

# BTI 2008 | Mauritius Country Report

<b>Status Index</b>	1-10	<b>8.33</b>	# 16 of 125	
Democracy	1-10	8.80	# 13 of 125	➔
Market Economy	1-10	7.86	# 18 of 125	➔
<b>Management Index</b>	1-10	<b>7.13</b>	# 5 of 125	

scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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## Key Indicators

Population	mn.	1.2	HDI	0.80	GDP p.c.	\$	11,312
Pop. growth <sup>1</sup>	% p.a.	1.1	HDI rank of 177	63	Gini Index		-
Life expectancy	years	73	UN Education Index	0.81	Poverty <sup>3</sup>	%	-
Urban population	%	42.4	Gender equality <sup>2</sup>	-	Aid per capita	\$	27.2

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

During the review period, this island state in the Indian Ocean continued to demonstrate political and economic vigor. Parliamentary elections in July 2005 brought about a Mauritius Labor Party majority. Mauritius still achieves the second-highest per capita income in sub-Saharan Africa, and has outperformed all other African countries on the Human Development Index (HDI), where it ranked 63rd.

In view of Africa's political and economic fragility, Mauritius is an instructive exception. Despite its potentially conflictive ethnic and cultural heterogeneity, the island has maintained a stable parliamentary democracy with regular elections, peaceful changes of government, and a high level of rule of law based on a liberal constitution. It is for this reason that Mauritius has always been given the highest marks for political rights in Freedom House's ratings. Yet, the medium ranking on Transparency International's Corruption Perception Index must be seen as an indication of weaknesses in corporate governance, which has also been criticized by the World Bank.

In economic terms, Mauritius has faced signs of crisis in its two key industrial sectors: textile and sugar. While the economic growth rate has stabilized at 3.4% in 2005/06, due to a booming tourist industry, this development has been accompanied by growing unemployment in the country's export processing zones. Unemployment has risen from a low of 4-5% in the late 1990s to a figure of around 10% in 2005/06.

The outgoing government (composed of a coalition between the Mauritian Militant Movement (MMM) and the Mauritian Socialist Party (MSM)), as well as the new Labor/Alliance government and the business sector, have taken an offensive stance in addressing a set of structural problems that have been exacerbated by a new phase of globalization. They have forged on with efforts to downsize and modernize the

sugarcane industry, to induce the textile industry to specialize in high grade and competitive goods, to expand their role as an offshore banking center, and to promote specialized training for the human capital the country needs to master the process of structural change. Efforts to attract capital for new sectors such, as seafood processing and pharmaceuticals, show the government's conviction to diversify in globalization.

## History and Characteristics of Transformation

Before Mauritius gained independence in 1968, it was faced with some very difficult structural problems. The burden left by colonial rule, (the country was a French colony from 1715-1819 and a British colony from 1819-1968) was a sugarcane monoculture that was vulnerable both to weather conditions and to fluctuations in demand and price in European markets. Socially, sugar brought about the country's "oligarchy" of plantation and sugar factory owners of European origin, who still constitute the core of ownership in industry, services and trade. At the same time, this colonial economic legacy left the island society with a high degree of ethnic and socio-cultural heterogeneity. Some two-thirds of today's island population is made up of descendants of contract workers recruited from British India. Other immigrants are of Malagasy and African descent, while 3% are of British and French origin, and 3% of Chinese extraction. All of these groups brought with them different languages and religions. In geographic and political terms, the island of Mauritius – including the Rodrigues Island and some minor islands and the Chagos-Archipelago – is considered as part of Africa, and a member of the Southern Africa Development Community (SADC). Mauritius serves as a cultural, ethnic and, increasingly, economic bridge to Asia, particularly after companies from Taiwan, Hong Kong and Singapore settled in the 1980s in the Economic Processing Zones (EPZs). As a member of the group of African, Caribbean and Pacific (ACP) countries, it has preferential access to the European Union as well as to the African mainland via the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC).

The colonial system left Mauritius with the Westminster model of parliamentary democracy and with a legacy of socioeconomic polarization between the Indian and Creole majority and some privileged minorities, such as the white "sugar barons" who assumed leadership positions. The emancipation of an educated class of Indo-Mauritians, whose members took over many positions of leadership in the country's post-independence political and administrative system, as well as in the judiciary and police apparatus, served to aggravate tensions between the Hindu majority and the country's Creole and Muslim populations, who, for lack of education and career prospects, became the losers of the later "economic miracle." The ethnic segmentation of Mauritian society permeates all spheres of life, from kindergartens to schools, to clubs and graveyards. This plays a major role in shaping political attitudes and

behaviors. Contrary to the bleak outlook in 1960, marked by overpopulation, limited amount of space, monoculture of sugarcane, lack of prospects for a rapidly-growing young population, and tensions between ethnic groups, the island state has advanced into the small group of Newly Industrialized Countries (NICs), becoming Africa's most successful emerging economy, an assertion supported not only by economic performance but also by the U.N. Development Project's data on human development.

Due to prudent policies for structural transformations of the island's economy, a competitive textile industry, a high-end tourist industry, modern information technology and banking services provided growing prosperity and contributed to the stability of a functioning democracy and to a certain degree of the welfare state. However, the former sugar island's political, economic and social success story is coming under pressure from globalization.

Due in part to the small size of the political units involved, Mauritius has a vibrant democracy that is exceptional to the rule in Africa. Mauritius has a stable parliamentary democracy that operates on the foundation of a liberal constitution and continues to observe the rules and procedures inherited in the colonial period from the Westminster model. This is why the island state invariably earns the best marks on Freedom House's rating of political rights (ranked at 77 out of 157 in 2006). Mauritius – along with Ghana, Senegal, Madagascar and other states – volunteered as a test subject for the African Peers Review Mechanism (APRM) for good governance, democracy and development in the New Partnership for Africa's Development Initiative (NEPAD) of the African Union. However, the very process of the review has been slow and not as participatory as it should have been, nor has it yet come to an end.

## Transformation Status

### I. Democracy

#### 1 | Stateness

Despite the small size of the island “republic,” Mauritius exerts its stateness to the full extent, legally, technically and politically. Citizenship is universal and the notion of Mauritius as a “nation-state” is generally accepted.

Monopoly on the use of force

Mauritius is considered a secular entity. As such, Hindu, Muslim and Christian values in the society influence political decisions in sectoral politics, but the basic properties of the Mauritian constitution are not the result of religious dogmas.

State identity

Differentiated administrative structures are established on the islands (terra firma). Despite its small size, Mauritius has developed into a well-organized and internationally respected polity in terms of administrative and political leadership.

No interference of religious dogmas

The island of Rodrigues has a degree of federal autonomy, as it has its own legislature and government. Mauritius’ government has, however, experienced difficulties in using its small navy to control its vast maritime Exclusive Economic Zone, which is a large section of the Indian Ocean from the Chagos Archipelago to the extreme south (in former British Indian Ocean Territory). This may have already had negative economic effects, since the zone is meant for the fishing and seafood industries and has faced constant trespassing by the fleets of the big fishing nations. The Chagos refugees stranded on Mauritius and Rodrigues maintain their right of return. Though not engaged in outright protest, the potential to do so could lend substance to the government’s halfhearted territorial claims. To date, however, they play a subordinate role in the government’s geopolitical strategy.

Basic administration

#### 2 | Political Participation

In Mauritius, national and local elections are regularly held based on rules prescribed by law, and the legitimacy of these elections has never been in

Free and fair elections

question. The majority voting system adopted from the British model can produce big swings in the composition of the parliament. A special provision in the electoral system for the “best losers” in each election gives some representation in the house to minorities. There is a debate underway, both in parliament and in the media, over the reform of the electoral system and of introducing public funding of political parties, a measure proposed by the Sachs Commission. The commission suggested that the number of representatives should be increased by 30, and that these new representatives ought to be elected – alongside the 62 representatives chosen from the existing election districts on the basis of the present majority system – in accordance with the system of proportional representation, that would use party lists which win more than 10% of the votes cast nationally. The reform process has been stalled, however. The most recent parliamentary elections in July 2005 again suggested how strongly the majority system reacts to small changes in voting. An alliance between the Mauritius Labor Party and some smaller parties won 38 seats, whereas MSM/MMM got 22 seats. Although the ratio in actual votes between the two blocks was 100 to 114, the distribution in seats is 100 to 172. Whereas every political analyst agrees on the need to modernize the electoral system by introducing some elements of proportionality in parliamentary elections, the country’s main political parties failed to agree on the mechanics of such a reform. One important step toward more decentralization and democratization may be seen in the adoption of the Local Government Act, which brought about an increase in the number of elected district councilors from five to twelve, thus paving the way for greater democratic participation at the local level.

Elected governments have the effective power to govern, and the opposition adheres to parliamentary rules.

Effective power to govern

Constitutionally as well as factually, the civil society exerts its rights and constitutes the basis of the vibrant democracy.

Association / assembly rights

Freedom of expression is a matter of fact and a pluralist range of media outlets are permitted to articulate public opinion. This is confirmed by Mauritius’ relatively high Reporters Without Borders ranking (34th out of 167 in 2005). Independent FM radio stations expand the spectrum of freedom of speech. In the context of the NEPAD process, which reviews democracy and the participation of civil society, the government has created the National Economic and Social Council (NESC), which is supposed to provide for equal representation of government, industry, labor unions and civil society. In practice, the NESC has not fulfilled expectations; this is especially true for its rather poor performance in conducting the process of the Peer Review Mechanism.

Freedom of expression

### 3 | Rule of Law

Mauritius has a functioning legal system based on elements of British common law and French civil law. The constitution guarantees, and political practice respects, the separation of powers, the independence of the judiciary, and freedom of the press. On the whole, parliament exerts its control over the government. With vivid parliamentary debates with frequent “private question notes,” the parliament maintains relatively tight control over government. Given the nature of the government’s administrative apparatus, it appears that the executive branch can dominate the legislative branch.

Separation of powers

With respect to the judiciary, some weak points have become evident.

Independent judiciary

Misuse of power by office holders is penalized by law and in principle, yet every individual case gives (too) much room for maneuvering and escape. In some cases, ministers have resigned due to corruption charges and convictions. An Independent Commission against Corruption (ICAC) was established in 2002 but it has henceforth failed to live up to expectations. To the contrary, it became a field of conflict between the president and his cabinet, thus provoking repeated political intervention. More importantly, its legal record has not been convincing. Having been recently staffed with a completely new leadership, it remains to be seen if it can become efficient in the fight against corruption. Transparency International’s Corruption Perception Index’s ranking of Mauritius at 42nd out of 163 in 2006 indicates that corruption continues to be a serious problem.

Prosecution of office abuse

The national Human Rights Commission has repeatedly criticized the brutality of the police force, particularly as far as ethnic aspects are concerned. On the one hand, procedural details impede objectivity and rule of law, when the social status of those involved is taken into account. On the other hand, the judiciary seems to be independent to the point of being unaccountable, as the case of the Hezbollah Party chairman Cehl Meeah illustrates. Accused of political murder, Meeah was released in November 2003 by the director of public prosecution after two years of detention without trial, with no reason being given for his release. In light of this case, many expressed substantial doubts concerning the quality of the rule of law. Still, compared with the rest of Africa, Mauritius has reached and maintained a high standard as far as the rule of law is concerned. The office of an ombudsman entrusted with the task of protecting civil rights and a consumer protection organization further demonstrates the priority placed on civil rights.

Civil rights

#### 4 | Stability of Democratic Institutions

Since independence, political institutions have proven their capacity for performance and remained surprisingly stable.

Performance of democratic institutions

They have not only survived frequent government crises but also survived the dismantling of Western constitutional models that has taken place on the African mainland since in the 1970s. Practically all political actors accept democratic rule. At the same time, the political system has proven capable of managing a process of profound structural economic change. The change of leadership in the offices of the president and the prime minister in late September and early October 2003 is an indication of a process of “change within stability.” The process brought Paul Bérenger, the charismatic organizer of the former social-revolutionary MMM, into the office of prime minister, marking the first time the country has been led by a non-Hindu and member of the Franco-Mauritian minority. Short-lived as it was, this choice which could, however, be viewed as more symbolic than real. In July 2005, Mauritians voted a Hindu back into power, Navinchandra Ramgoolam, son of the founding father of the state, Sir Seewoosagur Ramgoolam.

Commitment to democratic institutions

#### 5 | Political and Social Integration

One main feature of Mauritius’s “rainbow society” is its ethnic, cultural, religious and social heterogeneity. Affiliation with one of the country’s ethnic groups correlates with membership in certain religious communities and linguistic groups. Roughly half of the population are Hindus, approximately one-third – mainly Creoles – are Christians (most Catholics) and 17% are Muslims. Alongside English, the country’s official language, French serves as a lingua franca, while the most widespread vernacular language is Creole, a hybrid language. While Mauritius is faced with a variety of integration problems, it does not have a nation-building problem. The island’s small size, its isolation from the rest of the world, and the policy of government and opposition parties – as well as many social organizations – to overcome existing communalist cleavages, have contributed to forge a nation. The ability of all major political parties – not only the Mauritius Labor Party, which ruled the country for many years, most recently in the years since July 2005, but also MMM and MSM – to harness economic successes and the development of a welfare regime relatively unique within Africa has reduced latent, and sometimes virulent, ethnic tensions. The post-independence period saw the development of a relatively stable party system consisting of three parties, which were led in part by charismatic figures who are typically pragmatic and conducive to learning and change. All political parties –

Party system



Labor, MMM and MSM – began espousing socialist, social-democratic or social-revolutionary ideologies, but ruled the country in a pragmatic, albeit at times innovative way. The party system is effective in the articulation and aggregation of interests. The main losers include the Creole and Muslim minorities, who have had insufficient access to education and training and had been exposed to racial discrimination in government administration and private sectors, both of which are dominated by the Hindu majority. The fact that the minorities had two leading political figures – Cassam Uteem (president) and Carl Offmann (president) in office – was not sufficient to change this problem. There are some elements of exclusion in the system, often due to drug problems, dropping out of school, and broken homes, but there is also a great deal of commitment in the civil society and religious communities to combating such deficiencies.

Interest groups from both the capitalist and labor side exist. Although trade unions – having been associated with the struggle for independence – were widely respected in the early post-independence period, they have recently lost ground due to both structural changes within society and internal fragmentation. Interests on the capital side are treated more or less informally within the 12 leading family/clans, who have held the lion's share of stock in the country for some 150 years.

Interest groups

After ethnic riots in 1999, some observers saw the potential organizational core of violent revolt of losers against democracy and economic stability in the Islamist Hezbollah Party, which had its political stronghold in the municipality of Port Louis. But democratic procedures remained stable, as indicated by high electoral turnouts. Although the Hezbollah Party is less visible in politics than it had been, it may still recover. There are no representative polls which could indicate the extent of support for democratic principles and norms. An indirect indicator could be the high voter turnout (81.5%) at the most recent general elections in July 2005.

Consent to democratic norms

At times in the early post-independence period, a strong co-operative movement developed, sponsored by the Labor Party and trade unions: thrift societies, housing, consumer co-operatives, and co-operative banks. Structural economic and social change (individualization and welfare) contributed to a fading away of these initiatives. Nowadays, there is greater familiarity with self-help, and a government-sponsored housing ownership scheme has tended to alleviate the growing social disparity between the winners and losers and contribute to the formation of social capital. In July 2004, the MSM and MMM coalition in government presented its National Action Plan for Poverty Alleviation and Vulnerable Groups, a comprehensive reform program designed to promote the social integration of poor population groups (the private sector also contributed funds). The self-help initiatives, however, seem more deeply-rooted in religion and ethno-cultural beliefs than in civic-secular concern.

Associational activities

## II. Market Economy

### 6 | Level of Socioeconomic Development

In 2005, Mauritius had a per capita GDP of \$12,000 (PPP), and was thus classified as a category Middle Income Country. While in recent decades many African countries have had to contend with stagnant or even declining incomes, the figures for Mauritius have, since independence, experienced a roughly 15-fold increase. Above all, this can be seen as a result of high growth rates in its two key sectors: tourism and export-oriented textile production. The textile industry has been developed and expanded in Economic Processing Zones (EPZs), chiefly by investors from Hong Kong, Taiwan, South Korea and Singapore. The tourism industry is marketed by a chain of some 100 luxury hotels and tourism resorts along the coast. Political and economic leadership groups have made skilful use of the preferential tariffs granted under the Lomé-Agreement with the European Union, and, to a lesser extent, the chances provided by the U.S. African Growth and Opportunity Act (AGOA) and by exploiting the island's potential in high-end tourism. Mauritius ranks 63rd in the Human Development Index (HDI) and thus far ahead of all other African countries, as a comparison illustrates: South Africa ranks 121st, Libya 64th and the Seychelles 47th. The situation is the same for the Life Expectancy Index, the Education Index, and the Human Poverty Index. Only 11% of Mauritius' population are classified "poor," meaning that they live on less than \$1 a day. Still, the country does have some relative poverty as well as provocative levels of social inequality, particularly between the Franco-Mauritian upper class and the majority of the population, above all the Creoles.

Socioeconomic  
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	4,549	5,248	6,064	<b>6,290</b>
Growth of GDP	%	2.7	3.2	4.7	<b>4.6</b>
Inflation (CPI)	%	6.4	3.9	4.7	<b>4.9</b>
Unemployment	%	9.7	10.2	8.5	-
Foreign direct investment	% of GDP	0.7	1.2	0.2	<b>0.6</b>

		2002	2003	2004	2005
Export growth	%	9.4	-8	-2	<b>5.7</b>
Import growth	%	5.2	-3.2	-0.2	<b>4.8</b>
Current account balance	\$ mn.	249.4	93.2	-111.8	<b>-339.9</b>
Public debt	\$ mn.	839.6	930.1	861.3	<b>730.9</b>
External debt	\$ mn.	1,810.8	2,552.3	2,296.4	<b>2,160.3</b>
External debt service	% of GNI	5.5	4.5	4.3	<b>4.5</b>
Cash surplus or deficit	% of GDP	-3.7	-3.4	-3.1	<b>-2.1</b>
Tax Revenue	% of GDP	15.9	17.4	17.7	<b>18.1</b>
Government consumption	% of GDP	12.8	14.1	14.2	<b>14.4</b>
Public expnd. on edu.	% of GDP	3.3	4.7	4.7	<b>4.5</b>
Public expnd. on health	% of GDP	2.2	2.1	2.4	-
R&D expenditure	% of GDP	0.4	0.4	-	-
Military expenditure	% of GDP	0.2	0.2	0.2	<b>0.2</b>

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

## 7 | Organization of the Market and Competition

While Mauritius has a market economy in principle, the daily reality is more complex; interventionism of the state influences the factor and product/services markets. We find a strong regulation of industrial relations (labor laws) and marked intervention by state or parastatal companies for public services like energy, transport, trade of basic products, such as flour and rice. On the other hand, market and competition is limited by the rule of oligarchic families who dominate major plantations, financial, real estate, trade and telecommunications. The World Bank has called for improvements to corporate governance, noting that the larger corporations continue to be diversification offshoots of the old sugar barons. On paper, the companies are independent; in practice, they are managed by the same families. While former Prime Minister Bérenger called on the country's influential capital groups to abandon their habit of thinking in terms of family ownership and to do more to promote democratization of the economy, no legislative reforms have been forthcoming. Mauritius's labor market is considered to be overregulated, which hampers companies in their effectiveness

Market-based  
competition

and competitiveness (IMF). Labor legislation dates from the early 1970s and reflects strong interventionist thinking from the side of the government and anti-strike thinking. Therefore, the ILO has demanded a thorough overhaul of the labor laws to bring them into alignment with international conventions. In the assessment period, the government proposed a framework which was rejected by the unions. While the labor unions demanded that the right to strike be anchored in the constitution, rejecting a strike ballot among the workers suggested by the government, the business lobbies voiced criticism of the central role played by the government in wage setting, calling for recognition of the principle of free collective bargaining.

Since the first industrialization in the 1970s followed the pattern of import substitution, a number of companies – including construction steel, beverages, and detergents – have a quasi-monopolist position in the domestic Mauritian market. No anti-monopoly or anti-trust agencies exist. The government exerts some price control pressure via legislation and subsidizes basic needs products, such as milk, flour, bread, cooking gas and construction steel. Finally and recently, due to the impact of COMESA free trade arrangements Egyptian products (steel, detergents, chemical products) compete fiercely with locally produced products, forcing a domestic construction steel company to quit the market.

Anti-monopoly  
policy

International trade is fairly liberalized, though a number of regulations and red tape remain in force. The Mauritian government was a prominent actor in the Doha round on globalization and a chief negotiator in the EU-ACP negotiations on trade liberalization. Mauritius is a member of the free trade zones COMESA for Eastern Africa and SADC for Southern Africa. At one point in the pre-campaign for the general elections in 2005, the MSM/MMM proposed that a tax haven in Mauritius to be introduced in the next three years.

Liberalization of  
foreign trade

The banking system is composed of a small number of banks (sometimes with dubious investors or speculators as partners) dominated by the Mauritius Commercial Bank. Offshore banking is said to have improved, earning positive mention in the OECD's watchlist against money laundering. Some 900 non-banking financial institutions provide services in fund management, international arbitration and other capital market activities. The central bank has a supervisory function over other banks but this does not impede larger defaults and frauds, even in the dominant Mauritius Commercial Bank.

Banking system

## 8 | Currency and Price Stability

The global trend of high energy prices in combination with domestic effects has increased the inflation rate beyond tolerable limits. To be competitive on the

Anti-inflation /  
forex policy

world market, particularly in attracting tourism, the Mauritian rupee must be constantly depreciated. High public budget deficits and current account deficits exert pressure on currency and prices.

Even if a culture of macroeconomic stability is part of everyone's discourse, the fact that the Mauritian economic is very small and fragile in global terms impedes the implementation of such. Given the reduction of sugar preference prices and quotas with the European Union, the end of the Multi-Fibres Agreement and high levels of debt due to the expansionary policies of the past, restoring macroeconomic stability will be a struggle in years to come.

Macrostability

## 9 | Private Property

The constitution guarantees private property rights. In effect, this means cementing the high concentration of property in the hands of former sugar barons, who also dominate the financial and real estate markets. They have also been the main beneficiaries of the privatization of state-owned enterprises, above all in the transportation and telecommunications sectors.

Property rights

Private companies form the backbone of the economy. The founding of companies has been simplified and small scale industries receive support from government (SMIDO).

Private enterprise

## 10 | Welfare Regime

Thanks to its economic success, Mauritius has been able to build a considerably developed welfare regime, a fact which is reflected in the country's high HDI ranking. Universal access to health care and safe drinking water has raised life expectancy to 72 years, a high figure in the African context. Mauritius' rates of infant and child mortality are close to those of industrialized countries. Only 16% of the adult population is illiterate. While sub-Saharan Africa reaches a score of only 0.56 on the Education Index, the corresponding figure for Mauritius is 0.81. Special welfare programs have been used to lower the country's rating on the Human Poverty Index to 11.3%, whereas the corresponding figure for the United States is 15.8%. HIV and AIDS infections are certainly problematic, but do not constitute as large a problem as in the neighboring members of the SADC group of countries. Within one generation, however, the profile of the population's illnesses is projected to change from that of a developing country to that of a developed country: heart attacks, diabetes, kidney disease and rapidly developing cancers. These afflictions will pose new challenges for the welfare and health system. Mauritius is already developing the signs of an "ageing society," it is not certain whether the present stage of welfare can be preserved, though it should be

Social safety nets

noted that the present pension scheme is regarded as prescient and exemplary by the World Bank. Structurally viewed, it is modern, consisting of the National Pension Fund, financed by employers and employees and paying pensions based on the duration of employment. The second pillar is a tax-financed pension for which every citizen over the age of 60 is eligible. Additionally, a private insurance scheme introduced as a third pillar is gaining more and more ground.

Equality of opportunity is guaranteed by the constitution and law, but the reality is different; the cases of successful accession to leadership and prosperity of the Creole and Muslim minorities are limited. Similarly, only a limited number of women reach senior positions in the economy and administration. The condition of women hinges on the one hand on legislation that bans any and all discrimination in theory, and on the other hand on the cultural traditions of the country's ethnic groups. Domestic violence, marital disputes and rape are frequent.

Equal opportunity

## 11 | Economic Performance

Globally, Mauritius has been given good marks for its successful course of structural change, which laid the foundations for an economic miracle and a welfare regime unequaled in Africa. Mauritius is practically the sole country in the ACP-Group of countries that managed to diversify from a monoculture economy to a five pillar economy composed of agriculture, industry, tourism, off-shore finance and information technology. Mauritius has been experiencing double-digit growth for almost 2 decades.

Output strength

In the assessment period, however, Mauritius had to deal with several pressing crises that demand global adjustment, plus the need for structural adjustments in its export-oriented textile and sugar industries, while tourism is running up against capacity problems. At the same time, those factors associated with the globalized economy have been aggravated by rising prices for imports of energy and raw materials. During the assessment period, the growth rate averaged around 3.5%, while the unemployment rate hovered around 10%. Some textile companies relocated their operations partly or entirely to Hong Kong, China or to Madagascar, citing increasingly high wage costs as the reason. Some companies have decided to invest in capital-intensive specialization in high-grade goods. The government has proposed a forward-looking strategy based on technological innovation and the vertical integration from spinning mills to final product. At the same time, the process of structural change induced by the expiration of the EU Sugar Protocol has led to a further downsizing of the traditional backbone of the island economy. This trend, which is currently underway, will lead to further concentration in larger production units, mechanization of production and diversification of agricultural production. The government, sugar companies and

labor unions reached an agreement on a voluntary retirement scheme, which has been used to mitigate the social effects of mass layoffs on sugarcane plantations and in sugar mills.

## 12 | Sustainability

Sustainability poses a number of challenges for Mauritius: the need to secure long-term economic efficiency and prosperity, to ensure equity among social groups, genders and generations, and the need to protect natural resources and resist overexploiting them at the expense of future generations. Mauritius' development is predicated on a public debt burden that will need to be paid by future generations. Mauritius may be said to be economically efficient, though it does not ensure equity among its social groups and generations. In an Assessment Letter published on 8 September 2006, the International Monetary Fund declared these levels of public debt to be "potentially unsustainable." Mauritius shows even greater shortcomings in terms of environmental sustainability. Its sugarcane monoculture largely decimated the island's forest cover, devastating its flora and fauna. One of the effects of the country's rapid economic growth and the development of its tourism industry in the past decades (under the conditions of largely externalizing costs) was the overexploitation of its natural resources, which in turn undermined its drinking water supply, polluted inshore waters and created a waste problem for which a solution has yet to be found. If the main problem on Mauritius proper is pollution of freshwater resources, on Rodrigues Island it is water scarcity and soil erosion. The government named environmental protection one of its three priorities of its Economic Agenda for the New Millennium, which is supported by the World Bank and the European Union.

Environmental  
policy

In view of the fact that Mauritius is likely to be severely effected by global climate change, the country also plays an active role in the Alliance of Small Island States (AOSIS). By using renewable resources – above all, molasses derived from sugarcane to generate power – Mauritius is providing at least a noticeable contribution to reducing carbon dioxide emissions, and at the same time cutting back on costly energy imports. The shrinking number of sugar mills is now increasingly used to process sugarcane into molasses in order to generate power, further reducing the island's dependence on energy imports. This use of renewable energy makes sense in terms of both energy and climate policy.

Mauritius' education system provides all children with access to primary education and, increasingly, to secondary education as well. A large sector of secondary education is provided by private initiatives associated with the Christian church, Hindu communities and Muslim foundations, thus working against the universality principle of education and producing differentiation. On top, there is a tendency towards social selectivity. School reform is under

Education policy  
/ R&D

consideration creating many controversial discussions in society. The fact that the expenditure on education is relatively high, amounting to 4.7% of GDP, means that the country's low rate of illiteracy (compared to other African countries) of 16% of the population over 15 will most likely continue to drop.



# Transformation Management

## I. Level of Difficulty

The legacy of Mauritius' integration into the colonial economy included: first, a monoculture of sugarcane that also shaped the island's social structure; second, an ethnic heterogeneity that burdened the country with considerable integration problems; and third, the economic dominance of the former sugarcane plantation landowners, who are an aristocracy of European descent and have been able to survive the socioeconomic process of decolonization. Though it has considerable tourist potential, Mauritius is poor in natural resources. It is forced to import not only energy but also food, since sugarcane is planted on 90% of its arable land. The small size of the domestic market has prevented the country from developing a differentiated consumer goods industry. This means that many consumer goods, including those required for tourist needs, have to be imported and financed through export earnings. At the same time, the process of structural change poses major challenges to the country's human capital. When Mauritius embarked on independence, the level of the difficulty it faced was high. As Margaret Mead observed in the 1960s, the country is prone to a "Malthusian equilibrium" without any prospects of improvement. After 40 years of transformation, the level of difficulty for leadership remains high, because the country is highly dependent on foreign trade and has a small-sized economy. Consequently, the Doha round introduced the concept of and protective provisions for "small fragile island economies." Despite its noteworthy rates of economic growth, the export-oriented island economy has seen itself faced with global economic challenges that have led to job cuts in its two key sectors, textiles and sugar. The relatively high labor costs in the country's EPZs have led to relocations to Hong Kong- and Taiwan-owned textile companies to mainland China or to Madagascar and forced the country to abandon its labor-intensive mass production in favor of capital-intensive production of high-grade goods. One consequence of the expiration of the Multi-Fibres Agreement on 1 January 2005 will lead to further intensified competition in export markets in Europe and North America. At the same time, the expiration of the EU Sugar Protocol has led to a downsizing of the sugar sector. These foreign trade risks have been heightened by rising prices for imports of energy and raw materials.

Structural  
constraints

Civil society initiatives in political, social, and cultural activities were initiated under the former British colonial administration in Mauritius; hence, there is a moderate tradition of civil society. While unionism, cooperative societies and public participation form one important aspect of the Mauritian society, a culture of administrative superiority and dominance, which impedes social creativity, can also be detected.

Civil society traditions

Despite Mauritius' economic success, which made it possible to finance an exceptional welfare regime in Africa, the rising unemployment it has experienced since 2000 is bound to overstrain the welfare system and intensify social distribution conflicts and tensions between the island's ethnic groups. The Mauritian multicultural "rainbow society" has been and remains elusive. The country's consensus-oriented corporatism, involving government, the business sector and fragmented labor unions, is increasingly inadequate to deal with ever more rapid change. The large number of parastatal agencies which were set up during the good years have now become a burden, and are gradually being degraded to a pool for political patronage, which in turn is less and less affordable.

Conflict intensity

## II. Management Performance

### 14 | Steering Capability

The Mauritian success story has proven a point that is important for all developing countries: policy matters. The starting conditions for the sugar island were extremely precarious. It was, after all, political decisions that set the course for a profound process of structural change from dependence on a moribund sugarcane monoculture to a successful and internationally competitive system of textile production in the Export Processing Zones, which have been subsidized by customs and tax privileges. At the same time, political and economic leadership groups have managed to make good use of the trade preferences granted by the European Union, especially under the Sugar Protocol and the Lomé-Agreement, the benefits of the multilateral Multi-Fibres Agreement and the AGOA. This, in turn, has defused the country's social conflicts and stabilized its parliamentary democracy. Since 2000, the extremely export-dependent island economy has again been confronted with some major challenges: growing unemployment in its EPZs and its sugar sector, the expiration of the Multi-Fibres Agreement and the EU Sugar Protocol and growing competition in export

Prioritization

markets. Numerically, these challenges jeopardize 12% of GDP, 20% of employment and 50% of the country's export goods. In response to these challenges, the government has designed an "adjustment plan within globalization adjustment" which responds to the following policy imperatives: downsizing the sugar sector quantitatively, modernizing qualitatively (mechanization, diversification, generate power, producing chemical derivatives); modernizing its textile production (specializing in high-grade products, vertical integration); developing the service sector further: tourism (an open sky policy (charter flights), financial, information technology); improving infrastructure, mainly development of an effective transportation and communications system; promoting sustainable growth, without further damaging the environment; reforming education and investing in training.

Despite a change in government, replacing the MSM/MMM coalition with that of the Labor/Alliance, the country's leadership is committed to structural reforms. Although Labor came to office on a social ticket, the pressure on structural reforms has forced the Labor government to address these challenges. In particular, Finance Minister Rama Sithanen has stressed the importance of structural reforms, which could potentially produce cleavages within the government bloc. (For details of the current political situation see: Africa Yearbook 2005, Leiden, 2006, pp 439). These efforts have been accompanied by active diplomacy aimed at securing market opportunities in negotiations with the European Union, the WTO and the U.S. government. In terms of its steering capability as well, Mauritius is far ahead of the poor political management typical of most other African countries.

Implementation

Mauritian leadership is highly flexible up to the point that this might suggest hypocrisy.

Policy learning

## 15 | Resource Efficiency

Mauritius has used its limited financial and personnel resources efficiently. Bilingual and well-trained public service personnel, managers and technicians run the country, while contributions by international delegations are increasingly important for consultative work on regional integration and globalization. Communalist clientelism prevails in some government services, such as the police force.

Efficient use of assets

A culture of negotiations, compromises and adaptation contributes to solve corporatist conflicts. Sometimes conflicts are so strong that expatriate consulting and management skills have to be brought in order to restore confidence, as was the case with the Customs and Excise administration, which is headed by a Canadian director.

Policy coordination

Public mismanagement and waste of tax revenues is regularly reported in the annual reports of the National Audit Office. Although an Independent Commission against Corruption and an Economic Crime Office were established between 2000 and 2001, the effectiveness of these organizations seems to be deficient due to management problems and political intervention. For example, corruption in customs agencies is still widespread. Therefore, Mauritius still has a mediocre performance in the Transparency International's Corruption Perception Index, ranking 42 out of 167 in 2006. In June 2006, Moody's Investors Service downgraded the country to the category Baa1. In addition, the World Bank has diagnosed some substantial deficits in corporate governance, noting that major companies are intertwined affiliates of the old oligarchy, which also owns the country's auditing agencies.

Anti-corruption  
policy

## 16 | Consensus-Building

One of the properties of Mauritius' success is that political leadership groups from all parties have managed to convince society to pursue a path of market-based development. British "Fabians" labor philosophy and an Indian political tradition of negotiated compromise may be the roots of this phenomenon. Trade unionism, too, has from the beginning opted for an evolutionary approach of better income, personal freedom, fringe benefits and welfare, instead of systemic change. Certainly, Bérenger's MMM pinned their hopes on socialist concepts with a certain affinity for French political conceptualization of the May 1968 revolution in Paris. Yet Bérenger was also a trade union leader of Port Louis municipal workers. The first prime minister of Mauritius following independence, Sir Ramgoolam, was decisive with his law and order politics. His determination convinced the Hindu majority to remain committed to evolutionary change by democratic means.

Consensus on goals

There are no veto actors in Mauritius. The political benefits which were achieved through the success of the country's Economic Processing Zones reconciled democracy and market economy. Following the collapse of the socialist bloc, there is little political will to change systems. Latin American third-worldism, à la Chavez, has little traction in Mauritius. The Hezbollah opposition provoked unrest on Islamic grounds, and the Creole minority's uneasiness with development is not aimed at systemic change. Although the MSM/MMM government was considered by many to be overly technocratic and "arrogant" (despite their National Action Plan for Poverty Alleviation and education program), Labor was voted back into power.

Anti-democratic veto  
actors

One characteristic aspect for the political decision-making process is that governing parties, the business sector, labor unions and civil society actors were involved in working "tri- or quatro-partite" consultations. Without consensus, if

Cleavage / conflict  
management

necessary fostered by external international consultation, no reform is practicable in Mauritius: neither a reform of the labor laws, nor of the sugar sector, nor of the banking sector. The consultation processes between politics, the business community and interest organizations that have regularly taken place ahead of important reform projects have been conducted in an attempt to mitigate conflicts and improve social cohesion in an ethnically and culturally heterogeneous society.

The political leadership has promoted the participation of civil society in the process of shaping public opinion and translating it into political decisions. However, they have not succeeded in breaking up the power of the old propertied white oligarchy and bringing it under democratic control. Democracy, a cornerstone of Mauritian national identity, ends on the sugarcane plantation, at the bank and often at the factory gate. Under the surface of ethnic-cultural pluralism, the economic dominance of the Franco-Mauritian upper class is still effective in these contexts.

Civil society participation

The discussions on compensation payments for slavery to selected Creole groups reached an impasse. Apart from the technical question of how to deal with injustice after 200 years, the Green Party left the MSM/MMM coalition, citing their inability to find a common ground for treating the problem in a “politically correct” manner.

Reconciliation

## 17 | International Cooperation

The Mauritian leadership has made extremely good use of technical and financial cooperation with bilateral and multilateral development agencies. As a matter of fact, Mauritius is probably the only country in the ACP group to have successfully implemented the Stabex-means in order to diversify its economy. Now it has moved into the role of an investor in other countries, in particular in neighboring Madagascar and Mozambique. Mauritian growth was partly financed by private Chinese capital from Hong Kong, which looked for alternative investments and “safe heavens” prior to the transfer of Hong Kong to the sovereignty of mainland China. Since independence, the World Bank has supported the process of macroeconomic structural change and administrative modernization by providing some three dozen loans, most recently a number of Public Expenditure Reform Loans. In addition, the World Bank has provided advisory support, including a country procurement assessment report, a public expenditure review, and a transport action plan. Mauritius receives advice and assistance from a number of bilateral and multilateral sources. The assistance it has received includes IMF support for the country’s efforts in the field of financial and currency stability, International Finance Corporation (IFC) support for private investment in the banking sector, the European Union’s poverty

Effective use of support

reduction programs and the African Development Bank's education programs. Great Britain, France, the United States and Japan have provided support for individual projects in physical and social infrastructure. But the most important factor was "not aid but trade." The trade preferences granted by the European Union in the framework of the Lomé- and later Cotonou-Agreement, the Sugar Protocol, and by the United States through its AGOA agriculture and industry, was able to grow on a commercial base. World Bank evaluation reports have confirmed that the financial and advisory services provided by foreign partners have been used efficiently. In addition, the Multilateral Investment Guarantee Agency (MIGA), a World Bank subsidiary, has provided substantial guarantees for investments by Mauritian companies in Madagascar, Mozambique, Tanzania, Burundi and Nigeria.

Mauritius plays a remarkably active and respected role on the international stage. It is a member of the Commonwealth, the African Union, SADC, COMESA and the Commission de l'Océan Indien (COI), the Indian Ocean Rim Association for Regional Cooperation, the Alliance of Small Island States, the ACP group of countries, as well as numerous U.N. organizations and the WTO. It led the ACP's negotiations at the WTO and it has played an important role in negotiations with the European Union and the U.S. government. The international reputation also found expression its election to the U.N. Security Council. In 2004/05, Mauritius assumed the presidency of SADC. Minister for Foreign Affairs and International Trade Jaya Cutteree was an unsuccessful candidate for the chairmanship of the WTO. Then-Prime Minister Bérenger intended to boost SADC and to accelerate the negotiations of the Economic Partnership Agreement within the context of the Cotonou-Treaty, envisioned for 2008, as a means of enlarging the regional market for Mauritian industries. At the same time, Mauritius has participated actively in the NEPAD African Peer Review Mechanism, which aims to promote democratization and political stabilization on the African continent. The country is very aware of the role it plays in Africa as a whole.

Credibility

The government headed by Bérenger (2003-2005) improved relations with Madagascar, which is closely interlinked with Mauritius' textile industry, particularly in terms of outsourcing investments. More recently, Bérenger and Ramgoolam have sought closer political and economic cooperation with India, the land of origin for Mauritius's Hindu majority. A double taxation agreement is working very well to the benefit of both countries. India has provided massive support in building up the information technology sector, as well as several credit lines for Indian private sector investments in Mauritius and for Indo-Mauritian joint ventures on the African mainland.

Regional cooperation

## Strategic Outlook

Mauritius' export-dependent island economy will continue to face major challenges in a highly volatile globalized economy. The adept creativity with which political and economic leaders in Mauritius have managed transformation is the country's main asset in building on its successes that have brought relative prosperity while maintaining political stability. Clearly, Mauritius must respond quickly in adjusting to the challenges of globalization. The "Economic Agenda for the New Millennium," a plan presented by the government to the National Assembly in August 2001, is seen by the World Bank and the IMF as the road map for continued transformation. It calls for the following measures: improving the competitiveness of the Mauritian private sector; investment in people and society; preserving Mauritius' fragile environment; improving economic management.

In 2001, Mauritius' government declared its intention to make the country a "high-tech, high-income service and knowledge economy within 5 years." Though clearly, under present conditions, this will take longer than anticipated, the government has pursued a development path encompassing the following: the specialization of textile production in the EPZs on high grade goods as a means of maintaining competitive position vis-à-vis low-priced products from India and China; restructuring and diversifying the sugarcane sector, which is on the verge of losing the protection afforded it by the EU Sugar Protocol; further development of information technology and financial services; training of the human capital needed to master this process of structural change as well as on creation of a serviceable infrastructure; further efforts to reduce poverty so as not to endanger political stability and social peace in this ethnically heterogeneous society; promotion of a sustainable growth that does not further threaten the integrity of a fragile environment that has already been seriously degraded.

Thanks to its proven management capabilities and its achievements in the process of transformation, international development agencies, above all the World Bank, consider Mauritius likely to achieve these goals. Reliant as it is on favorable terms of trade, the country's political leadership makes use of international cooperation to acquire investment capital and gain influence in international negotiation processes. Mauritius needs export opportunities, investors and tourists – not Official Development Aid. Mauritius' political elite and society themselves have proven capable of creating the requisite conditions for success.