Chapter 9

Mauritius—Partnering with foreign firms to upgrade the tourism industry

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Summary

The Mauritius case study shows how foreign direct investment (FDI) can be leveraged to build on and upgrade an existing viable industry. In the late 1970s, Mauritius began to develop its tourism industry by encouraging the accumulation of capital into the industry through the provision of incentives. By providing basic infrastructure; ensuring air access through the national carrier, Air Mauritius; and actively marketing the country as an upscale tourism destination, the government facilitated the growth of a mainly domestic industry. At the time FDI was permitted and encouraged only in select segments (mainly hotels). Once the industry had become viable in the early 2000s, FDI was gradually liberalized and encouraged (through investment promotion), which led to a surge in FDI inflows, a boom in the industry, and significant global value chain (GVC) upgrading. The case study also highlights the important role that nonequity modes (NEMs) of production, such as management contracts (hotels) or franchising arrangements (restaurants and car rentals), can play in accessing skills, management expertise, and technology. Such arrangements have been important throughout the development of Mauritius’s tourism industry. By looking at a 50-year process, the case study provides insights into the effectiveness of distinct strategic approaches and policy tools for leveraging FDI at different phases of development.

Mauritius’s role in the tourism global value chain

The tourism global value chain

Tourism is an important driver of economic growth around the world. In 2018, tourism supported an estimated 123 million jobs (3.8 percent of global employment) and generated US$8.8 trillion in direct revenue (3.2 percent of global gross domestic product [GDP]). The total contribution of tourism to GDP (including wider effects from investment, the supply chain, and induced income impact) was US$8.8 billion (10.4 percent of global GDP) (WTTC 2019).

Developing countries are playing an increasingly prominent role in the tourism industry. In 2018, 45.6 percent of international tourist arrivals and 35.4 percent of tourism receipts accrued to emerging economies (UNWTO 2019). Because tourism is employment-intensive and often
has linkages to many other parts of the economy, it directly contributes to poverty reduction. For many developing countries, tourism is one of the main sources of foreign exchange income and a major component of exports, creating much-needed employment and development opportunities (UNCTAD 2007).

Conceptualizing the tourism industry from a GVC perspective provides insights into the main actors and their relationships, different value creation processes, and upgrading pathways. Figure 9.1 shows the tourism GVC as a sequence of direct flows of money from consumers to service providers along different distribution channels. There are three types of actors in the tourism GVC: consumers, intermediaries, and service providers (Daly and Guinn 2016). There are also three main distribution channels:

1. **Direct booking channel.** Through this channel, consumers bypass distribution intermediaries and book directly with service providers such as airlines and hotels.

2. **Online package channel.** Online portals and travel agencies such as Expedia, Priceline, and booking.com have grown in prominence in recent years. These online portals offer many of the same services as in-person travel agencies. In some cases, they work together with the global distribution system. The global distribution system provides a shared platform for information regarding airline, hotel, and tour scheduling, including prices, which allows travel agents to reserve and book directly in real time.

**FIGURE 9.1 The tourism global value chain**

Source: Duke Global Value Chains Center, in Daly and Guinn 2016.

Note: GDS = global distribution system (coordinating online portals).
3. **Package booking channel.** Traditionally, this has been the main distribution channel for many countries. It involves a number of different distribution intermediaries:

- **Travel agents** often act as retailers selling already assembled tours but may also work with the global distribution system to sell individual services or with inbound tour operators or destination management companies (DMCs).

- **Global tour operators** purchase services from individual providers and assemble them into products, which are most often sold through travel agents. Some large companies have vertically integrated and sell directly to consumers.

- **Destination management companies** work closely with global tour operators to purchase local services for the operator’s offering, given that DMCs often have better knowledge of the local product. They may also support the management of consumers in the inbound country.

- **Inbound tour operators** perform similar services to DMCs but focus on direct sales to customers in the inbound country.

The lead firms in the leisure tourism GVC are international airline carriers, cruise lines, global tour operators, online travel agencies, and multinational hotel brands (Christian et al. 2011). These firms often play a key role though marketing campaigns and close contact with consumers and capture much of the value created in the GVC. Global tour operators and online travel agencies may have profit margins of more than 20 percent as opposed to about 10–20 percent for DMCs or travel agents (Daly and Guinn 2016).

**Mauritius’s participation in the tourism global value chain**

The tourism industry has played an important role in Mauritius’s economy since the late 1970s and continues to account for a large part of the country’s exports. International tourism receipts have grown steadily from as low as US$9.7 million in the 1970s to US$2.16 billion in 2018, constituting 34 percent of the country’s total exports. Direct employment in the tourism industry exceeds 73,600, up from about 20,700 in 2002 (Statistics Mauritius 2017; UNCTAD 2008). As of 2019, the industry accounted for 12.8 percent of total employment in Mauritius (Statistics Mauritius, in AHRIM 2019).

The number of tourism arrivals has also risen steadily, from an average of 120,000 a year in the 1980s to 1.4 million in 2018 (UNWTO 2020) (figure 9.2). As has traditionally been the case, the majority of tourists in 2018 were from European countries, mostly from France (20.4 percent of arrivals), the United Kingdom (10.9 percent), and Germany (9.5 percent). Regional tourism has also been important for Mauritius since the 1990s; in 2018, 9.9 percent of tourists came from Réunion and 9.2 percent from South Africa. However, other regional sources of tourists (for example, the Comoros, Kenya, the Seychelles, and Zimbabwe) have not contributed significantly to arrivals. Among the new markets that have been growing and that are explicitly targeted by tourism promotion are India (6.1 percent of arrivals in 2018) and China (4.7 percent) (AHRIM 2019). Almost all tourists (97.2 percent) arrive via air transport. According to a survey of inbound tourism, in 2018 the main purpose of
visit was holiday (79.3 percent), followed by honeymoon (13.1 percent), business (2.7 percent), and visiting friends and relatives (1.4 percent) (Statistics Mauritius 2018). The purpose of visits has remained virtually constant over time.

Mauritius today boasts a comprehensive ecosystem of actors directly operating in the tourism industry. As of March 2019, 2,846 entities are directly licensed with the Mauritius Tourism Authority (figure 9.3). About 66 percent of available rooms are hotel rooms, but in recent years nonhotel accommodation has been growing faster than hotel accommodation (8.9 percent compared with 2.0 percent average growth over the period 2009–19).

Distribution channels in Mauritius are slowly beginning to change. Package booking through tour operators is still the most important distribution channel, especially for traditional markets such as France and Germany. New markets such as China, by

**FIGURE 9.2** Number of international tourism arrivals in Mauritius, 1982–2018

![Graph showing number of international tourism arrivals in Mauritius, 1982–2018](image)

*Sources: Statistics Mauritius data; World Bank World Development Indicators.*

**FIGURE 9.3** Number and share of firms in Mauritius’s tourism ecosystem, by sector, 2019

![Pie chart showing number and share of firms in Mauritius’s tourism ecosystem, 2019](image)

*Source: AHRIM 2019.*
contrast, are almost entirely dominated by online travel agencies, according to interviews with hotel group executives. Direct online booking is also becoming more and more important.

In recent years, the type of products tourists demand has also shifted. Tourists in Mauritius traditionally booked half-board (which includes pension, breakfast, and dinner) or bed and breakfast. However, according to interviews with stakeholders conducted for this case study, tourists have switched to requesting all-inclusive packages, following a global trend. The largest proportion of meal arrangements in 2015 was half-board (48 percent), but the largest proportion in 2018 was all inclusive (42 percent) (Statistics Mauritius 2015, 2018). As a result, it has become more difficult for hotels to profit from selling beverages, which had often been a significant part of revenue. Spending outside of the hotels has also been depressed as a result.

**The development of Mauritius’s tourism industry: The role of foreign direct investment**

Mauritius’s experience in leveraging FDI to enter and upgrade in the tourism GVC can be divided into three phases. In phase 1 (late 1970s to early 2000s), Mauritius’s tourism industry grew mainly by relying on domestic capital that was channeled from the sugar sector to the tourism industry. The government of Mauritius supported this process by providing a number of incentives, and further helped generate tourism demand by active marketing and by creating the state carrier, Air Mauritius, to ensure air connectivity. Multinational corporations (MNCs) played a less significant role during that phase. FDI in the narrow sense was restricted in most segments of the economy; as a consequence, the only foreign investors were a number of hotels. At the same time, other actors played a role through NEMs, which were allowed. NEMs are arrangements in which an MNC may have significant de facto control or influence over a local investor or local enterprise even without an equity stake, including through management contracts, leasing, or franchising (UNCTAD 2007). In the first phase, most foreign restaurant and car rental chains were present through franchises. Throughout this phase, Mauritius saw steady growth in exports, from US$42 million in 1980 to US$542 million in 2000 (figure 9.4).

In phase 2 (early 2000s to late 2000s), FDI in the form of direct capital flows became important. Gradual liberalization and the creation of specific programs to attract foreign investors into real estate and resort development led to significant FDI inflows from the mid-2000s onward (see figure 9.5; notably, NEMs such as franchising and management contracts do not appear in official FDI data). Other tourism segments such as tour operators also gradually began to be liberalized. As a result, exports almost doubled between 2000 and 2010 (US$542 million to US$1.29 billion).

From the late 2000s onward (phase 3), FDI and exports continued to grow. NEMs, especially hotel management contracts, played an increasing role; and domestic hotel groups also began to become outward investors, which helped further upgrading.
Phase 1: Building an industry (late 1970s–early 2000s)

Tourism in Mauritius had its beginnings in the late 1970s, when domestic investors began to invest in the industry. In the 1960s and 1970s, Mauritius was predominantly an agricultural economy, with only minor economic activity in manufacturing and tourism. In the early 1970s, there was only one hotel in Mauritius, mainly catering to the crew of Air Mauritius. When a large boom in the sugar cane market led to a...
surge in domestic capital, the owners decided to invest into other industries, especially textiles and tourism (Cattaneo 2009). In the 1980s, the global sugar market had changed and countries such as Brazil were on the rise. To diversify away from sugar, the private sector in Mauritius, together with the government, focused on export diversification. Because a few small hotels were doing well, the decision was made to strengthen the tourism industry.

The shift toward tourism was strongly supported by the Mauritian government. In addition to providing a stable and secure business environment, the government offered a number of incentives. Under the 1974 Development Incentives Act, which also applied to hotel development, tax relief was granted to investment projects for a period of 10 years. In addition, a number of items were exempt from customs duty. In 1982, the Mauritian government set up two programs to specifically provide incentives for the development and management of hotels: the Hotel Management Scheme and the Hotel Development Scheme. Under both programs, the corporate tax rate was lowered (to 15 percent instead of the statutory 30 percent) and dividends received by shareholders were exempt from income tax for 10 years. Approved hotels under the Hotel Development Scheme were granted a Hotel Development Certificate, which permitted a one-time exemption of customs duties on the importation of equipment. Holders of such certificates were also eligible for subsidized loans from the Development Bank of Mauritius. According to an industry veteran interviewed for this case study, “these loans had been extremely important in the 1980s and 1990s for stimulating hotel construction. Subsidized loans had interest rates as low as 8-9%, which were significantly cheaper than the 22% market rates at the time.” Other tourism industry segments were also supported, including tour operators, car rental agencies, and first-class restaurants (WTO 1995); and labor market regulations were relaxed to enable foreign labor to be imported (Zafar 2011).

From the beginning, the government of Mauritius’s strategy was clear: to promote the development of upscale tourism. Because of limited space on the island, ecological concerns, a “dislike for mass tourism and high-rise building” (Zafar 2011, 101), and the identification of tourism as a niche, the government decided to develop an industry targeting wealthy individuals from developed countries, particularly France, Germany, and the United Kingdom.

To ensure the positioning of Mauritius as an upscale tourism destination, the government tightly regulated the industry and managed its growth. With the 1989 hotel regulations, several important conditions were established (UNCTAD 2008):

• The maximum number of rooms per hotel was limited to 200.

• Hotel projects had to be financed by at least 40 percent equity.

• Investment per room was to be at least 4.5 million Mauritian rupees (MUR).

• For coastal hotels, the promoter had to have at least 4 acres of land; foreign-owned coastal hotels were required to lease land, at least 10 acres per project, from the government.

In the 1980s, government control also extended to the amount of foreign ownership in the economy—most segments of the tourism industry were closed to FDI. Full foreign ownership of new hotel developments was permitted only for hotels of more
than 100 rooms; foreign participation was limited to 49 percent for hotels with fewer rooms. In addition, a minimum capital investment requirement for foreign-owned hotels of MUR 10 million (US$400,000) applied (UNCTAD 2001). Under the 1975 Non-Citizen Property Restrictions Act, foreigners were allowed to buy property only with approval from the Prime Minister’s Office, and foreign-owned coastal hotels had to lease land from the government (WTO 1995), also subject to approval. Foreign participation in restaurants was limited to 49 percent, and only where investment exceeded MUR 10 million, which would be a rare occurrence (WTO 1995). No foreign investment was permitted in travel agencies, tour operators, tourist guides, car rental agencies, and yacht charters. Equity participation in duty-free shops by foreigners was limited to 30 percent. Foreign travel agencies arranging for services in Mauritius had to work through an agent established in Mauritius. Establishing a travel agency also required clearance from a designated committee chaired by the Minister of Tourism, Leisure and External Communications (WTO 1995).

To attract a sufficient number of upscale tourists, the government actively promoted Mauritius as a tourism destination. With high-level engagement, notably by the politician Gaëtan Duval, Mauritius pioneered “celebrity marketing,” which was seen as the ideal way to promote Mauritius as a luxury destination. In 1996 the Mauritius Tourism Promotion Authority was established to provide a more formalized tourism promotion framework. With offices in several countries, its function is to promote Mauritius abroad as a tourist destination by conducting advertising campaigns, participating in tourism fairs, and organizing promotional campaigns and activities in Mauritius and abroad.

In the early stages, one essential factor facilitating tourism in Mauritius was the state-owned carrier, Air Mauritius. Together with Air France and the British Overseas Airways Corporation (BOAC), the government of Mauritius in 1967 created the airline. Several industry veterans interviewed for this case study highlighted Air Mauritius as key to enabling rising numbers of tourists to Mauritius, particularly because it would continue to schedule flights in the off season, when other airlines would not fly.

Mauritius’s air access policy in the 1980s and 1990s was driven by the dual objectives of protecting Air Mauritius as the flag carrier and attracting up-market tourists (WTO 2001). The strategy was characterized by maintenance of single-designation clauses in air service agreements (one airline per route to Mauritius); double-approval fare systems that entitled the government to control fares; restrictions with respect to capacity and frequencies; reluctance to exchange fifth freedom rights; a noncharter policy (with some exceptions); modest liberalization efforts, only in a regional context; and no full privatization (WTO 2001). This restrictive policy was largely supported by both the government and the private sector to maintain high prices and thereby to prevent mass tourism (Page 1999). Notably, although protecting Air Mauritius may initially have been an effective way to facilitate tourism, keeping these protections in place over decades may have eventually been detrimental to the development of Mauritius’s air connectivity overall (see section on current challenges).

MNCs in the 1980s and 1990s mainly played a role through the technological know-how and access to markets that they brought rather than because of capital inflows. The only segment of the tourism industry in which FDI in a narrow sense was significant was in hotels; in 2001, about 40 percent of larger hotels (more
than 100 rooms) were foreign owned (UNCTAD 2001). In other segments, MNCs were present through NEMs. Most major restaurants and car rental chains were represented through franchises (UNCTAD 2001). A number of stakeholder interviews highlighted that global hotel chains contributed significantly in bringing more tourists to Mauritius. In particular, attracting ClubMed and Maritim, the first two hotel chains that came to Mauritius in the late 1970s, helped put Mauritius on the map for tourists from Europe.

As a result of the government-led, private sector–driven initiatives, Mauritius's tourism industry began to boom. The number of tourists rose from 75,000 in 1975 to 656,000 in 2000, and the contribution to GDP increased from 1.6 percent in 1976 to 7.4 percent in 2000 (UNCTAD 2008). Several domestic hotel groups, such as Beachcomber, Constance, and Sun Resorts, emerged and dominated the industry. In 1999, the largest hotel chain in Mauritius was entirely Mauritian owned, and the second largest was 82 percent Mauritian owned (Page 1999).

Linkages with other sectors of the economy were limited to select food items and maintenance services. Facilitated by duty-free concessions, most furniture and construction materials were imported. Local products that were used had frequently only received final processing in Mauritius (Page 1999). Meat (except beef), fish, and a few vegetables tended to be sourced locally, but other food items, including fruits, were mainly imported. Services supporting the tourism industry, such as the maintenance of equipment, vehicles, and refrigerators, were mostly contracted out to local firms (UNCTAD 2008).

Interviews conducted for this case study suggest that these local sourcing dynamics have not changed significantly through the present, which is not surprising for a small island nation. Government support, according to the interviews, is focused on promoting the development of specific industries; for example, subsidies and grants are given to local fishermen as well as for small and medium enterprise development. However, the promotion of supplier linkages seems to be largely limited to informal encouragement of hotel groups to source locally and contribute to the community. Several hotels interviewed had specific programs in place to source with the local community, for example, to promote Creole food in the hotel restaurants or to work with young composers and musicians to perform on the hotel site.

**Phase 2: Opening up the economy (early 2000s–late 2000s)**

Having built a sizable tourism industry in the 1980s and 1990s under a regime of close control, the Mauritian government in the 2000s began liberalizing and actively promoting FDI to further develop the industry. The Board of Investment (replaced in 2017 by the Economic Development Board, EDB) was created in 2000 to serve as an investment promotion agency, signaling a stronger emphasis on FDI to develop the Mauritian economy. Beginning in 2002, the government of Mauritius introduced a number of incentive schemes that allowed foreign citizens and companies to acquire different types of immovable property (see box 9.1). These schemes were the main impetus for a strong increase in FDI inflows from the mid-2000s onward (see figure 9.5) and contributed to diversifying Mauritius's leisure tourism industry. Foreign investors such as Four Seasons and ClubMed began to use the incentive programs to develop large hotel complexes, of which single units were sold to high–net worth individuals.
Often, these units were then rented out by the hotel group on behalf of the owners. In several cases, resorts were constructed within the country (instead of on the coastline) and thus provided a different offering to tourists, including novelties such as golf courses that attracted tourists from East Asia.

In the mid-2000s, the government of Mauritius also began to liberalize other segments of the tourism industry. Since 2006, foreign equity restrictions on restaurants and on hotels with fewer than 100 rooms have no longer applied. Investment in the pleasure craft sector was authorized subject to an initial investment of MUR 10 million and the originality of the project proposal (WTO 2008). In 2012, restrictions on foreign investment in car rental, travel agency, and tour operator services were removed to enable a bilateral investment treaty with the United States to be signed (WTO 2014). Economy-wide, investment screening was removed, and the
acquisition of property was conditioned on approval from the Board of Investment for business purposes instead of requiring prime minister approval (WTO 2014). Although equity restrictions have largely been removed, there may be other conditions depending on the activity.

Liberalization led to significant firm-level upgrading. Based on stakeholder interviews, there have been several cases in which local companies acquired by MNCs benefited from the transfer of skills, management expertise, training programs, and local staff opportunities (for firm examples, see box 9.2).

To further support an increase in tourists, the government of Mauritius in 2005 began to gradually liberalize its air access policy. There has been a shift from single or dual designation to multiple designation regimes in Mauritius’s bilateral air service arrangements. Many newly signed bilateral agreements in force provide for the fifth freedom traffic rights. Mauritius has also been moving away from its policy of only allowing scheduled flights. It is open to allowing, on a case-by-case basis, charter and

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**BOX 9.2 How foreign acquisitions help upgrade domestic firms**

The acquisition of a local destination management company (DMC) by a global tour operator serves as a good example of firm-level benefits of foreign direct investment. After having been a local supplier for the global tour operator for several years, in the mid-2000s the multinational corporation (MNC) decided to purchase 51 percent of the equity of the DMC. According to a DMC executive, the MNC was looking for a company that could be “the eyes and ears for the MNC on the ground.” Through vertical integration, the MNC sought to capture different components of the value chain and thus gain a competitive advantage over online travel agents such as booking.com.

For the DMC, acquisition by the MNC has resulted in significant growth. The number of employees has grown from 140 at the time of acquisition to 270 in 2020. It also brought significant intangible benefits. According to a DMC executive, “management by the global tour operator keeps us on the edge and instills a mindset of excellence. The acquisition brought strategic thinking, and helped to align technology, finance processes and service delivery; ultimately, it made the staff and the service delivery better. Had the MNC not bought us, we would not have had these consequences.”

Benefits extend beyond the DMC. The DMC owns a large fleet of vehicles but also uses subcontractors to serve its clients; as of 2020, the DMC works with 57 subcontractors. There have been several cases in which drivers who worked directly for the DMC became their own business owners, now working as subcontractors.

Another example is the acquisition of a domestic construction company by a multinational engineering services firm. According to an executive, “becoming part of the multinational group has enabled us to have access to global skills. If there is a specific issue for which we lack expertise, we can ask anyone in the global intranet to solve problems that we have; for example, we have the possibility to call an acoustic engineer, of which there are few in Mauritius. Being part of the group is thus a differentiator for our clients. In addition, we can now offer opportunities for our staff to work on global projects in other countries, and we also have access to training opportunities offered by the group, which serves as a nonfinancial bonus for our workers.”

Source: This analysis is based on a combination of literature reviews and interviews conducted by the authors between January and March 2020 with representatives of multinational corporations, domestic firms, and trade associations affiliated with the Mauritian tourism industry, as well as government officials; the interviews are the source for all direct quotations that are not otherwise attributed.
special flights on routes that are not being served by airlines operating scheduled air services. The shift in policy can be explained by other countries progressing toward an open skies policy, as well as the reduction in airfares to many competing destinations (to Southeast Asia, for instance) (Cattaneo 2007). Notably, Air Mauritius continues to be majority owned by the Mauritian government, which may have negatively affected the development of air connectivity.

Incentives that had been granted to developers of hotels were progressively withdrawn. The Development Incentives Act, which had granted tax relief to tourism enterprises for a period of 10 years, was repealed in 2000. In 2006, the Hotel Management Scheme, which had stimulated investment in the hotel industry since 1982 (WTO 2008), was also cancelled. These changes can be seen as an overall change in strategy turning away from granting numerous incentives toward having a low-tax regime and targeted promotion of projects (WTO 2008).

In addition to opening up, the government of Mauritius in the 2000s also emphasized regulation and, under the heading of “democratization of the economy,” sought to ensure that its benefits were distributed equitably. In 2002, the Mauritius Tourism Authority was established, with the main function of promoting the sustainable development of the tourism industry. It establishes codes of practice and standards, and monitors compliance. All tourist establishments must obtain a tourist enterprise license from the Tourism Authority before beginning operations (WTO 2008). In addition, an environmental protection fee of 0.75 percent was levied on the monthly turnover of hotels and boarding houses, and several funds were set up to increase the welfare of employees and promote community development.

An important facilitating factor for a thriving tourism industry has been workforce development programs, particularly for the hospitality industry. The Hotel School of Mauritius had been set up to prepare potential employees for the tourism sector, particularly for work in hotels. The University of Technology, Mauritius, and the University of Mauritius complemented the Hotel School by offering academic courses leading to undergraduate and postgraduate degrees in tourism, marketing, and hospitality management. By the mid-2000s, the Hotel School produced about 250 graduates per year, and the universities about 100 graduates (UNCTAD 2008). The government of Mauritius actively supported workforce development through a scheme whereby hotels received a 60 percent refund of the expenses for approved training through the Hotel School of Mauritius and the Mauritius Qualifications Authority (UNCTAD 2008). In addition, many hotels also trained their employees internally.

However, training programs were not sufficient to fulfill the needs of a rapidly growing industry, and they also provide evidence of the difficulty of requalifying workers for the tourism industry. Despite being able to provide training to a significant number of workers, the tourism industry was still constrained by labor shortages, especially in skilled labor such as middle management and skilled specialists (chefs and bar staff) (Cattaneo 2007). Under a pilot program, the government provided a two-month wage subsidy for workers from the textile sector who took up jobs with on-the-job training in the hotel sector. Few workers were kept on after the subsidy ended, however, often because of their age and relatively low level of skills (the majority had only primary school education) (Cattaneo 2007). As a result, the government decided to promote general training programs rather than subsidy schemes.
The experience shows how challenging the requalification of unskilled workers for the tourism industry may be (Cattaneo 2007).

**Phase 3: Expanding abroad and adapting to digitalization (late 2000s–today)**

Following a period of liberalization, Mauritius’s tourism industry has grown further. International tourism receipts, the number of tourist arrivals, employment in the tourism industry, and FDI flows have all increased (see figures 9.4 and 9.5).

As a result of the growth of the industry, domestic companies have, since the mid-2000s, begun to emerge as outward investors. In the 1990s outward FDI (OFDI) had been limited, but a clear increase can be observed beginning in 2003 (figure 9.6). In addition, several hotel groups interviewed for this study indicated that they used management contracts to manage properties abroad, a situation that does not appear in the official FDI data. The significant increase in tourism OFDI can possibly be explained by the development of core competencies and know-how in hotel management by Mauritian companies (UNCTAD 2001). Geographic proximity has also been a factor. Most tourism OFDI has gone to Réunion, the Comoros, Maldives, and the Seychelles (UNCTAD 2008). Domestic firms interviewed for this case study indicated that OFDI helped them expand and diversify, build a brand, and gain the ability to offer regional package tours.

OFDI in Mauritius has not been subject to restrictions but has instead been supported by the government through information sharing, incentives, and international agreements. In 1994, the government formalized its policy of having no official foreign exchange controls (Nkuna 2017). In 1998, it set up the Regional Development Certificate Scheme, which provides a number of fiscal incentives to firms that hold at least a 35 percent share in an approved regional development project, including

**FIGURE 9.6 Outward foreign direct investment flows in tourism, 1990–2018**


Note: From 1990 to 2006, the Bank of Mauritius in its sector-specific FDI data included a specific “tourism” category. From 2007 onward, to categorize FDI inflows, the government of Mauritius has used the International Standard Industrial Classification, which does not list tourism as a category. For the purposes of this study, the category accommodation and food services is used as a proxy for FDI in tourism from 2007 onward. It includes the provision of short-stay accommodation for visitors and other travelers and the provision of complete meals and drinks fit for immediate consumption. FDI data for 2018 are preliminary estimates.

FDI = foreign direct investment.
several provisions for investment relief and allowances, a 15 percent corporate tax, and no tax on dividends (IBP USA 2012). Since 2012, the Board of Investment (now the EDB) has been operating an Africa Center of Excellence dedicated to facilitating investment from Mauritius into Africa. It acts as a repository of business information for Mauritian entrepreneurs about investment opportunities in different sectors in Africa (US Department of State 2019). In addition, the government of Mauritius has signed a number of bilateral investment treaties with African states to protect its investments abroad.

One of the most significant shifts in Mauritius’s tourism industry in recent years has been in the type of distribution channels used to sell tourism services, influenced by the digitalization of tourism. Digital technologies and platforms are disrupting the way the tourism sector operates from end to end—affecting the way destinations facilitate tourism, develop products, gather data, access markets, and attract visitors (Bakker and Twining-Ward 2018). As a result, hotel groups interviewed for this case study see a significant rise in bookings through online travel agencies (partially from Chinese tourists) and direct booking. These new channels offer opportunities for hotels to increase their profit margins by omitting intermediaries. Although many hotel groups still work closely together with tour operators, because of long-term business relationships or because there is the danger of losing business by turning away, they are also strategically realigning. There seems to be a clear understanding that to do so they must have a strong brand, because ultimately brands attract customers who book directly with hotels. Different strategies can be observed in this regard (box 9.3).

Digitalization is also altering the tourism accommodation landscape in Mauritius by facilitating peer-to-peer (P2P) accommodation. Increasingly, private rooms, bungalows, or villas on Property Development Scheme or Invest-Hotel Scheme property are offered for rent on platforms such as Airbnb. Some stakeholders interviewed for this case study raised concerns that such accommodation may be unlicensed; may not have the required level of service, guest protection features, insurance, security, and so on; and may prejudice Mauritius’s reputation as an upscale tourist destination. Others saw the emergence of P2P accommodation as welcome competition and an opportunity to diversify Mauritius’s tourism landscape.

The rise in P2P accommodation is a global trend and provides both challenges and opportunities. Before COVID-19 (coronavirus), the projected annual growth rate for global P2P accommodation was estimated at 31 percent between 2013 and 2025, six times the growth rate of traditional bed-and-breakfasts and hostels (Bakker and Twining-Ward 2018). Many countries are facing challenges similar to those in Mauritius, and country-specific government interventions and standards are necessary to achieve sustainable P2P accommodation. The World Bank Group’s report “Tourism and the Sharing Economy” presents recommendations for policy makers in Mauritius and in other countries seeking to regulate P2P accommodation (Bakker and Twining-Ward 2018).

In recent years, Mauritius has also begun to diversify its tourism industry away from leisure tourism to other types of tourism, especially to business tourism and medical tourism. In particular, the meetings, incentives, conferences, and events (MICE) market promises not only to grow the number of tourists but also to complement traditional leisure tourism by increasing the average occupancy rate of hotels. However, stakeholders interviewed for this case study generally agreed that
Mauritius’s potential for the business tourism sector is still largely untapped, making up only 3.8 percent of total tourist numbers in 2018 (AHRIM 2019). To further promote MICE tourism, the EDB recently created a targeted VAT Refund Scheme (EDB 2020b). Efforts have also been made to develop Mauritius as a destination for medical tourism by granting specific incentives (EDB 2020a). However, private sector

**BOX 9.3 Strategic alignment with online booking: The role of brands**

Because of the increased role of online distribution channels, domestic firms in Mauritius are focusing more and more on the role of brands when developing their strategies. A strong global brand and marketing strategy is seen as essential to compete for customers who have a variety of options when coming to Mauritius and, when comparing different offers on online platforms, often tend to decide on the basis of brand recognition.

One strategy for domestic hotel groups is to develop their own brand. To be competitive, one of the domestic hotel groups interviewed decided in the early 2010s to build its own brand under which all hotels owned and managed by the group would be marketed. The company invested heavily in training and marketing to successfully rebrand and created several additional products to enhance brand recognition, such as a coffee chain and branded mattresses. To increase the number of direct customers, which results in a higher margin, the company has focused extensively on its online presence by making its website user friendly and used online advertisements and social media to build a larger customer base. As a result, 25 percent of customers now book directly on the website, 30 percent through online travel agencies, and only 30 percent through tour operators—significantly less compared with other hotel groups. Through management contracts, the company leverages its brand abroad.

Another strategy is to partner with a multinational corporation (MNC) to leverage the MNC’s brand. A second domestic hotel group interviewed also acknowledged the increased importance of brands but came to the conclusion that it did not possess the necessary capital, human resources, and expertise to build its own brand. According to an executive, “it is very difficult to survive in today’s world in the luxury segment without brand equity, both to get the rate right and to get the occupancy. At the same time, it is also very difficult for a local firm to build that brand and to manage it successfully.” Instead, this hotel group chose to partner with and learn from existing brands under varying arrangements; in some cases, the MNC acquired a minority interest in the hotel project and in other cases a pure management contract arrangement was used. From the domestic group’s perspective, a minority interest by the MNC is preferred; such an interest helps to align interests under a pure management contract because the MNC may be focused more on developing its own brand than on acting in the shareholder’s interests. With the help of the MNC, the domestic group has focused on developing an online travel agency strategy and extending its digital marketing. It now possesses its own team that works on a web strategy for leveraging social media and bloggers. In addition, working with the MNCs made it possible to attract different types of customers and learn about distribution channels other than tour operators; for example, one of the partner brands was particularly savvy in attracting high-net worth Chinese customers, whereas the hotel group had previously mainly attracted middle-class customers.

Source: This analysis is based on a combination of literature reviews and interviews conducted by the authors between January and March 2020 with representatives of multinational corporations, domestic firms, and trade associations affiliated with the Mauritian tourism industry, as well as government officials; the interviews are the source for all direct quotations that are not otherwise attributed.
stakeholder perceptions are that medical tourism is likely to remain a niche market, mainly because of higher costs in comparison with competitors.

Current challenges

The most significant challenges that Mauritius’s tourism industry is currently facing are related to COVID-19. Strict lockdown measures and travel restrictions issued at the beginning of 2020 led to a severe decline in tourism arrivals and tourism earnings. To mitigate adverse impacts on the industry, the government of Mauritius implemented measures to provide relief to firms operating in the industry and to save jobs. The crisis has also had considerable impacts on Air Mauritius (box 9.4).

Mauritius is also increasingly facing competition as a tourist destination. According to stakeholder interviews, other regional players such as Maldives, the Seychelles, and Sri Lanka, as well as destinations in Southeast Asia, have become strong competitors. For many European tourists, airfares to Southeast Asia are much cheaper in comparison, and countries in that region are catching up in their tourism offerings. According to one industry veteran, “the problem is that Mauritius is no longer a 5-star destination. The average daily spending is 120 euros, much less than in the Maldives (270), the Seychelles (180), and also Sri Lanka (160).” A problem in that regard is the shift toward all-inclusive packages, which reduce the amount spent per tourist, as well as a lack of diversification. As another industry veteran states, “the problem is the lack of viable tourist products. We have built a hotel industry, not a tourism industry—outside of hotels, there is not much to do. Especially new customer groups such as millennials expect more cultural experiences: sun-sea-sand for them is an insufficient attraction.” There is consensus about the need to diversify into other types of tourism and within leisure tourism, for example, by providing more evening programs and in-country activities. At the same time, a strategic decision will have to be made on whether to remain in or return to the upscale segment, or whether a turn toward a more mass-market approach is acceptable. This strategy also raises the question of air access, with many stakeholders calling for full liberalization of air access, similar to Maldives’s open-sky policy, and privatization of Air Mauritius.

The hotel industry is currently confronting a skills gap. Several hotel managers report a lack of skilled domestic workers, causing a need to rely on foreign workers. However, it is difficult to attract sufficiently skilled foreign workers, so that service quality and hospitality, which had originally been Mauritius’s key strengths, suffer as a consequence. The skills gap is explained mainly by a cultural change in society regarding working in the tourism industry (now considered less attractive) and the fact that many potential hotel employees are poached by cruise ships, which often offer three times the salary. The government is working with the private sector to fill this gap through several initiatives, but with varied success. Every employer is required to pay a 1.5 percent training levy to a National Training Fund, which funds programs to train youth and encourage women to go back to work, among other goals. However, according to AHRIM, the beneficiary numbers are often not attained and few employers participate (AHRIM 2019). One successful initiative that several hotels mentioned is the National Skills Development Program, announced in the
BOX 9.4 The impact of COVID-19 (coronavirus) on Mauritius’s tourism exports

At the beginning of 2020, strict lockdown measures and travel restrictions to combat the COVID-19 (coronavirus) pandemic led to strong declines in tourism arrivals and tourism earnings for Mauritius. In January 2020, the government of Mauritius began screening arrivals and enforcing mandatory quarantine on visitors from high-risk countries. When, on March 18, 2020, the first three cases of COVID-19 were detected, the government in the following days responded with a series of stringent lockdown measures, including closing down schools, supermarkets, and shops, as well as imposing travel restrictions (Jeeneea and Sukon 2020). By swiftly implementing one of the most stringent government responses globally (Hale et al. 2020), Mauritius was successful in limiting the COVID-19 outbreak. As of September 2020, the measures had limited the number of cases to 356 and the number of COVID-19-related deaths to 10. At the same time, Mauritius’s economy, especially its tourism industry, had been strongly affected. The number of tourism arrivals and earnings began to plummet in February 2020 as a result of screenings of visitors from high-risk countries and a decrease in demand resulting in cancellations (figure B9.4.1). Beginning in March, travel restrictions led to the number of arrivals eventually falling to near zero until August. After that, arrivals rose again to reach about 1,000 per month through the end of the year. According to Statistics Mauritius, closed borders will likely result in the tourism industry’s output shrinking by 70 percent compared with a year earlier. The closed borders have also significantly affected Air Mauritius, which had already been struggling with its finances in previous years. In April 2020, Air Mauritius entered into voluntary administration to avoid going bankrupt and has received government support (Bloom 2020). Overall, the country’s economy is expected to contract by 13 percent in 2020 (Bhuckory 2020).

To mitigate the adverse impact on the country’s tourism industry, the government of Mauritius implemented a number of measures to provide relief to tourism operators and save jobs. In addition to economy-wide stimulus and relief measures, such as debt moratoriums and tax payment deferrals, tourism-specific measures were implemented to help operators in the industry. These measures include exemptions from the payment of fees for tourism licenses for a period of two years, suspension of the 0.85 percent environmental protection fee, reductions of the training levy by 0.5 percentage point, waivers for rental payments on state lands for the upcoming financial year, and
It enlists 4,000 unemployed youth ages 16–35 with a Higher School Certificate (secondary education) for training in sector-specific training centers and places them with companies under a full government-paid stipend.2

Next to the effects of COVID-19, the biggest medium- to long-term challenge for Mauritius’s tourism industry is climate change. Mauritius’s ecosystem presents key vulnerabilities to its tourism industry, which may be harmed by other sectors in the country. For example, a recent spill of 1,000 tonnes of fuel oil caused by the bulk carrier MV Wakashio running aground on a coral reef on July 25, 2020, adds to concerns about littering and ocean pollution that threaten the sustainability of Mauritius’s tourism industry (British Broadcasting Corporation 2020). Similarly, rising sea levels are threatening to erode Mauritius’s coasts and beaches, which are the basis of its tourism industry. According to the executive of an engineering services firm, “with the current development, there likely won’t be any more beach resorts in 50 years time. While it may be possible to stabilize the shores for 4-5 years, it will be very difficult to do so for decades.” As a member of the United Nations Framework Convention on Climate Change (UNFCCC 2015) and the Paris Agreement, Mauritius engages in finding multilateral solutions to address climate change. In its Third National Communication to the UNFCCC (UNEP 2019), Mauritius identifies tourism as a sector vulnerable to climate change and outlines various climate change–related

To help the tourism industry recover, the government of Mauritius announced a staged reopening as well as a rebranding. In September, the government announced a phased easing of travel restrictions beginning in October 2020 under strict conditions, including testing before arrival and a 14-day quarantine in Mauritius (MTPA 2020). These safety measures are also part of a rebranding effort that, according to Mauritius’s Minister of Tourism, will focus strongly on presenting Mauritius as a COVID-19-free destination with robust health protocols in place. To that end, the government in November 2020 launched a new long-term visa (Premium Visa) to meet demand from digital nomads, remote workers, and retirees who seek to relocate to the COVID-19-secure island (MTPA 2020).

impacts observed in the coastal areas. However, stakeholders describe the current regulatory climate for beach reshoring as very difficult, and policy solutions as not effectively implemented. As a local tourism expert stated, “there is a need for an integrated strategy and clearer legal framework for environmental protection to avoid coastal erosion. One cannot rely on private actors only, since many non-hotels are not able to pay for the coastal restoration.”

**Conclusion**

Mauritius’s experience shows how FDI can be leveraged to significantly upgrade and grow an existing industry. Once a viable tourism industry had been created by the early 2000s, liberalization of the tourism and aviation sectors and the creation of specific incentive schemes led to a surge in FDI inflows, to a boom in the industry, and to significant GVC upgrading. FDI helped diversify the tourism industry by creating new offerings such as golf tourism and led to the upgrading of existing players. Several formerly domestic firms indicated that they had strongly benefited from an acquisition or partnership through transfer of skills, management expertise and technology, the availability of training programs, and opportunities for local staff to develop.

The case study also highlights the important role that MNCs can play in GVC upgrading through NEMS. Through management contracts (hotels) or franchising arrangements (restaurants and car rentals) with MNCs, domestic companies in Mauritius have learned, among other things, about building and managing a global brand and how to leverage digitalization skills that they have subsequently been able to successfully apply in other operations. Domestically owned hotel groups have also been able to use management contracts with international hotel brands to gain access to new customer groups through the MNCs’ global networks.

Mauritius’s experience shows that it is crucial to have a clear strategy for developing a tourism industry and to coordinate different policy areas accordingly. Beginning in the 1980s, the government of Mauritius explicitly set out to become an upscale tourism destination. To achieve that goal, the government engaged in “celebrity marketing” and charged expensive airfares through Air Mauritius to target wealthy individuals and create an image of luxury and exclusivity. In addition, it tightly regulated the industry (for example, minimum number of rooms in hotels and minimum investment per room) and closely managed its growth—not only to prevent mass tourism but also to not lose acceptance within society and prevent adverse impacts on the environment and local communities.

At the same time, the case study raises the question of whether initially restricting FDI is conducive to the development of a country’s tourism industry. For Mauritius, the experience is mixed. Close control of the industry through targeted opening to FDI and strong reliance on NEMs enabled high value capture by domestic enterprises. In contrast to many other countries, it also led to a significant local presence in large luxury hotels—many of the five-star hotels in Mauritius are locally owned and managed. This strong domestic presence was possible only because of existing capital available from the sugar industry conglomerates, which also became the main benefactors of an emerging tourism industry.
Globally, country experiences vary. There are a number of examples similar to Mauritius’s where countries, at least initially, developed their tourism industry primarily with local capital and local expertise, including India, the Republic of Korea, and Mexico (UNCTAD 2007). India, for example, generally did not allow equity investments or management contracts, but limited MNC relations to franchising and marketing agreements. In Indonesia and in the Philippines, ad hoc technical service agreements were often preferred to equity involvement or medium- to long-term management contracts (UNCTAD 2007). Other countries, such as the Dominican Republic, have developed their tourism industries using FDI from the beginning (UNCTAD 2007). From the 1980s onward, there has been a trend toward liberalization so that, as early as 2006, tourism was one of the most liberalized sectors in developing countries, including in many of the examples listed above (UNCTAD 2007).

Policy makers need to take into account a number of factors when determining whether to rely on FDI to kick-start the development of a new industry. One of these factors is the availability of the necessary absorptive and productive capacity that would allow them to effectively leverage FDI. Without this capacity, there is the danger of creating enclaves, with little or no interaction with the local economy (UNCTAD 2007). Availability of capital also plays a role. Whereas Mauritius had sufficient domestic capital available from the sugar industry that could be channeled to tourism, other countries, especially developing countries, may not have the capital required and thus would have to rely on MNC equity involvement to get the tourism industry started.

The case study also provides mixed findings on the appropriate role of governments in supporting a national airline carrier. Mauritius provided considerable financial support and legal protection to establish Air Mauritius as a flag carrier. Although these protections may have initially led to some successes in facilitating tourism, keeping these protections in place over decades may have eventually held back the development of Mauritius’s air connectivity. More recently, Air Mauritius has been pushed into voluntary administration because several years of struggling finances and COVID-19 have moved it close to bankruptcy. Increasingly, evidence suggests that small, state-owned flag carriers tend to drain state funds, are not sustainable, and hinder the sector’s development. An open system with competition will best ensure that services are provided. To stimulate servicing for socially desirable but less sustainable routes, subsidies can be used that are transparently granted after a competitive bidding process. Government intervention and ownership of assets should occur only in expensive infrastructure projects that by their nature are monopolies, not in service provision (Bofinger 2017).

Lessons can also be learned from Mauritius’s experience in stimulating GVC upgrading through workforce development. With the aim of filling a perennial skills gap in Mauritius’s tourism industry, the government has experimented with several subsidy schemes to retrain workers from other sectors or to employ specific target groups, such as women, the unemployed, and others, with varied success. Programs that were successful seem to have focused on younger people with higher education. The programs also included training by training centers in addition to on-the-job experience, highlighting the importance of having a higher-level education for being able to successfully work in the tourism industry, and it shows that the requalification of unskilled workers may be challenging.
Finally, the case study highlights the trend toward digitalization of tourism. The experience of Mauritian hotel groups shows that a slow shift from using tourist operators as the main distribution channel toward online platforms and direct bookings makes it important to have a recognized brand. To react to this trend, Mauritian hotel groups have focused either on building a new global brand, including through acquiring or managing hotels abroad, or on leveraging a global MNC brand through a management agreement. This shift in distribution channels, especially toward direct booking, presents opportunities for local companies to increase profits by cutting out the middlemen in the value creation process. Anecdotal evidence suggests that other countries in the region, especially Maldives, have already profited from this shift by successfully marketing themselves as tourism destinations using social media.

Notes

1. The analysis in this case study is based on a combination of literature reviews and interviews conducted by the authors between January and March 2020 with representatives of multinational corporations, domestic firms, and trade associations affiliated with the Mauritian tourism industry, as well as government officials; the interviews are the source for all direct quotations included in this chapter that are not otherwise attributed.

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