**Impact of Covid-19 on Trade, FDI and Employment in Mauritius**

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**University of Mauritius in collaboration with the Economic Development Board**

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# **Executive Summary**

Mauritius had its first three COVID-19 cases on 18 March 2020 and the island was under "sanitary" lockdown for two weeks. From 24 to 31 March, the country went under complete lockdown with only essential services being open. This lockdown was extended until 15 April, then again until 4 May and finally a third time on 1 June, with a gradual reopening of certain economic sectors starting from 15 May. The lockdown was lifted entirely on 15 June. Mauritius had a contamination rate below the WHO forecasts. The WHO predicted more than 20,000 cases and 1,139 deaths in the age group of over 60 years (WHO, 2020). At the end of May 2020, the island had recorded 332 coronavirus confirmed cases, all recovered, and 10 deaths. With less than 3% of the population infected, Mauritius is one of the few jurisdictions in the Indian Ocean which has been able to control the progress of the pandemic. Mauritius has been COVID-19 free with no local cases since 26 April 2020. The island had only one local case in November 2020.

However, at the time of writing, we are presently facing a second wave of the COVID-19 pandemic with 198 additional local cases, totalling 829 cases as at 22 March 2021. Travel restrictions and sanitary measures are in place to contain the spread of the virus. During the COVID-19 pandemic, the Government came up with major economic and social policies to assist businesses, employees in the private sector as well as informal workers. These strategies aimed to ensure that the island becomes more resilient to the crisis and protect businesses as well as workers. The impact of the pandemic has been felt and will continue to impact the different economic sectors in Mauritius.

This study has been conducted to probe into the effects of the COVID-19 pandemic on trade, investment and employment in Mauritius. The study breaks ground as it represents the first comprehensive examination of the impact of the pandemic on three important dimensions on which Mauritius is highly dependent namely, trade, investment and employment. The report is divided into three parts. The first consists of an assessment of the pandemic on employment across a sample of 300 firms operating in different sectors of Mauritius sampled over the period November 2020 to January 2021. The quantitative analysis was also supported by Focus Group Discussions with heads of associations across different economic sectors. The second part of the report probes into the impact of COVID-19 on trade (both exports and imports) in different goods and services while the third part of the report focusses on the FDI situation during the pandemic using both secondary data as well as a survey on 70 investors in different economic activities in Mauritius.

The key findings of the study can be summarised as follows:

**Impact of COVID-19 on Employment based on Firm Survey Results**

* Since the outbreak of the pandemic and first reported COVID-19 cases in Mauritius, 81% of firms surveyed reported a severe contraction in their activities
* Around 42% stated that there would be a severe or moderate contraction in their activities in the next 12 months till December 2021. Since the survey was completed in January 2021, it did not capture the second wave of COVID-19 which took place in March 2021.
* Almost 31% of firms are expecting a severe contraction in their profits in 2021, while 25% forecast a moderate contraction.
* In terms of investment, 15% expect a severe decline in investment.
* Domestic sales in 2021 is expected to fall considerably for 23% firms compared to a moderate contraction for 22% of enterprises surveyed.
* Around 31% of enterprises stated that they may actually close down
* The risk of closure tends to be higher for firms who produce essentially for the domestic market.
* A higher percentage of firms having 10 or less employees are likely to close down (33.3%) compared to those having around 11 to 50 employees (31.0%) and those having more than 50 workers (21.4%).
* Among female heads of business, 40% reported there is a risk of closure compared to 30.4% of male heads.
* Around 10% of enterprises in the survey have dismissed workers.
* Dismissal tends to be essentially across firms with more than 50 employees (i.e. 21%) – large firms.
* Around 7% of firms with a firm size of 10 or less workers have reduced their workers compared to 17% of firms with 11 to 50 workers.
* For 22% of firms, there may be a probability of dismissal while for 6.2% it is certain that they will lay off workers in the near future.
* Around 72% reported that there will be no dismissal of employees.
* In the survey, we note that around 24% of firms adopted the WFH strategy.
* WFH has been adopted across 64.3% of firms having more than 50 workers and for 41.4% of firms with a workforce ranging between 11 to 50 employees
* In the sample, 75% of firms were not able to transit to WFH. Around 13.2% could move to WFH moderately fast while 9.6% adopted this working mode very fast
* Around 15% firms surveyed reported that they adopted restricting and reskilling to survive the COVID-19 pandemic and maintain employment.
* Around 60% of firms reported that the policy measures put in place by Government were helpful.

**Impact of COVID-19 on Trade**

* As compared to the same period the previous year (January 2019-June 2019), a decline can be observed in the import/export trade values in both the main trading partners and sectors.
* In particular, in most cases, observed (real) values were less than those predicted by the optimal forecast models.
* The Bayesian structural time series (BSTS) framework for causal analysis was thus adopted to empirically investigate whether this decrease in the total trade values was due to the outbreak of the COVID-19 pandemic.
* Our empirical findings showed that in the long-run, the total trade values will eventually be affected by the pandemic. Nevertheless, this is highly dependent upon the measures taken locally or globally to mitigate the spread of the virus.
* In terms of country-wise analysis, the relative effects for the import trade system range from -31% (for United States) and -14% (for Japan). For the export trade system, this varies from -62% (for France) to -33% (for South Africa).
* In terms of sector-wise analysis, the relative effects vary from -54% (for the sector “Petroleum gases and other gaseous hydrocarbons (HS Code: 271113) to -14% (for the sector “Cigarettes (HS Code: 240220)). For the export trade system, this ranges from -51% (for the sector Men’s and boys’ shirts, of cotton (not knitted or crocheted) (HS Code: 620520) to -13% (for the sector Fabrics, knitted or crocheted, of cotton or dyed (HS Code: 600622).

**Impact of COVID-19 on FDI**

* As compared to the same period the previous year (January 2019-June 2019), a change was observed in the figures of the gross direct investment flows, both in terms of geographical origins and sector wise.
* Preliminary analysis of our time series data revealed that the figures were below/above those predicted by the optimal forecast models.
* Despite that an overall decline was noted in the gross direct investment flows, our analysis showed that there was an increase in investments coming from the United States of America and in sectors such as “Manufacturing”, “Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles”, “Accommodation and Food Service Activities” and “Financial and Insurance Activities”.
* Again here, we employed the BSTS framework for causal analysis to determine whether these changes were due to the outbreak of the COVID-19 pandemic.
* Our findings indicated that the outbreak of the pandemic had a negative and significant effect on investments emanating from five countries (South Africa, Switzerland, Belgium, China and Reunion) and on investments in the “Real Estate Activities” sector.
* Surprisingly, the latter had a positive and significant influence on the “Manufacturing” sector; a considerable increase was observed.
* In terms of geographical regions, the relative effects range from -99% (China and Reunion) and -45% (South Africa). For the sectors, these vary from -31% (Real Estate Activities) to 410% (Manufacturing).
* Nevertheless, a closer look at the reported results showed that in the long-run, there is more than 50% chance that the outbreak may affect the gross direct investment flows. But, this will depend on the measures taken to mitigate the spread of the virus in the coming months.
* An online survey on 70 foreign investors was also undertaken.
* The data shows that around 33% have reduced their workforce by 20%, while 29% encounter problems in the supply chain and 27% of firms registered a fall in output of the order of 40%.
* The importance of government measures were assessed where it was noted that the majority that is 51.4% and 54.3% reported that relaxing labour and business regulations and increasing transparency and information on the COVID-19 situation are very important for investors.
* The Wage Assistance Scheme (WAS) is also viewed as a very important measure for 52.2% of investors in the sample.
* The most common measures adopted by foreign investors to adjust to the pandemic have been to seek financial assistance, apply for the WAS, as well as the use of digital technologies for supply chain management and the reduction of their workforce.
* Investors surveyed also reported on the support they actual need to face the socio economic impacts of the crisis. The majority of them need financial aid in terms of cash flow, grants, subsidies and credits.
* Around 14% also advocate for the reopening of border for both tourists and potential real estate clients, 22.3% would like a review of existing laws and measures especially the relaxation of labour and business regulations whilst 12.3% need debt assistance in terms of lower rate of interest on loans, amongst others.
* Other measures encompass fast track of permits in terms of the clearance from different Ministries as well as clear communication and transparency on laws, measures taken.

Based on the above findings, the report presents a series of policy options in the three areas discussed namely foreign investment, exports and employment. We also focus on SMEs in particular as they contribute significantly to both GDP and employment. From the results, it can be postulated that the measures put forward by the Government have been helpful for domestic as well as foreign investors and enterprises. In effect, the authorities have responded proactively by providing assistance to key stakeholders severely impacted by the pandemic. Policies and actions taken have helped preserve both economic and social stability.