

## Public Policy Formulation in Three Selected Sectors of an Emerging Economy Case Mauritius

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**Abstract.** The development of public policies is common to any economy since they help define the path that a country is likely to pursue in the future. Policies aim at the betterment of mankind and when it comes to dealing with public administration, government has to critically think ahead in terms of challenges and opportunities to develop by formulating and implementing effective public policies. Mauritius, an island nation in the Indian Ocean, is no exception to it and it follows sound public policies for its long-term benefit. While policies may appear glamorous from their inception, it is important to be able to synthesise them and see how they are workable. Some policies succeed and others might fail. The researcher selected three public policies focusing on the ageing population, the services sector and international business. These are imperatives worth considering. For each of these policies to be applicable, their mechanisms must be understood. In this concern, the researcher developed three formulas respectively to conceptualise the public policies by highlighting how improvements or changes per component within the formula would help Mauritius attain its long-term goals. Assuming that policies depend a lot of sound governance principles and investment, the human and external factors would not be visible in the formulas which are essentially concepts that are rather understood in a simplistic manner for policy makers.

**Keywords.** Mauritius, public policy, ageing population, service economy, international business..


**JEL.** A11, A12, A14.


### 1. Introduction

This research paper deals with new trends in public policy in an emerging economy, Case: Mauritius. It firstly addresses the upcoming trends in public policy in three selected areas namely the ageing population, the shift from the manufacturing to the service economy and the need for the country to open up to international business prospects. Fundamentally, public policy is generally based on key issues affecting the domestic economy like education, health, public infrastructure and other ongoing issues like combating poverty. This paper does not pretend to be an extensive evaluation of public policies but rather a focus on new trends of public policy in Mauritius. The new trends represent in themselves, a paradigm shift, from the existing ones. They are likely to affect the future development of the country and will be the main agenda of the future.

It would be useful to briefly introduce Mauritius to academics from different parts of the world. Mauritius is a small-island nation in the South-West of the

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Indian Ocean located at 550 km off the east coast of Madagascar. The country has a population of 1.2 million people. It is a democratic state with a Westminster parliamentary system. It is considered as one of the five richest countries in sub-Saharan Africa and has a well-structured public administration system. UNDP (2012) claims that Mauritius is the eighth freest economy according to the 2012 index of Economic Freedom. In addition, the country is ranked sixth globally in the 2010 Environmental Performance Index and according to Democracy Index 2011; Mauritius is the 24th most democratic country in the world. Altogether, Mauritius tops the list in Sub-Saharan Africa with its sound public policies.

## 2. Literature Review

Firstly, this paper will aim at defining the term 'public policy' and then move to the new trends identified by the State of Mauritius at the national level. Dean (2000) defines public policy as a system of courses of action, regulatory measures, laws and funding priorities concerning a given topic promulgated by a governmental entity or its representative. The definition offered here emphasises law as a central aspect of public policy, including constitutional, international, and a human rights framework of law. It is then useful to speak of a good policy which can be described as one that solves problems without creating a political rift. Whenever it is believed that it can solve a problem without one party disagreeing with its inception, it can go forward without issue. This policy should solve a public problem without violating the legal boundaries set down by federal, state, and local laws (Norwich University, 2015). It must encourage an active citizenry, furthermore, as well as the democratic process.

### 2.1 Public policy in emerging economies

From the definitions provided above, it is important to see what are the main public policies that exist in emerging economies? Briefly, emerging economies are countries whose economy that is progressing toward becoming advanced, as shown by some liquidity in local debt and equity markets and the existence of some form of market exchange and regulatory body (Investopedia, 2015). China and India are the two most-cited examples while others include Brazil, South Africa and Russia. Mauritius is very small compared to these giants of emerging markets but it follows the same pathway as the giants since as an African 'lion' emerging economy, Africa Money (2015) states that Mauritius, has already traversed the journey undertaken by Asian 'tiger' economies such as India, Guyana, and Sri Lanka, to move from low-income to middle-income emerging market status. Rapoza (2014) adds that it is rather considered as an upper-middle income economy since it possesses the attributes of being a middle to high middle income country; a high level of governance; and improvements to corporate and securities monitoring agencies post-2008 financial crisis.

From this point, the researcher develops the argument for the review of public policy in emerging economies. The emerging economies are reshaping global economic power. De Haan (2013) explains that this economic rise is also thought to produce a new form of capitalism. Given the rate at which emerging markets are ageing due to increases in longevity and declining birth rates, a fresh re-thinking of the priorities and goals of economic development is warranted. The conventional development theories that guide much of today's current thinking are outdated (Global Coalition, 2014). A selected number of public policies sufficient for the paper would address the surging demand for effective policies on ageing, the knowledge economy and the perspectives of international business. These are developed below.

### 2.2 Ageing population in emerging economies

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The issue of ageing population is important in emerging economies whose population is large, say one-third of the world's population today. Assumingly, people tend to live better and longer. Porter (2014) mentions that in many of the fastest emerging economies, social security infrastructures are taking shape, offering some degree of health, care and economic security for their older citizens. Jones & Ström (2012) state that the older age to which they can look forward to will depend, as it does in the rich world, on the priorities set by governments and societies. Again, the picture is mixed, with some countries outperforming their economic status in terms of their provision for older people, while others lag behind in the Global Agewatch Index (Global Agewatch Index, 2014). Everyone is talking about inclusion, yet older people in the poorest contexts continue to be excluded. In line with this, projected increases in pension spending are substantial in many advanced and emerging economies. Clements et al. (2013) predict that pension spending in both advanced and emerging economies is projected to increase by about 1 to 1.5 percentage point of GDP over the next two decades, but substantial variation exists across countries.

### *2.3 Shift from manufacturing to knowledge economy*

Another imperative for emerging economies is the shift from the manufacturing to the knowledge economy. Cottarelli (2011) comments that with increased economic growth in emerging economies the demand for high end knowledge services is picking up. Many of the most successful newly-industrialised economies (NIEs) have also developed their industrial structure towards services. The United Nations Commission on Science and Technology for Development Report (1997) concluded that for developing countries to successfully integrate Information and Communication technology (ICT) and sustainable development in order to participate in the knowledge economy they need to intervene collectively and strategically. There is a drive within many of the emerging markets to develop policies that take advantage of the economic potential within the creative industries.

### *2.4 Opening up to the international market*

The perspective of international business for emerging economies has been a major consideration in such countries that were initially limited to their domestic market only. There is a need to develop public policies to encourage emerging economies to get hold of the business world. Luo and Tung (2007) advocate that for instance, for globalisation has opened up a 'two-way street' wherein businesses from advanced economies are not only expanding and diversifying into emerging markets, but businesses in emerging economies are also increasingly entering developed markets. As a result, major emerging market economies are no longer simply low value-added producers but are adding their weight to the creation and commercialisation of innovative products, processes and services (OECD, 2010). This is a condition that emerging economies are trying to fulfil while they want to enter international markets.

### *2.5 The Literature Gap*

The research paper now tends to identify the gaps in literature and state how these could address the Mauritian case. Firstly, the concern for ageing population has been limited to more speculation than policy making. For example, the reform of pensions comes first to the agenda with impending threats like the increase in retirement age, cuts in pensions and the increased burden of health care. These vary from one country to another within emerging markets and cannot be viewed just globally.

Secondly, the issue of shifting from a manufacturing to a knowledge or service economy is viewed as a sequential step of advancement of emerging economies.

Nothing is said of policies that need to be addressed in this case especially from what government intends to undertake to promote the service economy.

Thirdly, the entry to international markets is more viewed as an economic government policy, not one from public policy. For example, what is the interest of the government in fostering a policy of production, entrepreneurship or export at a national level-not just from industry people?

### 3. Empirical Formulation of public policy regarding the identified new trends

The literature review provided an outline of each new trend in public policy and from this stance, a formulation of each policy was made. The methodology and formula for each policy is independently discussed below.

#### 3.1 Formulation of policy for ageing population

Pettinger (2013) identifies the policy that government could make with regards to the ageing population.

They are outlined as follows: 1- Increase participation rate. Make it easier for people past 65 to keep working. 2- Raise the retirement age. The government have already proposed an increase to 67. The retirement age could automatically be linked to life expectancy. 3- Increase the importance of the private sector in providing pensions and health care. However this may cause increased inequality if people can't afford private pensions. 4- Increase tax to pay for pension costs. But, many governments already have limited budgets.

(1) Let  $P$  be the participation of workers in employment,  $R$  be retirement age,  $H$  be health care and pensions and  $T$  be tax to pay for pensions.

(2) Increases in each variable will be  $\Delta p$  for increased participation of workers,  $\Delta r$ ,  $\Delta h$  and  $\Delta t$  for the remaining three variables.

(3) The policy of ageing population  $P_{AG}$  will be dependent upon these four variables.

$$\text{Hence } P_{AG} = \Delta p.P + \Delta r.R + \Delta h.H + \Delta t.T$$

(4) These will be influenced by the economic condition of Mauritius which is identified by  $E_M$ . This will be essential to ensure the long-term benefit of the policy on ageing population.

The formula can be summed as follows:

$$P_{AG} = \Sigma (\Delta p.P + \Delta r.R + \Delta h.H + \Delta t.T) E_M$$

#### 3.2 Formulation of policy for shifting to the knowledge economy

Rowthorn and Ramasawmy (1997) explain the factors that influence deindustrialisation, that is, the shift from manufacturing to a service or knowledge-based economy. The factors are highlighted below: 1- Deindustrialisation is not a negative phenomenon, but a natural consequence of further growth in advanced economies. The main reason for deindustrialisation is the faster growth of productivity in manufacturing than in services. 2- North-South trade has played very little role in deindustrialisation. 3- Trade among industrial countries (rather than between industrial countries and the developing world) accounts for some of the differences in employment structure between different advanced economies. 4- Future growth within the developed world is likely to depend increasingly on productivity growth in services. 5- The nature of the service sector is less suited to centralised wage bargaining.

Let  $D_E$  be deindustrialisation  $T_{NS}$  be North-South trade,  $E_S$  be the employment structure,  $P_S$  be productivity growth in services,  $W_B$  be wage bargaining. Deindustrialisation will be substituted in the case of Mauritius to the service economy  $S$  since the former term is not applicable locally.

Hence the service economy  $S_E$  will be dependent on all the factors mentioned by the eminent Cambridge scholars.

$S_E$  will depend on  $T_{NS}, E_S, P_S$  and  $W_B$

$$S_E = \Delta t.T_{NS} + \Delta e.E_S + \Delta p.P_S + \Delta w.W_B$$

Note that the  $\Delta$  symbol represents increases in each variable.

The service-based economy will be essentially based on the economic condition in Mauritius as in the case above  $E_M$ . Good economic structure will enhance the move to the service sector, worse conditions will hamper it. Added to these, will be the need for education or learning  $L$ , innovation  $I$  and technological diffusion  $T_D$  as Mauritius cannot be fully assumed to be a developed nation. These variables should be also compounded to the formula.

The OECD Executive Summary sheet on Growth in Services (2005) includes three useful and applicable variables in public policy to developing nations. They are: adapting education and training policies to rapidly changing requirements for new skills, adapting innovation policies to the growing importance of services innovation and removing impediments that prevent services firms from seizing the benefits of ICT.

The policy will be better defined as:

$$S_E = \Sigma (\Delta t.T_{NS} + \Delta e.E_S + \Delta p.P_S + \Delta w.W_B + \Delta l.L + \Delta i.I + \Delta td.T_D) E_M$$

### *3.3 Formulation of policy for opening up the domestic economy to international trade*

In this third selected public policy for Mauritius, the opening up of markets is important. So far, the country trades with its major partners namely the European Union and the United States and such markets will remain essential in the future. Policies on growth and development favour the opening up of the country and these will directly affect the economic condition.

Chand (2015) identifies seven factors that influence a country's policy of opening up to international trade. They are outlined below: 1- Impact of Inflation: If a country's inflation rate increases relative to the countries with which it trades, the country's exports to other countries will decline. 2- Impact of National Income: If a country's income level (national income) increases by a higher percentage than those of other countries, a percentage of that increase in consumption will most likely reflect an increased demand for foreign goods. 3- Impact of Government Policies: A country's government can have a major effect on its balance of trade due to its policies on subsidising exporters, restrictions on imports, or lack of enforcement on piracy. 4- Subsidies for Exporters: Some governments offer subsidies to their domestic firms, so that those firms can produce products at a lower cost than their global competitors. Thus, the demand for the exports produced by those firms is higher as a result of subsidies. 5- Restrictions on Imports: If a country's government imposes a tax on imported goods (often referred to as a tariff), the prices of foreign goods to consumers are effectively increased. In addition to tariffs, a government can reduce its country's imports by enforcing a quota, or a maximum limit that can be imported. 6- Lack of Restrictions on Piracy\*: In some cases, a government can affect international trade flows by its lack of restrictions on piracy. 7- Impact of Exchange Rates: Each country's currency is valued in terms of other currencies through the use of exchange rates, so that currencies can be exchanged to facilitate international transactions.

Note that item 6\* can be replaced by flexible jurisdiction in trade or simply liberalisation policies on exchange that are important for Mauritius and the Indian Ocean. Let  $B$  represent international business policy for Mauritius,  $I$  be inflation,  $N$  be national income,  $P$  be government policy,  $S_E$  be subsidies for exporters,  $R_I$  be

restrictions on imports,  $L$  be the liberalisation of trade and  $EX_R$  be the exchange rate.

The policy formula for international trade or business policy would be:

$$B = \Sigma (\Delta i.I + \Delta n.N + \Delta p.P + \Delta s.S_E + \Delta r.R_I + \Delta l.L + \Delta e.EX_R) E_M$$

Note that the  $\Delta$  variables represent changes in every factor considered in the formula. In each case, the economy has been a compounding factor.

#### 4. Limitations/Delimitations of the Study

The researcher states that the formulation of the policy in the form of an algebraic formula sum up the key variables in each set of formula defined for the new public policies that will affect Mauritius in the term 2015-2025. The formulae were based on literature evidences from scholars in the field of public policy and economics and were not yet stipulated, so far, in any published scientific literature in Mauritius. This could add to the maxim that such research is new and original while it bases its foundation on existing principles of public policies.

Broadly, public policies in any country do apply everywhere if they are sound and have some universal value. Care was taken to introduce new variables that directly impact an emerging economy like Mauritius and such variables are known and applicable locally like the need to liberalise the international market.

The formulae are interpretations of just three sectors of the economy while there are numerous other areas like education, career guidance, green energy, blue economy, etc. and these would be too exhaustive to cover here.

#### 5. Conclusion

This research work focused on new trends in public policy in the island of Mauritius. Given that it is setting pace in this new era with the intention of becoming a high income economy which will mean more purchasing power for the population, widening the choice of goods and services, and improving the standard of living (Abax Focus, 2014). These will depend upon the development of policies targeted for the purpose. The researcher selected three of them namely the ageing population, the need to move to a service-based economy and the opening up to new and prospective international markets. Smith (2003) states that in this complex environment the demand for good public policy developing is steadily increasing as must the capacity of managers, policy analysts, planners and others involved in the design and delivery of policies and programmes. The effort will hence depend on the combined effort of all stakeholders namely government, the public and the private sector, entrepreneurs and all actors of society. To better grasp the idea of making the policies workable, the researcher developed formulae in the form of equations for the three selected areas. These have the benefit of synthesising information in a simple, efficient and workable manner and also allow academics and people of industry to understand the need to be proactive in developing and implementing suitable public policies.

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