Economic growth of mauritius economics essay

1. 1 Introduction of Mauritius

THE REPUBLIC OF MAURITIUS is a democratic country whose whole population has familial origins elsewhere such as, India, Africa, China and Europe. The country's economy was surviving by the production and export of sugar. After World War II, economic and social conditions contributed to the political conflicts. The expectations for the Mauritians began to rise as the provision of pension, health, education and other public welfare services extended. In 1940s and 1950s diseases like malaria was decreasing resulting in an increase in the life expectancy of poor people, hence the population was increasing by 3 percent per year. But however there was a decrease in population growth rate between 1960s and 1970s as the Mauritians was taking family planning measures but labor force continued to increase rapidly. The figure of the registered unemployment stood at more than 12 percent of the work force on the before of independence, that is, in the year 1968. There were a rapid growth in the tourism and the manufacturing sector after the independence in 1968, the government was diversifying the economy resources in the tourism and manufacturing sector. Despite many differences, the major political parties have worked successfully toward the country's economic welfare.

Mauritius has moved from a first and foremost agricultural monocrop economy dominated by high unemployment, low salaries, and boom-or-bust cycles to one marked by manufacturing, tourism, and expanding financial services. Mauritius is established democracy with positive human rights record and regular free elections. The country has attracted considerable foreign investment and has earned one of Africa's highest per capita incomes. As Mauritius faces the future, it can look back on its dazzling economic performance in the 1980s and attempt to build on that success by continuing its tradition of political stability, foresight, and prudent development planning. To examine the health or strength of an economy, economists naturally look at its growth rate, unemployment rate, inflation rate, balance of payment, currency exchange rate. The welfare of an economy is not only the concern of economists and politicians but for the population also, that is, the state of the country's performance affects its entire population. Mauritius has recorded very high economic growth rate and constant increases inhuman development indicators due to a good mixture of fine macroeconomic policies and strong institutions as from the year the 1970s.

1. 2 Economic Growth of Mauritius

In general terms, economic growth is defined as a positive change in the level of production of goods and services by a country over a certain period of time. Whereas, Nominal growth is defined as economic growth including inflation, while real growth is nominal growth minus inflation.

Economic growth is usually brought about by technological innovation and positive external forces. Gross Domestic Product (GDP) is the measure most often used to assess the economic well-being of a country. Besides measuring the pulse of a country, it is the figure used to compare living standards in different countries. Economic growth is measured as a percentage change in the Gross Domestic Product (GDP). The graph below is the GDP growth rate on an annual basis adjusted for inflation and expressed as a percentage for Mauritius.

As you can see below, the graph above can be divided into 3 decades. The first decade is the year 1980s that is year 1980 to 1989. The second one is the 1990s, that is year 1990 to year 1999. And the final one is the year 2000 to the year 2011.

Let us study the GDP Growth rate more clearly, in the first decade, that is 1980s, the GDP rate was approximately 11. 3 percent. Four cyclones strike on island between December 1979 and March 1980, sugar production plummeted resulting in a decrease in GDP rate by approximately 9 percent. Trying to reform the country with a third IMF program, by the government of Mauritius followed by its first structural adjustment loan from the World Bank in 1981, but the immediate results were disappointing. The economy of Mauritius experienced stable growth, declining inflation, high employment, and increased domestic savings thanks to an extensive political consensus on broad policy measures. The Export processing zone (EPZ) came into its own, surpassing sugar as the principal export-earning sector and employing more workers than the sugar industry and the government combined previously the two largest employers. Export processing zone is a type of free trade zone (FTZ), set up generally in developing countries by their governments to promote industrial and commercial exports.

In addition to providing the benefits of a FTZ, these zones offer other incentives such as exemptions from certain taxes and business regulations. In 1986 Mauritius had its first trade surplus in twelve years. Tourism also boomed, with a concomitant expansion in the number of hotel beds and air flights.

In the second decade, the value of EPZ exports in 1993 was approximately Rs15. 8 billion. Since the year 1975 Mauritius has had an export quota of about 500, 000 tons per year under the Sugar Protocol of the Lomé Convention, the largest share of all nineteen signatories. The guaranteed price in 1991 was nearly twice the world free market price. In 1992 Mauritius exported 597, 970 tons of sugar. The GDP rate was approximately 10. 2 percent in the year 1992. Mauritius has been largely dependent on trade taxes for revenue hence import duties have continuously been an important source of revenue. By 1993 however, all export taxes were abolished. Eventually, spanning over the years 1994-2001, a series of tariff reforms have emerged: import levy was abolished, the maximum customs duty shrank from 600% to 100%, discriminatory tariff regime against “ non-scheduled” countries (minor trading partners of Mauritius) trade was eliminated, and, duties were minimized on more than 4000 items. Resulting to increase imports in Mauritius for the 1990s.

New challenges have been facing Mauritius and its economic performance has quite deteriorated since the year 2000, resulting from its loss of preferential access to the European Union (EU) sugar and textile markets. In the textile sector, Mauritius is facing increased competition from cheaper Chinese and other East Asian country exports. The GDP growth rate was approximately 1. 9 percent. The unexpected low growth rate is due to the poorer performance of the four main economic sectors. First of all, sugar production in the year 2005 was expected to be around 520 000 tonnes, instead of 550 000 tonnes, this decrease was because of the excessive rainfall in September 2005. Secondly, due to the end of the textile trade quotas in January 2005, the export processing zone (EPZ) has contracted by approximately 13 percent, coupled with competition from low-cost textile producing countries. Thirdly, the construction sector contracted by 3. 7 percent in 2005, this was mainly because of delays in or the non-execution of several projects. Fourth one is because, the non-EPZ manufacturing sector grew by only 2. 5 percent as a result of increased competition from imported goods faced by the domestic-oriented manufacturing industries.

A 5-year Sugar Sector Strategic Plan (2001-05) was implemented to reorganize and rationalize the sugar industry. The goal was to decrease the number of sugar mills from 14 to 7 or 8, so as to benefit from any increasing returns to scale, to reduce by up to 7 000 the current labour force of 30 000. The government seized the bull by the horns in the 2006/7 budget and raised the prices on price controlled items such as medicines, petrol, transport and food items and announced its intention to liberalise markets by abolishing price fixing entirely. To further reduce the budget deficit import and excise duties were raised or added and measures were taken to improve revenue collection and reduce tax avoidance. In 2006/7 further cuts in current government spending were made. The economy proved to be remarkably resilient, for real GDP growth, which had barely averaged 3. 5 percent between 2001 and 2005, quickened from 3. 1 percent in 2005 to 3. 6 percent in 2006 and then to 4. 5 percent and 4. 8 percent in 2007 and 2008 respectively.

1. 3 Unemployment Rate of Mauritius

Even with a strong economic growth, a “ U”-curve unemployment trend can be observed in Mauritius. The economy continued to stagnate when

Mauritius became independent from Great Britain in 1968 and the unemployment problem remained sensitive. The years which followed since the independence were extremely difficult and were marked by a high unemployment rate reaching 27 percent at times. Unemployment is defined as a state where someone of working age is not able to get a job but would like to be in full time employment. That is, it is an economic condition marked by the fact that individuals actively seeking jobs remain unhired. Unemployment is expressed as a percentage of the total available work force. The level of unemployment varies with economic conditions and other circumstances. In the Mauritian context unemployment refers to the share of the labor force that is without work but available for and seeking employment, according to International Labour Organization (ILO). Definitions of labor force and unemployment differ by country.

The diagram below shows the unemployment rate from the year 1980 to 2011. Unemployment Rate (% of Labour Force) for Mauritius in year 2010 is 7. 453 percent. Mauritius was listed No. 55 in world rankings according to Unemployment Rate in year 2010. The world's average Unemployment Rate value is 4. 82 % hence; Mauritius is 2. 63 more than the average. In the previous year, that is 2009, Unemployment Rate for Mauritius was 7. 33 percent. Unemployment decreased from 21 percent to less than 4 percent between the 1980s and the 1990s, however this phenomenon was reversed and the rate augmented to around 10 percent in the 2000s.

The diagram below is the graph of unemployment rate in Mauritius divided into 3 decade. As mentioned earlier first decade represent the year 1980 to

1989, decade 2 represent the year 1990 to 1999 and finally the decade 3 will be representing the year 2000s, that is, year 2000 to 2011.

In the first decade, with a high unemployment rate in 1980s, the increased entry of women into the labour force is a major reason for this rapid labour force growth. Unemployment rate of Mauritius was approximately 19% in the year 1983. Female labour force participation has increased from 25 percent in 1983 to 36 percent in 1995, due in part to the demand of EPZ textile enterprises which prefer women workers. In 1970, the government issued a policy paper for 1971-1980 decade, prioritizing job creation measures.

In the year 1990s, that is, the second decade, the unemployment rate increases from approximately 2. 8 percent to 7. 6 percent. The high unemployment rate in recent years along with high inflation rate has contributed to a loss of purchasing power and in particular with respect to women as indicated by unemployment trends. Since the early 1990s, the financial services and tourism industries have emerged as new growth sectors, requiring higher skilled workers. In 1999, the unemployment rate was 11. 3 percent for female workers and 4. 0 percent for male workers compared to 2. 2 percent for females and 3. 0 percent for males in 1991.

The Central Statistical Office estimates indicate that unemployment was surging around 8 percent at June 2000, the highest recorded since 1986. While the male unemployment rate has increased from 3. 1 percent in 1990 to 5. 7 percent in 2000, the rate for women jumped from 2. 3 percent in 1990 to 12. 3 percent in 2000. In periods of recession women are among the first employees to lose their job. There were two new pillars were developed during the 1990s in Mauritius, that is, the financial services and high tourism sectors, reflecting to a large extent deliberate government industrial policy. These new pillars were mainly sponsored through a redirection of domestic savings that were accumulated in the traditional sectors. The government supported the new pillars by providing their basic infrastructure and incentives to investors.

In the third decade, unemployment rate of Mauritius increases approximately from 6. 5 percent to 9. 5 percent in the year 2000 to 2005. As from the year 2000, Mauritius was facing new difficulties and its economic performance has deteriorated, resulting from its loss of preferential access to the EU sugar and textile markets. Recent poor economic performance has meant that the unemployment situation and public finances have deteriorated. Unemployment has risen steadily since 2000 to peak at around 10 percent in 2005. In the textile sector, Mauritius is facing increased competition from cheaper Chinese and other East Asian country exports. There were several reasons behind the poor performance of the economy in the 2000s.

First, because of the extreme rainfall in the year 2005, there were a decrease in sugar production by around 30 000 tonnes. Moreover the area under sugar cultivation has fall by approximately 4000 hectares between 2001 and 2005. Secondly, the export processing zone (EPZ) has decreased by 13 percent due to the end of the textile trade quotas in January 2005, coupled with competition from low-cost textile producing countries. Third, the non-EPZ manufacturing sector grew by only 2. 5 percent as a result of increased competition from imported goods faced by these domestic-oriented manufacturing industries.

But however the unemployment rate has decreased from around 9. 5 percent to 7. 5 percent from the year 2005 to 2010. Gross foreign earnings from tourism were amounted to around 23 billion rupees in year 2004. The first semester receipts for 2005 were 5 percent higher in rupee terms compared to the first semester of 2004. Finally, the number of employees in large hotels has increased by 12 percent between March 2004-2005. After having pursued structural reforms since 2006, Mauritius has gained a strong policy and institutional environment, earning first position in Africa on many fronts. Given the problems in other areas of the economy of Mauritius, tourism has partly contributed either directly or indirectly to the reduction of the unemployment problem and has also generated economic growth. According to the World Tourism Barometer, world tourism recovered more strongly than expected from the adverse impact of the global financial crisis and economic recession of 2008 and 2009. Hotels and restaurants sector grew by 6. 0 percent in 2010 as compared to a contraction of 5. 9 percent recorded a year earlier when the sector suffered from weak economic conditions. The manufacturing sector recorded a growth rate of 2. 1 per cent in 2010, same as in 2009.

1. 4 Conclusion

The diagram below shows the graph of GDP Growth rate and unemployment rate. In the year 1983 Unemployment rate were 19. 429% and the GDP rate was 5. 899%. It is a widely accepted view in economics that the growth rate of the GDP of an economy increases employment and reduces unemployment. This theoretical proposition relating output and unemployment is called “ Okun’s Law”. It has been discussed and updated by much economic research this law states that a 1% reduction in the unemployment rate would reduce approximately 3% more output. As you can see in the diagram below, from the year 2003 to 2004 unemployment rate rise from approximately 7. 6% to 8. 3% but still the GDP rate has increase from approximately 4. 2% to 5. 5%. One reason for this might be productivity. Productivity in Mauritius increased to 137. 90 Index Points in June of 2011 from 133 Index Points in June of 2010, according to a report released by the Central Statistics Office, Mauritius. Historically, from 1996 until 2011, Mauritius Productivity averaged 110. 81 Index Points reaching an all time high of 137. 90 Index Points in June of 2011 and a record low of 83. 50 Index Points in June of 1996. This page includes a chart with historical data for Mauritius Productivity.