

Title: Public Cultural Expenditures and Tourism Industry: The case of Mauritius

Policy Statement

Tourism industry has developed into a major pillar of economic development in a small island developing economy like Mauritius. The intense competition in the international tourism industry has become a matter of concern for policy makers and investors in this industry. Alternative strategies are being implemented to attract tourists. Mauritius offers a number of attractions to tourists in terms of a wide range of hotels, accessibility, beautiful beaches and richness in culture.

Given that the interests of tourists are quite varied, policy makers as well as suppliers of tourist services should take into account all factors determining the demand for tourism when designing strategies and policies. Mauritius is known to be a “cultural nation” and culture is expected to play a major role in promoting Mauritius as a tourist attraction. Culture in general consists of behaviours and artefacts, beliefs and values, and underlying assumptions, i.e. ways of perceiving, thinking and evaluating the world, self and others. Culture can be marketed to tourists through tangible and/or intangible elements, e.g. buildings, crafts, art objects, and/or behaviors and values.

Culture is part of the tourism system, both as an attraction and as an element in the system's environment. In a country like Mauritius, with a limited supply of particularly attractive or internationally unique natural attractions, culture can be one of the most significant tourist attractions. Cultural tourism is a fast growing tourism form internationally (Richards 1996, WTO 1997). This trend seems to be reflected in the development of Mauritian tourism because more and more tourists may be attracted to the country by cultural events. Attractions are classified to the following major categories: natural attractions as climate, water and landscape resources, cultural/heritage attractions as architecture, traditions, culture, religious events and minority culture and traditions, and so-called special attractions as gastronomy, wine, sports services and facilities, conferences, entertainment and leisure activities. In more details, the category of cultural and heritage attractions include – among others - folklore art, folk customs, traditional dance and music, and handicrafts. There is a wide range of these cultural products for tourists in Mauritius and the promotion of these products is a major policy issue.

The objective of this paper is to find empirical evidence on the impact of culture on the tourist industry. Using public cultural expenditures as a proxy for culture, we estimate a demand for tourism equation with culture as a determinant. We further look at the impact of the different types of cultural expenditures and test for the existence of a long run relationship between growth in tourism industry and culture.

We find empirical evidence of long run relationships between culture and tourism industry in the case of Mauritius with exchange rate, world income, domestic income and cost of living as significant factors influencing tourist's arrivals. There is also evidence that different types of cultural expenditures have different impacts on the tourism industry.

Policy Implications

Budgetary allocations to cultural expenditures should be rationalized on the fact it represents an input for the promotion of the tourism industry in Mauritius, which contributes to economic growth. In case of budgetary cuts, policy makers should look at the implications the different types of cultural expenditures on the tourism industry. Importance should be given to the promotion of African culture, film development and society of authors as compared with other types of public cultural expenditures.

A closely related issue is the impact of tourism on environment given emphasis on ecotourism. Moreover, the liberalisation of tourism as a service in the context of GATS commitments has also attracted a lot of recent research among academics and policy makers in terms of the benefits to the developing countries. These are issues, which can also be addressed in the context of Mauritius.

Dr K. Jankee

Title: Financial globalisation and financial sector developments in small island developing economies: The Case of Mauritius

Policy statement

Financial globalization undoubtedly presents new challenges and benefits to developing economies, in particular, to a small island economy (SIDS) like Mauritius. Given the special features of SIDS in terms of their economic vulnerability, their participation in the global financial markets raises a number of policy issues such as market access, level of financial development, international support and financial stability.

The integration of the domestic financial system in the global financial markets has been high on the agenda of policy makers since the late 1980s with the onset of the financial liberalisation programme. The internationalization of the financial system formed part of the overall strategy of reaping the full benefits of economic liberalization. Policy makers have been motivated by promoting the financial services sector as another major pillar of the economy and establishing Mauritius as a regional financial center.

The objective of this work is to highlight the institutional and policy changes, which took place in the Mauritian financial system in order to integrate the global financial markets. A preliminary assessment of the impact of the liberalisation of trade in financial services on the financial system will be attempted in terms of capacity building; capital flows and enhanced efficiency. This case study will help to throw light on the problems that Mauritius has to face and by SIDS, in general, so as to integrate the world financial markets.

The main findings of this work are as follows:

- We find that the trade liberalisation of financial services, there has been a significant increase in the volatility in net capital flows, namely foreign direct investment and portfolio investment inflows. It is difficult to conclude that financial services liberalisation has led to financial stability. There has been a move towards higher financial efficiency in some sections of the financial sector.
- Domestic financial integration has increased but the diversification process is going at a slow pace. The banking activity remains highly concentrated and there are signs of rigidity in banks' interest rates.

- The developments in the financial markets have been significant especially in terms of capacity building and governance. A number of legislations have been passed to modernise the Mauritian financial system and integrate the world financial markets.
- Following an econometric investigation of the impact of financial globalisation on consumption volatility, we find evidence of a positive and significant relationship. This is an indication that our level of financial sector development has not reached the threshold level so as to reap the benefits from financial globalisation. A higher level of financial sector development will be helpful to harness the benefits from financial globalisation.
- The main policy implications of this work is that further development of the financial sector is imperative for participating in the globalisation process of financial markets and reap the benefits in terms of higher economic growth and welfare. Although trade liberalisation in financial services has led to higher volatility in capital flows, an indication of financial instability, policy makers should continue to implement institutional changes to integrate world financial markets. International support should be sought for financial sector development and harmonization of regulatory framework.

Dr Kheswar Jankee