Explain the mauritian miracle economics essay

The Mauritian Miracle is the term used by economists to describe their astonishment of how well the Mauritian economy has been developing during the past decades. People were surprise that Mauritius’ economy continued to grow when renowned economists predicted the contrary. Some reason brought forward for this amazing growth were a favorable human capital, cultural diversity, high life expectancy, good tropical climate, trade openness, high investment in health and educational institution, increase women participation in labour force, good financial system and a successful government intervention to boost the economy.

Industrialization of the Mauritian economy has greatly contributed to this miracle. Many developing countries are characterized by a great concentration in primary sector production, like fishing and agriculture products which often face high competition and limited price resulting in poor economic growth. Being a developing country Mauritius however managed to move into secondary sector activities during industrialization. Industrialization is often describe as the replacement of primary sectors activities like fishing, farming and planting by the secondary sectors activities like manufacturing and eventually to the tertiary sector service activity. In the case of Mauritius it was from sugar production to textile and tourism. Industrialization is said to be the driver of structural change which is the key to economic growth, and indeed it create a favorable climate for the economy of a developing country to grow.

One of the reason economists thought the Mauritian economy would not grow was because the country’s only dependable economic pillars was the sugar sector and other countries like Jamaica were serious competitors on the world market. Furthermore, Mauritius used to export its sugar only to the United Kingdom under the sugar protocol. Even the Mauritian workers used to be unmotivated and productively inefficient. The bad weather condition also contributed in darkening the future of Mauritius by destroying sugar field and hampering the country main source of revenue. Unlike other African countries, there were no mineral or oil deposits support strong trading partnership with developed countries.

The ascend to industrialization could have been triggered by the era of globalization where many countries around the world were opening their economies on the world market, and to compete Mauritius needed a competitive newly industrialized economy to escape from the depressing forecast by economists at that time. The adoption of the industrialization policy as from the 1960s has had the impact of creating new pillars for the economy. The industrialization on the country’s economy brought about development in term of technology and infrastructure but also in term of human development, in relation to ethnicity and social values. Together with those development there was an increase in women participation in the labour force especially in the textile and tourism industry.

Moreover the surplus of labour from agricultural sector, due to low productivity, shifted to the manufacturing sector which needed relatively cheap and unskilled labour. The textile and tourism industries created new strong economic pillars on which the economy could depended upon and achieve favorable growth rate in the future. Moreover, since employment level rose (Employment rose from 104 thousands to 230. 7 thousands in year 1965 to 1986) due to the industrial policy and investment, the higher level of disposable income (Per capita income rose from $175 to $1200 from year 1965 to 1986) has encouraged Mauritians to buy better cars and houses, and promote the creation of new shopping centers as well (Consumption rose from 130 to 780 from year 1965 to 1986). Both poor and rich people aim for hi-tech living and the latest technology was available to more and more Mauritian.

The standards of living in the country kept on growing and soon the country was no more the “ country without joy” Nobel laureate V. S. Naipaul said it was. Since living standards rose, people needed more money to fuel their purchases, and thus banks like the Mauritius Commercial Bank started to grow together with the country’s economy. Better financial facilities were provided like loans to encourage entrepreneurship and create new local business. People were then employed in banking sectors and other tertiary sector. As the island developed, better transport systems were implemented and new road were built to promote and facilitate economic transaction throughout the island, and around the globe. The industrialization policy from 1960 had reshaped the island economic and physical structure, moving from primary sector to secondary and nowadays more and more tertiary sector’s developments are emerging.

Indeed, the industrialization policy had changed the physiology of the island but not only. The people as well have developed amazingly during the past decades. Soon after the policy was applied, the population growth rate increased amazingly fast (average annual growth rate of actual population was 2. 78% and 3. 78% in year 1962 and 1967 respectively). This could be explained by the increase in standard of living and the better ability of household to raise children. This growth lead to a boost in available labour force in the future which help to support and sustain Mauritius growth rate. Moreover, with the progress in technology and better medical care facilities, life expectancy rose in Mauritius which further strengthened the labour force. The labour force moving from the sugar sector to the tourism and textile sector has acquired new knowledge, skill and abilities. Labour productivity rose (Net output/ ‘ active population’ ratio rose from $938 to $3187 from year 1965 to 1986) and the economy grew, conflicting with what economists had foreseen. People started to recognize the importance of education and understand that there is a positive relationship between the level of education and income level (Average daily wages rates in non-agricultural sector rose from Rs 5. 86 to Rs 40. 85 between 1965 to 1986). Thus more educational institutions were created which further increase labour productivity and economic growth of the country. The fact that free education was provided further increase the intellectual level of the Mauritian people. Human resource is nowadays one of the strong points of the country and can be a reason why the economy has a positive growth rate.

Trading was also enhanced by the industrialization of the country. The implementation of the industrialization policy was connected to the adoption of import substitution policies in the 1960s followed by export-oriented policies in the 1970s. The Export Processing Zone (EPZ) was created and the industrialization of the textile industry makes Mauritius an export-oriented economy as sugar was no longer the country’s only exported product (Percentage exports per GDP rose from 36 % to 63 % from year 1965 to

1986). Textiles are the main EPZ product, accounting for 89 percent of jobs and 83 percent of exports. Mauritius benefits from preferential treatment in the European Community (EC) marked under the Lomé Convention. Mauritius growth rate was partly due to its trade liberalization policy which was possible due to the industrialization policies. Since Mauritius is a small island with limited natural resources, for its economy to grow, the new textile industry was necessary. The government implemented the industrialization policy to support local infant industries like the textile industry and also the tourist sector.

Nowadays, both sectors are strong pillars of the Mauritian economy, creating jobs and generating a high percentage of the country’s gross domestic product. Moreover, stable political and social climate attract foreign direct investment which bring in their shared of expertise and knowhow. Tourism also flourishes due to Mauritius attractive beach and the building of new luxurious hotel after the implementation of the industrialization policy, creating more jobs. Mauritius also set up an airline, without operating any aircrafts at first, and was profitable. The industrialization policies not only promoted export but also made Mauritius less dependent on importation and improved its balance of payment. Product that was imported before were now produced locally. Nowadays Mauritius has trading relationship with many countries and has a range of International Agreements, namely; the Common Market for Eastern and Southern Africa (COMESA), Southern African Development Community (SADC), member of the World Trade Organization (WTO), the African Growth and Opportunities Act (AGOA), etc. Mauritius exports in the first quarter of 2012 increases by 6. 3% over the corresponding quarters of last year while imports for the first quarter of 2012 increases by 4. 9% over corresponding quarters of 2011.

Defying the predictions of James Meade, a Nobel Prize recipient in economics who famously predicted a dismal future for Mauritius in 1961 due to its vulnerabilities to weather and price shocks and lack of job opportunities outside the sugar sector, the small island nation in the Indian Ocean of approximately 1. 3 million people has transformed itself from a poor sugar economy into a country with one of the highest per capita incomes among African countries by applying industrialization policies. Many economists agreed on the fact that economic growth requires labour and capital accumulation, advance in technology and increasing productivity; the adoption of industrialization policy create an economic environment with all those factors in Mauritius. The industrialization of the island also raise the income per capita and standard of living throughout the island causing a rise in consumption, and thus to employment and, investment locally and from abroad. New trade agreements were created and export-oriented activity proved to be economically successful. Life expectancy increased due to improved medical expertise and the population grew. The level of education also rose and human capital improved. Mauritius average real growth rate for the past 10 years is approximately 4% per annum. All those factors derived from the implementation of the industrialization policy lead to a positive growth rate causing the Mauritian Miracle.