

LOKAL IS BEAUTIFUL

ECONOMIC LEAKAGE AND RELOCALIZATION:
OPPORTUNITIES FOR SUSTAINABLE PROSPERITY
IN MAURITIUS



EXECUTIVE SUMMARY

*How can Mauritius develop its economy from the inside
via local demand and turn the realities of economic leakage
into opportunities for growth by following the lead
of inspiring entrepreneurs?*

*A study commissioned by the MCB
& conducted by UTOPIES – January 2019*



For over 180 years, MCB Group has been true to its guiding principle of assisting in the advancement of individuals, corporations and the country at large by supporting entrepreneurship and innovation on the island.

However, in the last 10 years, global challenges such as the economic crisis and global warming have sparked a deep questioning within the organization as to the very meaning of development, reexamining commonly held definitions of prosperity and happiness to redefine the group's responsibilities as an active steward of the island's economic growth. A number of more agile and enthusiastic movements are emerging on the island (slow food, slow money, local first, fablabs...) which promise new models of innovation and prosperity.

The MCB Group seeks more than ever to serve the development of Mauritius, a traditionally entrepreneurial island, by exploring new avenues to achieve greater prosperity from the inside out. The question is not to aim for complete self-reliance or to cut the island off from the world in search of self-sufficiency, nor to deny the importance of exports (goods, services), tourism or international investment for our island's economy. Rather the question is to reinforce the solidity of the island's economy by anchoring it in a new kind of globalization, one of exchanges between prosperous countries.

This study set out to better understand how prosperity is achieved on the island and identify which mechanisms create wealth and how much of it is generated from local economic circuits.

Our first finding shows that attracting external wealth is an important and necessary pillar of Mauritius' economy, however attraction of external wealth alone does not account for nor sustain the island's prosperity.

Indeed, not only does Mauritius' wealth rely on the island's capacity to attract international income (exports, income from labour and capital), it also depends on the country's ability to circulate wealth locally: income entering the island generates more wealth locally, which generates new exchanges and income in a virtuous cycle, until this ripple effect fades. This is what we call the local multiplier effect.

Without this effect, the territory functions a bit like a "leaky bucket", which is unable to keep the wealth that enters and to benefit its local economy (see figure 1).

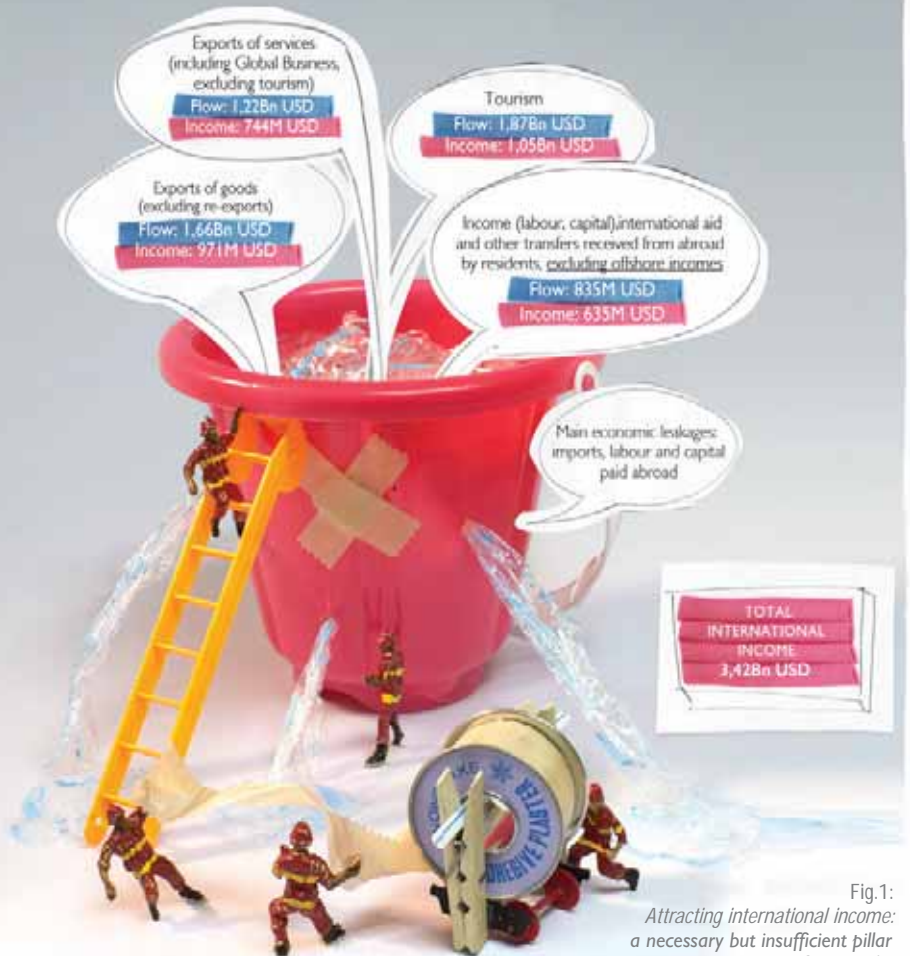


Fig.1:
Attracting international income:
a necessary but insufficient pillar
of prosperity.
"The leaky bucket"

Mauritius' prosperity results from its ability to attract international wealth and maximize the island's local multiplier effect. For instance, in 2015 Mauritius attracted 3,42Bn USD in international income.

By circulating this money among the actors of the local economy, like a ball in a pinball machine that accumulates points as long as it remains in the game (see figure 2), the multiplier effect has enabled Mauritius to multiply by 2,86 these revenues captured internationally to reach nearly 10 billion USD of national income.



Fig.2: The multiplier effect, or "pinball effect"

Yet, while Mauritius' external income has registered strong growth on average for the last 20 years, the country's local multiplier effect has tended to decrease (-25% in 10 years). This is called the "scissors effect".

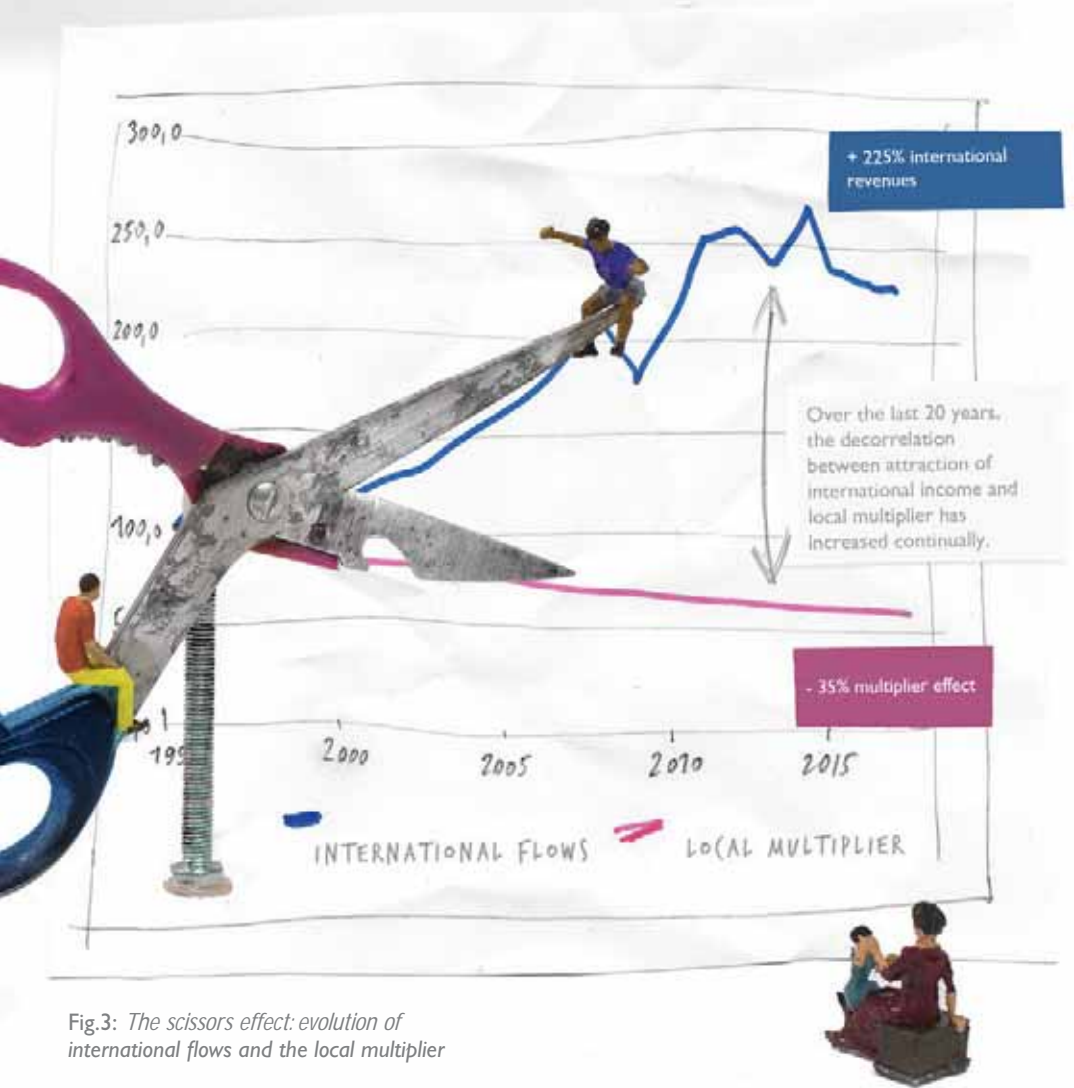


Fig.3: The scissors effect: evolution of international flows and the local multiplier

Three scenarios can be considered:

1

Maintaining stable growth of Mauritius GDP - around 3 to 4% - while maintaining its local multiplier at its current rate: the island could most likely double its per capita income by 2035.

2

Doubling its external income without changing the downward trend in the island's local multiplier effect. This implies important transformations and raises major questions. Is Mauritius capable of doubling industrial exports, tourism flows and financial activities (Global Business) in the next few years?

3

Aiming for a 50% increase of external income and a 25% increase of the island's local multiplier effect: the study shows that this trajectory is credible and possible by 2025.

The two first scenarios have social and environmental consequences:

- As shown by the stability of the Gini coefficient, which measures the level of inequality in the distribution of household income, social inequalities remain quite high on the island, despite strong income growth and the capture of external wealth.
- Mauritius' economy is increasingly carbon-based: if we count the CO₂ emissions related to the consumption of Mauritians, we realize that between 1970 and 2015 the global carbon footprint increased by 900% in Mauritius. This strong dependence on international raw materials via imports exposes the country to resource scarcity, climatic, geo-political and socio-economic risks.

The “hybrid” scenario (external income x local multiplier effect) leaves the island less exposed to external vulnerability, addressing “prosperity” in the broadest sense, including social and environmental issues.

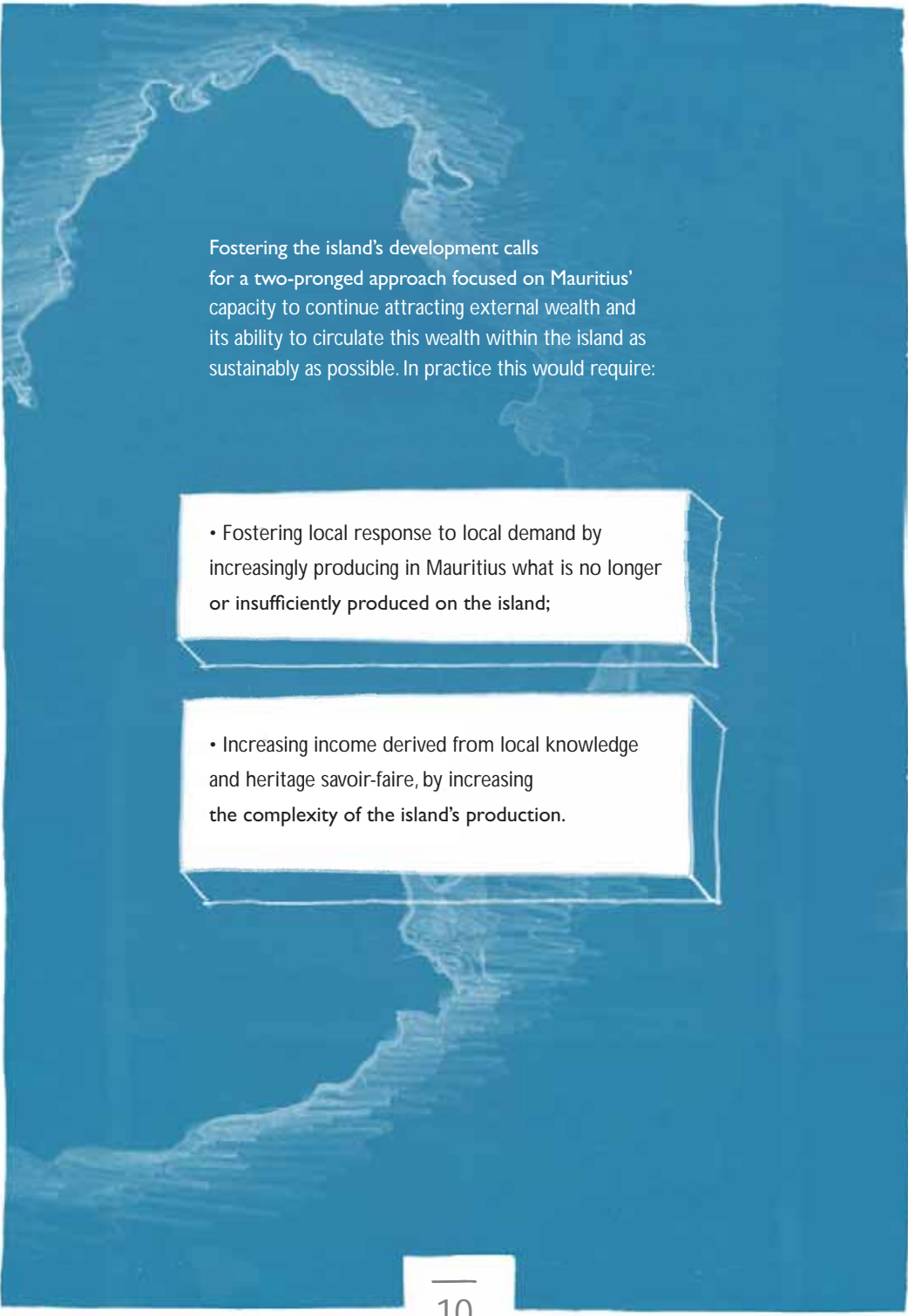
	① CURRENT GROWTH TREND	② BOOSTING INTERNATIONAL INCOME	③ HYBRID MODEL
ESTIMATED GROWTH RATE	3 - 4 %	> 4 - 5 %	> 4 - 5 %
'HIGH INCOME COUNTRIES' OBJECTIVE	✓	✓ ✓ FASTER	✓ ✓
RELIABILITY OF ECONOMIC MODEL	?	?	✓
REDUCTION OF INEQUALITY	?	?	✓
RESILIENCE ECOLOGICAL SUSTAINABILITY	✗	✗	✓



Aiming to increase Mauritius' local multiplier effect has nothing to do with advocating for protectionism and higher tariff barriers, which in a globalized and reciprocal economy would be counterproductive.

These new avenues for economic development must be designed to fight climate change. It is urgent to reduce the climate impact of our lifestyle and consumption, and thus reinforce the resilience of the island of Mauritius. Developing local manufacturing without increasing the island's ecological footprint must stem from new, more sustainable production models which contribute to solving global environmental challenges.

The island should find ways to stimulate new forms of local entrepreneurship and foster the emergence of new local industries. This is necessary in order to ensure Mauritius' inclusion in a globalized economy and guarantee sustainable growth for the island.



Fostering the island's development calls for a two-pronged approach focused on Mauritius' capacity to continue attracting external wealth and its ability to circulate this wealth within the island as sustainably as possible. In practice this would require:

- Fostering local response to local demand by increasingly producing in Mauritius what is no longer or insufficiently produced on the island;

- Increasing income derived from local knowledge and heritage savoir-faire, by increasing the complexity of the island's production.

3 avenues can be explored to foster the emergence of this kind of entrepreneurship on the island:



Turning Mauritius into a “Maker” island

Micro-factories, fablabs, fabshops, incubators,
start-up and company partnerships



Increasing the ability to produce
using local resources

Repair, restore value, recycle (local loops),
reuse waste



Creating value rather than products

Business models based on digital solutions (peer to peer, collaborative platforms, decentralized applications through Blockchain or Artificial Intelligence).

At MCB, we are inspired by these new models to rethink our role as an active steward of economic development, imagine new services, generate new kinds of collaborations, support local creativity and foster the emergence of local manufacturing as a means of guaranteeing sustained prosperity to the island of Mauritius. For us, this report is also a contribution of the MCB Group to our island and its inhabitants, as well as an invitation to dialogue, to build together the prosperous, sustainable and resilient Mauritius of tomorrow.

To access the full report and build the suite with us, visit: Lokalisbeautiful.mu

LOKAL IS BEAUTIFUL

AN INVITATION TO DIALOGUE

“LOKAL IS BEAUTIFUL provides an excellent foundation for focusing on the importance of incentivising local production of complex goods in order to encourage local solutions to local needs. The report meaningfully considers the inter-linkages of international revenues, local revenues, the goals of a high income economy and a sustainable development model, the value addition requirements for the country and the carbon footprint (...) It also proposes an economic development model which is resilient, sustainable and inclusive as well as the overall objectives of individual and collective well-being. This would surely form part of the ambition of a modern and forward-looking Mauritius.

For the MCB, this could provide a new perspective on facilities to be provided to this emerging economy. This may include flexible products to meet the needs of the insular entrepreneur as well as blockchain and Fintech solutions to service an emerging market with agile customers and producers. The bank may also consider means of accompanying local industries in their transformation towards more complex products, through blended facilities, risk-sharing mechanisms and financial advice.”

Kevin Ramkaloan, CEO, Business Mauritius

“Mauritius is admirably not content to rest on what the island has accomplished over the past thirty years and now seeks to raise the income and standard of living of its citizens further. It wants to enter the club of high-income countries with a world-class model of sustainability. And perhaps the island's planners are aware that if they, an island economy with limited natural resources can achieve such a success, every country in the world could follow this model. The commissioning of LOKAL IS BEAUTIFUL by the MCB Group represents a huge leap forward in achieving this objective.”

Michael Shuman, Economist

“Place and culture are the New Economics. What is needed is a compelling Place vision, brand and story for a 21st century Mauritius. An island that could be a new model of resilience, harmony, happiness, wellbeing and regenerative growth for the world. All the ingredients are there. And the LOKAL IS BEAUTIFUL report challenges business as usual to embrace a larger community engagement and participation model - so that an empowered community can be unleashed with its creative capacity for positive change.”

Gilbert Rochecouste, Activist & Entrepreneur

To see all the comments collected on the report visit
Lokalisbeautiful.com

