

COVID-19: Economic Implications for Mauritius - challenges and ideas

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Key messages

- Mauritius is now having to deal with managing and avoiding the spread of COVID-19 domestically. However, the country also has to manage the economic implications of altered economic relationships with the rest of the world, including China.
- We explore three key sectors in Mauritius and the implications of the “COVID-19 shock” for them:
 - Tourism
 - Trade and manufacturing
 - Financial Services
- We propose initial suggestions for managing these “shocks” that could be explored in more depth, including in partnership with China, and help to avoid increased poverty and stimulate sustainable development as well as resilience to future external shocks.

Introduction

Mauritius, an Indian Ocean island nation located in Eastern and Southern Africa, with an estimated population of 1.3 million people and classified as an upper-middle-income country, is one of the 48 African countries that have, so far, reported COVID-19 cases¹. The first three cases in the country were announced on 18th March 2020, and the number has subsequently risen to 107 cases, including 2 deaths.

The Mauritius government has been using contact tracing to confirm cases, but has also put in place other social distancing measures to counter the spread of COVID-19. Initially, from 20th March, the government closed schools and universities, malls and tourist attractions, banned public gatherings, imposed a curfew, stopped public transport, asked all non-essential government and private sector employees aside from key workers to work from home until at least April 2nd. On March 25th, the government tightened the lockdown by closing all supermarkets/food shops and announced that the next day the government will distribute food directly to needy households.

These closures will have economic effects, estimated to the tune of US \$25-33 million per day, in total equivalent to up to 4% of the economy’s GDP over the period. But global shifts, including by China where COVID-19 was first detected, will also have effects.

This note provides analysis of these potential effects as well as initial suggestions for minimising negative

effects, especially with regards to poverty reduction and sustainable development, as part of Mauritius’ COVID-19 recovery plan.

Key Sectors Affected by COVID-19

Travel and tourism

In recent years, tourism in Mauritius has spurred economic growth, growing at 5.2% in 2017 to reach over 1.3 million visitors. For Mauritius, China is an important tourist market although figures have varied over the years. In 2020, approx. 44,000 visitors from China were expected, staying an average of ten days, and spending the equivalent of US\$ 27.5 million in total². In absolute terms, Mauritius is the 4th most popular destination for Chinese tourists, attracting around 5% of Africa’s totals³. And according to WEF⁴, within Africa, Mauritius ranks the top most competitive tourist destination, and within the world ranks 54th most competitive destination.

Oxford Analytica⁵ suggest that tourism from China is likely to recover quickly after global COVID-19 restrictions ease. However, realistically, this will not be until June at the earliest, and of course, COVID-19 is now affecting travel links with the entire world not just China.

As a result vulnerable countries will suffer sharply lower GDP growth. While Oxford Analytica define “vulnerable countries” as those relying on tourism for 10% of their GDP, Mauritius is fairly close to this threshold, relying in 2017 on tourism for at least 8% of its GDP⁶. Mauritius’

travel industry more broadly also adds to GDP – taking this reliance to more like 24%⁷. For instance, the national carrier Air Mauritius, also usually brings in revenue – including from 5 destinations in China - that has now been lost.

All this means that Mauritius must act quickly and carefully if this sector is to recover any time soon.

Trade & Manufacturing

Manufacturing (industry) is Mauritius' most important single sector in GDP terms. It contributes over 13% to GDP and 20% to employment. One of the key reasons for this is Mauritius' regulatory environment (ranking 1st in Africa on the World Bank's Doing Business Index) and special economic zones/industrial parks, first established in the early 1970s. Activity is mainly focused on food processing (36%) and textiles and apparel (29%), while sectors such pharmaceuticals and high-end jewellery, precision engineering are expected to grow in future, with a push towards smart manufacturing.

A significant proportion of Mauritius' manufacturing – especially textiles and apparel – is traded, although Mauritius currently imports close to 3 times the value of goods that it exports⁸. Key markets for Mauritian goods include France (14%), US (12%) and UK (11%). Key import sources on the other hand are India (18%) and China (17%). This puts Mauritius in a “danger zone” with another 9 African countries for impacts of reduced exports from China due to its own COVID-19 response. That means increased retail prices for Mauritius consumers. In addition, as COVID-19 makes its way around the world to Mauritius' external markets, demand for its products will be reduced.

Such negative shocks to trade and manufacturing – whether due to reduced imports OR due to economic shutdown for COVID-19 social distancing – will have significant externalities in the country.

A key challenge is to prevent complete layoffs by factory owners, while maintaining some degree of international trade and also keeping workers committed to the manufacturing sector so that they can continue or be re-employed immediately when the crisis is over. Despite reducing demand and production, China itself has prioritised maintaining jobs – even if salaries are cut – during the crisis period. China has also repurposed factories and re-skilled labour where appropriate to contribute to providing key elements for the COVID-19 fight such as masks, other Personal Protective Equipment as well as ventilators, etc. Doing so can keep jobs going, although must be consistent with strict social-distancing policies.

Financial services

The financial services sector is central to the Mauritian economy, contributing around 12% to GDP. The country

has the second most developed financial sector in Africa⁹, 40th in the world, comprised mainly of a banking sector, an investment and asset management sector, insurance, and equity and securities markets.

With regards to banking, both domestically and internationally banks in Mauritius are viewed as sound and resilient. The island ranks highly on financial inclusion, although there is little use of mobile money and banking, partly because of such strong inclusion. In 2017, only 3% of the population over 15 used mobile phones to pay bills – in comparison to a wide range of countries. For instance, over 70% of the Somali population use phones to pay bills¹⁰, while in China over 80% of the population do so¹¹.

Externally, according to the IMF, “bank capital is well above the regulatory minimum, and banks meet enhanced liquidity requirements under Basel III, including in foreign currency”¹². However, asset quality has deteriorated over recent years as the ratio of non-performing loans (NPL) has risen from 5% in 2014 to 8% in 2016¹³.

Mauritius' International Financial Center (IFC) accounts for about 3% of employment and generates tax revenue of about 6% of GDP. Within this, facilitation of cross-border investment and related fund administration activities contributes about 60% to the IFC's economic value added, 90% to its tax payments, and 70% to its employment. Furthermore, the relative sophistication and conducive regulative environment make the Mauritian stock market an attractive listing destination for multinationals and mutual funds.

These mean Mauritius' financial sector faces two key (possibly related) issues. Domestically, it is highly-reliant on large enterprises and individual cash banking (e.g. vs. SMEs and e-payments). Externally, it has high exposure to COVID-19-induced equity market contractions¹⁴.

Before COVID-19, the plan to grow Mauritius' financial sector was based on bringing the digital economy into its core, while re-orienting toward the African market and leveraging support from emerging investors such as China¹⁵. The outbreak of COVID-19 internally and globally makes this plan simultaneously more crucial and more difficult to achieve in future.

Recommended Next Steps

In the short-term, measures to protect employees in all three sectors analyzed here will be critical to avoid poverty and also maintain some degree of economic activity post-lockdown.

We suggest four **immediate steps** for Mauritius to consider:

- 1) A partial solution for supporting the hospitality industry is to use existing hotel infrastructure for quarantine facilities for international arrivals as well as mild coronavirus cases, through insurance or at own (albeit heavily discounted) costs.
- 2) Furthermore, the manufacturing sector could follow China's example and scale-up and/or re-purpose factories to make pharmaceutical products and medical equipment now. Some of this could be sold to international partners, and some could also be sent to African countries badly in need for free since many countries cannot afford it. The spill-over from doing so (even as aid) is that it will preserve jobs. Furthermore, other African countries may in future look to Mauritius for such products, rather than further afield, and therefore it would be a means of promoting long-term cooperation.
- 3) For those factories that cannot manage this, as well as the rest of the hospitality and financial services industry, a subsidy to workers could be financed through a combination of commitments. Workers might be able to take a cut to e.g. 50% of wages (cuts can also be smaller at lower salaries and deeper at higher salaries). Hotels/Factories/Banks may be able to contribute a share directly. The rest would need to be financed through grants or loans. Major buyers, banks or international hospitality brands, for example, could be asked to continue to provide salaries now but recoup the costs by charging a small mark-up on retail prices post-recovery. This means consumers/tourists would eventually also contribute, but hardly notice as salaries are often a small component of final pricing.
- 4) Mauritius can also use the crisis as an opportunity to promote and encourage its financial sector to move faster in strategic directions. For instance, Mauritius can encourage the rest of the world to look at its financial sector as the go-to-country for taking out or re-structuring loans and equity, especially large non-hospitality or manufacturing firms and investors, and including those from China that have strong prospects post-crisis. Our Chinese clients have cited in the past simple loan application processes, 3-4% lower interest rates as compared to China, and no forex controls as attractive features of Mauritius' banking sector. Domestically, Mauritius can use this moment to encourage a shift towards e-payments and e-commerce for individuals and SMEs, which will increase its resilience.

Beyond these short-term steps, and **into the medium-term**, Mauritius will need to step-up its promotional activity and re-orient both its tourism and manufacturing sectors in particular around safety and risk management. Offering, for instance, free COVID-19 tests at the airport and ultra-high hygiene standards on

the national carrier/at hotels as part of a "safe" travel package would be helpful. Promoting Mauritius as an investment destination for e-commerce and "safe factories" linked to global supply chains, plus being the go-to partner to provide high-quality "crisis goods" to other African countries could also be helpful. In this respect, Mauritius can take advantage of its recent and pioneering Free Trade Agreement with China, as well as its membership of the African Continental Free Trade Area, SADC, and COMESA.

Finally, **in the long-term**, Mauritius needs to factor in what have been described as "black swan" and "grey rhino" shocks like the COVID-19 crisis into its growth strategies. While our analysis suggests that Mauritius is already fairly resilient – especially compared to many other African countries – reliance on any one sector or partner is risky, as is reliance on physical activity rather than "human capital". In this respect, continuing to support African trade and development will pay dividends, as is acting as a bridge between Africa and China as a key development partner.

In addition, in every society there are vulnerable members of society, and whilst the Mauritius government is clearly taking steps to protect the needy and most vulnerable in the short-term, supporting a high standard of life for them in the post-COVID-19 world will need to be a major consideration.

Last but not least, more thinking will need to be done as to how Mauritius can continue to strengthen its resilience in the context of being a small island nation within a poor but fast-growing continent, as well as ensure equal support for all members of society. Continued investment in human capital through, for example, increasing the tertiary enrolment rate (currently 39%) and average years of schooling (10 years) as well as ICT are particularly key for unleashing the creativity that will be needed to do so.

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¹Note all figures correct as at end of 29th March 2020

² <https://www.dandc.eu/en/article/mauritius-very-small-country-far-away-china-its-economy-has-close-ties-country>

³ <https://qz.com/africa/1680094/why-chinese-are-traveling-to-africa-and-why-africans-are-traveling-to-china/>

⁴ <http://reports.weforum.org/travel-and-tourism-competitiveness-report-2019/rankings/>

⁵ <https://dailybrief.oxan.com/Analysis/GA250602/Coronavirus-will-hit-tourism-driven-economies-growth>

⁶ http://www.edbmauritius.org/media/2092/generic_brochure_english_website_jan-2019.pdf

⁷ <https://knoema.com/atlas/Mauritius/topics/Tourism/Travel-and-Tourism-Total-Contribution-to-GDP/Contribution-of-travel-and-tourism-to-GDP-percent-of-GDP>

⁸ <https://wits.worldbank.org/CountryProfile/en/Country/MUS/Year/LTST/Summary>

⁹ https://en.wikipedia.org/wiki/Global_Financial_Centres_Index

¹⁰ "Global Financial Development (GFDD) | Data Catalog." & <https://qz.com/africa/1422018/somalia-mobile-money-beats-kenya-mpsea/>

¹¹ <https://daxueconsulting.com/payment-methods-in-china/>

¹² "Mauritius : Staff Report for the 2019 Article IV Consultation," IMF, accessed August 1, 2019,

<https://www.imf.org/en/Publications/CR/Issues/2019/04/29/Mauritius-Staff-Report-for-the-2019-Article-IV-Consultation-46830>.

¹³ "Global Financial Development (GFDD) | Data Catalog," accessed August 7, 2019, <https://datacatalog.worldbank.org/dataset/global-financial-development>.

¹⁴ <http://bizweek.mu/en/info/stock-exchange-mauritius-more-drops-and-volatility-upon-confirmed-cases-covid-19>

¹⁵ "Mauritius Banking & Financial Services Report - Q3 2019."