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Conclusions

Chapters 3 to 6 have highlighted the potential that exists for Mauritius to export **financial services, ICT services, healthcare services** and **education services**. The four symposia held in January and April 2008 covered these four sectors, which have the greatest immediate potential for realising enhanced service export earnings. However, opportunities in other important service sectors, in which Mauritius might also become globally competitive, remain unexplored and unaddressed.

These sectors include **construction** and construction-related engineering, consulting, architectural and urban planning services; **logistics,** involving regional supply chain management, storage, break-bulk and distribution; **transport** services and transport infrastructure, especially airborne and seaborne transport and ports; and **media, entertainment and leisure** service industries, including sporting events and gaming infrastructure for widening and deepening export revenues associated with tourism flows, as well as independently. Whether the Government of Mauritius will use the tried and proven symposium approach to developing a similar understanding of the potential that these other service domains hold, remains an open question. Nonetheless, some action in these areas needs to be taken.

Previous chapters clearly and unambiguously suggest what can be done and what needs to be done by the Mauritian government and the private sector (domestic and foreign) to convert potential into reality in each of the four service-export areas scrutinised in this book. The symposia held in each of these areas identified several issues for consideration and action by the government and the private sector. This chapter summarises those issues and outlines what the next steps might be for policy-making and action by the Government of Mauritius and the private sector.

Implications for policy and action

Several policy issues were identified. They are reiterated below in adumbrated form. The key issues of macro-policy – for government and the industries concerned in each case – thrown up by discussions in the four symposia are outlined below.

In the case of all four service areas (financial services, services for the ICT-BPO-ITES [IBI] industry, healthcare and life science services [HLSS] and human resource development services [HRDS]), **representation of the overall 'private industry' interest in Mauritius is fragmented and disjointed.** In financial services, two of the extant three sub-industry associations (**banking** and **insurance**) work well. The association of **management companies** was coming together under its new chair at the time of writing. However, a sense of 'every firm for itself' still prevails in that sub-industry, with larger management companies not being members. Financial services sub-associations are effective to varying degrees in lobbying with government for protecting or advancing the specific business interests of their members (whether banks, insurance or management companies). However, they are not effective in coalescing to represent the economic interests of the financial services industry **as a whole**, with policy-makers or in export markets.

If Mauritius is to succeed in exporting value-added **financial services** to a wider range of geographies, it is essential for this infirmity to be overcome. What is needed is a merger of the sub-industry associations into a **single financial services industry association** (FINSIA) that represents the views and advances the interests of the entire financial services industry coherently. FINSIA could play a more pro-active role as an active interlocutor with government (MFED) and regulatory agencies to work jointly in guiding the future development of the industry (not just of individual banks or firms) and to develop new service export areas such as private banking and wealth management and asset management in the face of fierce global competition from other international finance centres.

That observation is even more applicable to the ICT-BPO-ITES (IBI) industry, which has a very weak industry association. Barely 15 per cent of firms in the industry are members. What the industry needs is an association modelled on NASSCOM in India. Key suggestions emerging from the Symposium on the Export of Services for the IBI industry in Mauritius were that: the Mauritian IBI industry association should seek direct assistance from NASSCOM to develop its capabilities in a manner that could guide future IBI industry evolution and development; and that strengthened and more representative 'new' IBI industry association should facilitate the formation of international partnerships of a kind that the industry (and firms within it) needed to succeed.

In the case of HLSS and HRDS, these 'export industries' are too nascent and incipient for any sort of industry association to have built up, even in nebulous form. This has disabled effective interaction between the 'industry' and regulators in these domains. Ministries and regulators in healthcare and education have a myopic perspective that focuses exclusively on the domestic market for these services. They seem incapable of comprehending the different issues and dimensions that developing export capacity in these domains entails. Despite the growing presence of private-service providers in both areas, the 'governing establishment' in both is still operating on the old paradigm that considers them to be public goods rather than commercial goods that should be provided by private parties.

There is a visceral tendency therefore on the part of regulators to block rather than facilitate the growth of the private sector's role in these domains for fear that, even if initially restricted to providing only export-orientated services, these providers would eventually operate in the domestic domain as well. As a result, legitimate processes of accreditation, certification and regulation tend to act as protectionist barriers rather than exercising quality control.

Despite an unemployment rate of 9–10 per cent in Mauritius at the time of writing, the financial services, IBI, HLS and HRD sectors are all witnessing **an acute shortage of human resources,** i.e. trained, qualified staff at every level. There is a particular problem with English language knowledge in the labour force. There are also problems with functional literacy and numeracy of a kind that make secondary school leavers (and some university graduates) unemployable. The labour situation is being ameliorated through training-cum-employment schemes under the Empowerment Programme, which reduce training costs dramatically for employers. The Human Resource Development Council is looking into this complex but critical issue, and reformulating its approach to align the output of the schooling and vocational and tertiary education (VTE) system more in keeping with the rapidly and continuously changing/evolving demands of the labour market.

The paradox of an acute skills shortage co-existing with a high unemployment rate reflects the inefficacy of current education policy and extant curricula in turning out employable school leavers. It also reflects the absence of sufficient specialised pre-employment vocational training in financial or IBI services, and lacunae in immigration policy that prevent skilled workers from being imported freely and automatically through normal labour market functioning. All these shortcomings need to be remedied expeditiously, although a comprehensive and fundamental change in education policy would take a longer period of time. The HRD Symposium brought out clearly the dysfunctionality of existing education infrastructure and policy, which turns out too high a proportion of 'graduates' at school and tertiary levels who were unemployable without further VTE inputs provided by industry.

Financial services regulation is an integral, inseparable part of any financial product/service being provided or exported. For Mauritius to export value-added financial services successfully, its financial **regulation** (quality, quantity, probity, approach, reputation and cost) has to be world class. At the same time, the burdens and costs of regulation cannot be so high as to make Mauritius globally uncompetitive. Sub-standard regulation would damage Mauritius's reputation as an exporter of high-value financial services. However, MFED and the Financial Services Commission (FSC) need to recognise both the costs that excessive regulation impose and the fact that some regulatory standards imposed on Mauritius by external interlocutors – e.g. AML-CFT regulation – are more onerous than standards employed by those interlocutors in their own home countries.

That reality was acknowledged in 2006, with efforts to strike a balance between regulation that is world class and the cost burdens that such regulation imposes on operators. However, this balance is a moving target and needs to be watched closely. The financial services industry expressed the view that generating new rules and regulations has now become an FSC (or industry) objective in its own right, and that the industry is finding it difficult to cope with this deluge. It is not helping Mauritius to become more competitive.

A pause is needed in the drawing up of new regulations, with wider prior consultations with the industry on whether new rules are helpful or counterproductive, and what their impact on Mauritius's global competitiveness might be. This might be judged by periodically comparing Mauritian regulations with those of competing jurisdictions. A suggestion was also made to have periodic **regulatory impact assessments,** to remind regulators of the balance that needs to be struck between **appropriate** and **excessive** regulation.

A key policy issue for the financial services and IBI industries is the **cost of telecommunications.** While not explicated at the HLSS and HRD symposia, this issue affects both those sectors as well, especially for services that rely heavily on Internet broadband linkage such as telemetric patient monitoring or e-learning. Mauritius Telecom (MTL) argued at the IBI services symposium that it has reduced costs for a bulk communication line dramatically in the last year and is competitive with the rest of Africa. However, the IBI industry felt that costs were still about 30 per cent above the world average, with no provision for back-up redundancy. Communications costs accounted for 40 per cent of total cost for the average IBI firm at the time of writing. That put ICT/OCC (outsourcing connected companies) firms at a 12 per cent operating margin disadvantage to global competitors. With 5 per cent variations in margin making the difference between profit and loss in the IBI business, Mauritius can explore only limited niches where operating margins are generous enough to accommodate such a structural disadvantage. This situation constrains IBI service exports and may also affect financial services, HLS and HRD export margins and viability.

Secondary policy questions that arise are:

- Does MTL have the right strategic partner in France Telecom (FT) to ensure that: (i) internal transfer pricing is not always done in FT's favour; (ii) MTL's costs will be globally competitive soon; and (iii) investments that need to be made to achieve this objective will be made by FT and MTL in 2008–09?
- Does more competition need to be introduced into Mauritius in the telecom sector, both terrestrial and cellular and in providing competing services for wireless broadband on an island-wide basis?
- Should MTL now be privatised to achieve greater levels of efficiency and better quality of service?

It is critical that both the primary and secondary questions raised by this important issue are addressed and resolved as a matter of utmost urgency, as telecommunications costs compromise the prospects of not just the IBI industry, but those of every other service export industry (in particular financial services) as well.

Physical connectivity in Mauritius is as deficient and costly as teleconnectivity. Airline and shipping connections from Mauritius to Africa and the rest of the world are poor, compared with competing centres. The island's airport and seaport are also comparatively poor, while critical physical and social infrastructure needed by the service export industries to develop and grow rapidly is missing. At the same time, traffic infrastructure and public transport services are inadequate, resulting in excessive congestion: rush-hour traffic delays are comparable to those in much larger cities.

Coinciding with the symposia that took place in January 2008, the Government of Mauritius announced that two new PPP projects (the Port Louis harbour bridge and city ring road) would be launched. This is a first step. Public transport services are weak, with firms having to bear the costs of transporting their staff to/from their workplaces; this is especially the case out of normal daytime working hours. Water and power infrastructures are also reaching critical limits, and significant new investments need to be made in these areas urgently. Deficiencies in communications infrastructure have already been highlighted. Remedial policies are needed across the board.

These constraints may affect HLS and HRD exports particularly badly. The expansion of both will rely more than financial services and ICT on access to large amounts of suitable space for medical and hospital complexes, medical training facilities, life science research clusters and purpose-built campuses for foreign educational institutions locating in Mauritius to export HRD services. Addressing the infrastructure constraint is particularly important if export objectives in the latter two areas are to be realised. Such infrastructure could only be developed rapidly through public-private partnerships (see below).

Office space accounts for around 10 per cent of the total costs of financial services and IBI firms. The island's cyber-city has not developed sufficiently rapidly and much of its space is occupied by firms outside the IBI industry. Nor has the cyber-city got a dedicated communications infrastructure (of the kind Indian ICT firm-clusters have) to lower costs. At the time of writing, the Government of Mauritius was proceeding with plans to build an entirely new city in the Highlands on a PPP basis.

The general picture is one of years of under-investment and neglect in essential infrastructure, which now needs to be over-compensated for rapidly. It is clear that the investment needed is not affordable for the government/public sector to undertake on its own. Private investment, integrally associated with public-private partnerships (PPP) for service provision, will be essential. Much of the finance and PPP skills will need to be sourced from abroad.

Given the size and urgency of the island's infrastructure needs, the key policy questions are:

- Can the present policy framework sustain the kind of investment that is needed, or does it need radical overhaul on a 'big bang' basis?

- Will a series of small incremental steps suffice? Or are radical approaches needed to achieve urgent infrastructure transformation? For example, to achieve better air/sea connectivity with Africa and the rest of the world, should public airline and shipping companies be privatised and should these transport sectors be thrown open to global competition?
- Should Mauritius have an 'open skies' and 'open seas' policy?
- Should public companies in every key infrastructure sector be privatised and the sectors opened up to domestic and foreign private competition?

Answers to these questions will have direct feedback implications for service exports in all four areas discussed in this book. Large scale privatisations and PPPs will create opportunities for the development of new financial services areas, with skills development potential that could be applied competitively across Africa (first) and globally (thereafter). These policy changes would have implications for the entry of a larger number of investment banks into Mauritius, of which there is a present paucity. While Mauritius is overbanked commercially, it is under-banked as far as investment banking and corporate finance are concerned. These specialist firms cannot be viable if they operate only in the domestic market; rather, they need to operate across Africa and the Indian Ocean region. That is equally true for the sweeping opportunities in IBI exports that such policy transformations will trigger.

In all four services industries (financial services, IBI, HLSS and HRD), Mauritius has characteristics different to those in many other countries (especially India). In those countries, policy reform succeeded in triggering unprecedented growth, which has been sustained over long periods, simply by removing shackles on private entrepreneurship. In Mauritius, such reform does not appear to be enough.

The Mauritian private sector lacks key attributes needed for global competitiveness: i.e. it thinks too small for the global stage, it lacks the requisite knowledge, ambition, capital, vision, initiative, strategic thinking about the future and world-class managerial competence. This is partly because it has, since independence, survived on colluding with government to protect domestic business space and, like the population at large, it has developed a **dependency culture**. It is preoccupied with keeping its share of the Mauritian 'pie', rather than focusing on carving out for itself a piece of the regional or global 'pie', except when it has been forced to – in industries such as sugar and tourism, where core competencies have been developed and are now surplus to domestic needs.

For that reason, in all four areas, the growth of services exports will depend on whether foreign investors can be attracted to bring in the necessary technical operating know-how, market knowledge and linkages, managerial capacity and financial investment. Mauritius has since 2005 opened its economy and FDI regime dramatically. The Board of Investment (BoI) will now need to carry out targeted marketing to attract pre-identified foreign investors, who have the attributes needed to ramp up service exports in all four areas relatively quickly.

The Government of Mauritius has, since independence, driven development by playing a pro-active role in launching key initiatives. However, it has stayed too long in areas it should have exited after an initial push. Besides, the island's government has now become too large: there are too many ministries, commissions and quangos, which have been created to accommodate political patronage interests.

In the HLSS and HRD sectors, regulatory architecture for governance is fragmented, complex and unco-ordinated, especially for an economy the size of Mauritius. These bodies are not run along efficient lines (as they are in Singapore or Dubai, for instance). Instead they are handed out as prizes within the political community, and run on the basis of a deep-rooted culture of chronic and endemic patronage, resulting in even more deep-rooted vested political and ethnic interests. Thus a client state has been created, with high overhead costs (more than 5 per cent of GDP) that a globally competitive economy cannot afford. It has too many public employees and their dependents, forming too large a proportion of the voting population. Such structural **clientelism** inhibits significant change in the extant paradigm through the normal democratic process, because it introduces a major perverse bias in that process.

To export services on a globally competitive basis, this type of governance and economic structure (created in an era of externally subsidised protectionism of commodities and manufactures, which is not sustainable) is counterproductive because it inhibits competition and innovation. Therefore it needs to be changed and restructured dramatically – not over a prolonged period (because that is not an affordable luxury), but as soon as possible.

The respective roles of government and the private sector need to change in Mauritius with: (i) the government/state role being shrunk to a more realistic, affordable size; (ii) private choice and internal markets being introduced in universalised public services; (iii) public resources being targeted to assist the poor rather than subsidising middle-class consumption; and (iv) the private sector being significantly enlarged and enlivened by foreign inputs (in terms of know-how, HR and financial resources) from global firms (from Asia and the EU) that are well-established in global service export industries.

In addition, public investment needs to be accompanied by large private investment inputs into infrastructure and key public services via enhanced PPPs. In particular, education and health policies need to be revised substantially with an opening of these sectors to private investment in order to create both export- and domestic-market service capabilities.

Such profound, fundamental changes in the island's economic and governance paradigms have far-reaching implications for the role/size of government, for governance and for macro-, meso- and micro-policies in a number of areas (fiscal, monetary, industry, education, health etc.), all of which need to be more clearly understood.

A start has been made with the four symposia held to carve out niches in new service export industries, which have the potential of contributing between 10–15 per cent of GDP and a higher proportion of total exports. Each substantive chapter is sufficiently detailed to provide a clear roadmap of what needs to be done in each of these fours sectors, by whom, how and by when.

Nonetheless, follow-up action will require continual pushing by dedicated task forces in each area to actually make things happen: to follow up with investors who have expressed a clear interest; to follow up with ministries and regulatory bodies that are still blocking progress and get them to act as facilitators rather than gate-keepers; to raise to cabinet and Prime Minister's Office level issues on which there is inter-ministerial disagreement; and to follow up on essential infrastructure initiatives, without which export potential will be constrained.