

Preface

This book describes the growth pattern of a small island economy that has over the last four decades transformed itself from a poor, mono-crop sugar economy, to a diversified services economy and become a middle-income country, overcoming the constraints of economies of scale posed by an exiguous local market. The Mauritian experience reveals that size *per se* is not a handicap. Ultimately, economic transformation depends on: the will and the commitment of the political class to development, mobilisation and efficient management of resources, right market positioning, investment in human capital and policy flexibility to adjust to changing circumstances.

Dependent on sugar for 98 per cent of its exports earnings at independence in 1968, Mauritius successfully adopted an export-oriented industrial policy based on export processing zones (EPZs) and tourism. It harnessed the European Union's (EU) commodity protocols to maximise earnings from exports of sugar. Similarly, the country successfully built a world class textile and garment industry on the quota system that was established under the Multi-Fibre Agreement (MFA). However, new threats appeared with 'globalisation' in the 1990s pushing towards the liberalisation of international trade and highlighting the vulnerability of the economy to external shocks – in this case the erosion of preferences in the EU and the United States of America.

The new millennium called for a new economic trajectory. Thus, in 2004 a competitiveness foresight exercise, carried out by the National Productivity and Competitiveness Council (NPCC), concluded that Mauritius had to diversify into a wider range of services. Movement in this direction started with the Budget Speech of 2006, which engaged the country on bold economic reforms.¹ Once the political decision to open up the economy had been taken, the question that remained was how to transform intent into reality. The government of Mauritius approached the Trade Section of the Special Advisory Services Division of the Commonwealth Secretariat to assist in the elaboration of a roadmap for the exports of professional services from Mauritius.

The Commonwealth Secretariat team decided to follow up on the work done in the Competitiveness Foresight by adopting a similar approach, which relied on engaging key actors from Mauritius and abroad, including firms that had established a strong global presence in key markets for a variety of globally traded services. Hence, it was decided to: (i) involve the Mauritian government and business sector at policy levels as integral participants in the thinking and execution phases; (ii) focus on clear events – i.e. a series of symposia to enable full and frank dialogue by all participants – that would result in practical outcomes from which could be extruded what needs to be done by government (in terms of policy and administrative change) and

business (by way of changes in strategic perspective, investment and employment); and (iii) enlist the participation of selected investors. The underlying assumption was that notions of what needs to be done, and probabilities of success, depend much more on the knowledge and expertise of investors who already have an established position in key global service export markets.

The vehicle used was the organisation of **sector-specific symposia** in January and April 2008. Given the emphasis on investment, the local counterpart agency was the Board of Investment, which had full responsibility for the organisational aspects of the symposia.

A priority list of four key sectors was drawn up after discussions with key stakeholders in Mauritius: (i) **financial services**; (ii) **information and communications technology services** (ICT/outsourcing sector); (iii) healthcare and wellbeing services; and (iv) export of **knowledge, education and training services** across a wide range of disciplines.

These discussions were expected to illuminate key policy issues affecting service exports in general as well as specific sectors; product, service, industry and institutional issues affecting export service capacity; resource constraints, especially in terms of human and financial capacity; and operational and behavioural barriers that prevented Mauritius from exporting services more effectively/extensively to a wider range of global markets.

The symposia would be deemed to have been successful if over the coming years there was: increased inward foreign as well as domestic investment by knowledgeable private players in key service export areas; development in a phased manner of all the resources needed to diversify and increase service exports in key areas – traditional and non-traditional; and progressive reduction of extant barriers that presently stand in the way of achieving such service export enhancement – i.e. policy, administrative, resource and supply-side constraints.

It is clear that a *sine qua non* of success is high-level commitment in political, policy-making and business circles to convert intent into reality. One of the fundamental factors explaining the relative success story of Mauritius is close collaboration between the public and private sectors. A commitment to social justice on the part of various governments since the country's independence in 1968 has also contributed to civil society's willingness to bear the costs of transition without any excessive opposition.

The findings of these symposia form the basis for an agenda for action (i.e. a roadmap) to be taken by the government and the private sector to enhance Mauritius's ability to become a significant exporter of global services in a number of key sectors. This book draws heavily from these discussions.

The primary objective of the book was to be a tool for the government of Mauritius to use in its investment promotion strategy and for potential investors to obtain a

glimpse of the potential that Mauritius holds in the area of professional services. However, it was felt that the Mauritian experience contained valuable lessons to guide other small island developing states (SIDS),² which may be only at the initial stage of economic diversification.

Indeed, the Special Advisory Services Division of the Commonwealth Secretariat has received requests from several SIDS to assist them to either assess their potential for exporting services or to develop strategies for promoting the export of professional services. By August 2008, in addition to Mauritius, the following countries had received technical support: Malta, Cyprus, Sri Lanka, St Lucia, Barbados, Dominica, Trinidad & Tobago, Jamaica, Guyana, Malaysia, Kenya and Ghana.

A Pan-Commonwealth conference was held in Malaysia in February 2008 to provide a platform for the sharing of experiences among the countries and to listen to service providers as well as experts on the potential and prerequisites for the export of different types of services, whether business process outsourcing (BPO) or medical tourism, construction related or educational. The feedback from the participants coming from 35 countries revealed a consensus on the need for greater information dissemination and sharing of learning experience among commonwealth member states. It is hoped that this book will be the first in a series to bring to practitioners the issues that need to be tackled for effective diversification and transformation of their countries' economy.

Structure of the book

The first chapter introduces the concept of services and the opportunities they offer for enabling the process of economic transformation. Within the services sector, professional services trade has been growing the fastest. Although services have always been embedded in merchandise trade, it is only in recent years that the sector has received special attention in development literature. While developed countries have been benefiting from services trade and have been pushing for negotiations on services under the General Agreement on Trade in Services (GATS), developing countries are only now waking up to the potential of services for sustained economic development.

Chapter 2 describes the economic transformation of Mauritius from a single crop to a diversified economy within a 40-year span. The new challenges the island faces in the present World Trade Organization (WTO)-governed trade environment is also touched upon. To enable the reader to grasp fully how the process of change has been initiated from within, albeit with the assistance of an external facilitator, the *Competitiveness Foresight* document, the trigger for the adoption of a new paradigm that looks beyond preferences, can be accessed from the National Productivity and Competitiveness Council (NPCC).³ This document should help to explain the context in which Mauritius finds itself today and the challenges it confronts, which are propelling it to adopt drastic reforms.

The four chapters that follow focus respectively on finance (chapter 3), ICT, BPO and information technology enabled services (ITES; chapter 4), health and life sciences (chapter 5) and human resources development (chapter 6). An attempt has been made to render each chapter as self-contained as possible. Each highlights the various components that make up the specific sub-sector, the current status of the sub-sector in Mauritius, its potential and the necessary conditions for its growth in Mauritius. The final chapter (chapter 7) brings together the main recommendations emerging from the symposia. While some of them are specific to Mauritius, most recommendations are relevant for any country wishing to engage on the road of professional services exports, especially in the four sectors addressed in the book, namely financial services, ICT, health and educational services. Moreover, the approach in developing the roadmap may hold useful pointers for other small states, though Gerschenkron's words in 'Continuity in History' still hold true: 'No past experience, however rich, and no historical research, however thorough, can save the living generation the creative task of finding their own answers and shaping their own future'.

Notes

1. Budget Speech 2006, Ministry of Finance, Mauritius.
2. At the sixth WTO ministerial conference held in Hong Kong, 15 Commonwealth Small States made a statement highlighting their specific characteristics which 'confer a high degree of vulnerability upon' them. These were detailed, inter alia, as: small domestic markets; exceptional high degree of openness to external economic developments with respect to trade, capital flows and technology; concentration of exports on a narrow range of commodities and markets; restricted range of resources; diseconomies of scale; dependence on foreign resource flows; limited capacity to manage the social and economic environment; vulnerability to natural disasters; geographical isolation; and susceptibility to external shocks.
3. NPCC (2005) *Competitiveness Foresight: what orientations for Mauritius?* See <http://www.npccmauritius.com/> [accessed 5 January 2009]