * Renewable energies should provide 35% of the national energy mix by 2025.

have one of the highest per capita incomes and progressive social policies. In January 2018, the (effective) minimum wage more than doubled year-on-year to 283 USD, a political move due to the election year of 2019. Though, economists warn this increase is not covered by productivity gains.

FOREIGN TRADE

A competitive Mauritian industry that can serve foreign markets, can -in the African context- pay better salaries. However, Mauritius is competing against countries that pay far less. On the import side, Mauritius needs more and more capital goods for its infrastructure programs. This increases the trade deficit. The services balance is positive: exports of insurance, telecommunications and financial services and the tourism business are developing very well. The remaining current account deficit can be offset by foreign direct investment and private borrowing.

As supplier to Mauritius, Germany played a modest role in 2016 with a share of 3.1% (2015: 2.4%), though this is a significantly higher market share than in most other countries south of the Sahara (apart from South Africa). Preferred supplier countries are the PR China (17.7%) and India (16.5%). According to figures from the Federal Statistical Office, Germany delivered goods to Mauritius in 2016 for 120.8 million euros (compared to 2015: +37%). German imports totaled 62.9 million euros (+31%).

SECTOR SURVEY

Mauritius has created a sustainable economy in which people can live freely and without poverty. In doing so, the country successfully builds on clean industries and is developing visionary urban planning concepts such as 'smart cities'. In spite of the small size of the market, German companies would do well to pay close attention to Mauritius – especially as the island is also an attractive tourist destination.

Anyone who has traveled extensively in Africa and then travels to Mauritius, experiences a world of difference: a modern, efficient airport with courteous officials, money exchanges without 'airport surcharge' and a choice of professional car rental companies (including the German Sixt). The roads are narrow and winding in places, but often freshly tarred, without potholes and generally very clean. Apart from the smoking buses of the underfunded public transport company, the

traffic consists mainly of newer cars - compacts and hatchbacks. Especially along the highway between the airport and the capital Port Louis you see newly built high-rise buildings of IT- and financial services companies. Even small towns now have one or more modern supermarkets.

SUSTAINABLE ECONOMIC GROWTH

According to the UK's Economist Intelligence Unit (EIU), Mauritian economic growth will reach 3.8% in 2018. The small, open and trade-active island state is heavily dependent on the global economy and especially on Europe and China. If growth slows down there, it will also weaken in Mauritius. A positive stimulus comes from investments in port infrastructure and in new fish processing plants, promoted under the slogan 'Ocean Economy'.

The Mauritian textile industry, an important economic factor, continues to benefit from the United States' African Growth and Opportunity Act (AGOA). Fears that US President Donald Trump might overturn this duty-free benefit have not materialised. The construction industry is strengthening thanks to government infrastructure projects.

The tourism sector is on a steady successful path. And the high dependence on European guests can be offset by holiday groups from new markets. The areas of financial services, information and telecommunication technologies and the business outsourcing sector continue to be successful. There is also a new, and promising branch of business is cosmetic surgery: many tourists choose to combine their cosmetic treatment with their holiday.

'SMART CITIES' FOR WEALTHY FOREIGN INVESTORS

A future concept is seven 'smart cities' – though rather a vision than a concrete plan. Land is to be identified for the construction of 'autonomous' settlements – with an own electricity supply based on renewable energies, own water and wastewater systems and state-of-the-art telecommunications equipment. Each of these settlements should have room for 'clean' industries, homes, schools, hotels and businesses. The big idea is to give people short distances: instead of travelling by car or by bus, you should be able to walk or cover any distance by bicycle. Wealthy foreign investors are to be enticed with attractive tax incentives and residence rights.

When the International Monetary Fund (IMF) and World Bank announce the economic leader board for Africa, Mauritius is never

mentioned. The reason: a fixation on nominal growth rates – without qualifying basis. Take Kenya for example: the World Bank forecasts GDP growth of 5.5% for 2018. May sound good, but would not stand up to a critical analysis. The growth is almost entirely on account of a continued high population growth of about 2.6% as well as overpriced and loan-funded Chinese infrastructure projects. And exports are in fact unprocessed agricultural products and raw materials. For a long time now Kenya earns the largest foreign exchange revenue from the growing number of Kenyans abroad who send more money home than tea- and tourism revenues combined. According to the World Poverty Clock around 22% of Kenyans live in extreme poverty, despite these positive growth forecasts.

Mauritius is very different: Population growth 0.1%, people living in extreme poverty 0.2% (by comparison: Italian population in extreme

poverty: 1.1%). In the past, Mauritian exports focused predominantly on sugar; today, exports are more diversified. High-quality clothing and textiles are the big industrial profit center, and near perfect high-income tourism reliably pour foreign exchange into the coffers, while the financial sectors offer qualified employment opportunities. Mauritius is (therefore) not dependent on the money of foreign Mauritians and development aid organizations.

Nevertheless, even in paradise there are challenges. At around 62% of GDP, national debt is too high – but at least a statutory debt ceiling has been in place for some time. As in many countries around the world, the government is quick to deliver, but not to save, especially during election campaigns. Mauritius remains dependent on international developments, especially Europe, which accounts for half of Mauritian exports and attracts as many tourists. ■