

# Mauritius

<b>Status Index</b> (Democracy: 8.58 / Market economy: 7.75) <b>8.17</b>		<b>Management Index</b> <b>7.57</b>	
<b>HDI</b>	0.791	<b>Population</b>	1.2 mn
<b>GDP per capita (\$, PPP)</b>	11,287	<b>Population growth<sup>1</sup></b>	1.1 %
<b>Unemployment rate</b>	10.2 % (2002)	<b>Women in Parliament</b>	5.7 %
<b>UN Education Index</b>	0.80	<b>Poverty<sup>2</sup></b>	10.6 %
		<b>Gini Index</b>	-
Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. <sup>1</sup> Annual growth between 1975 and 2003. <sup>2</sup> Population living below national poverty line (1990-2003).			

## A. Executive summary

Between 2003 and 2004 this small island state in the Indian Ocean had a political and economic success story to tell, though one marred by a number of problems. Not only did Mauritius achieve the second highest per capita income in sub-Saharan Africa, it also far outperformed all other African countries on the Human Development Index (HDI), where it ranked 64<sup>th</sup>, as compared with South Africa's index ranking of 119. On the Human Poverty Index, Mauritius ranked in 16<sup>th</sup> place of 155 Developing and Newly Industrialized Countries (NICs), coming in well ahead of even Botswana, (76<sup>th</sup> on the index), which achieved a top ranking on the BTI in 2004.

Viewed against the background of Africa's political development, Mauritius is also an instructive exception. Despite its potentially conflict-laden 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 viewed with a very critical eye by the World Bank.

In economic terms, Mauritius has seen itself faced with signs of crisis in its two key industrial sectors, textiles and sugar. While, thanks in part to a booming tourist industry, the economic growth rate has rebounded to 4.6% following a phase of near stagnation in previous years, this development has been accompanied by growing unemployment in the Export Processing Zones (EPZs). Unemployment has risen from a low of 4% to 5% in the late 1990s to a figure of around 10%.

With the Economic Agenda for the New Millennium, government and the business sector have taken an offensive stance in their attempt to address a set of structural problems that have been exacerbated by globalization. They have forged on with efforts to downsize the sugarcane monoculture, 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 skills upgrading for the human capital the country needs to master the process of structural change. These management achievements came in for high praise in the IMF's 2004 spring semiannual report.

The small island state has played a remarkably active role in regional and international politics, one that has earned it a leading role in the negotiations between the group of African, Caribbean and Pacific group of states (ACP countries), to which it belongs, the European Union and the WTO as well as a seat on the United Nations Security Council. It has also made use of international cooperation with a good number of partners to obtain both the advice and financial assistance it needs for an economically, socially, and ecologically sustainable future. It is only now, though, that the country's political leadership groups have come to accord development-related priority to environmental protection.

## **B. History and characteristics of transformation**

Before independence (1968), this former British colony was faced with some very difficult structural problems. The burdens left by colonial rule, first by the French (1715-1819), then by the British, came together to form a structural syndrome of underdevelopment. First, integration into the colonial economy left the country with a sugarcane monoculture that was vulnerable both to weather conditions and to fluctuations in demand and price. It was also sugar that brought about the country's "plantocracy" of European plantation and sugar factory owners, which even today constitutes an ownership oligarchy. At the same time, this colonial economic legacy left the island society with a high degree of ethnic and sociocultural heterogeneity. Some two-thirds of today's island population is made up of descendents of contract workers recruited from British India. These immigrants, roughly one-quarter of them Creoles of African descent, 3% of them of British and French origin (Franco-Mauritians), and 3% of Chinese extraction (Sino-Mauritians), brought with them a number of different languages and religions.

In geographic and political terms, the island of Mauritius, which forms part of Africa, is a member of the Southern Africa Development Community (SADC), although culturally and ethnically - and increasingly economically as well - it also serves as a bridge to Asia. At the same time, the companies from Taiwan, Hong Kong, and Singapore that have mainly been settled in the EPZs have come to appreciate the country, a member of the group of ACP countries, as a preferential tariff bridge to the European Union as well as to the African mainland.

Second, the colonial system left Mauritius with not only the Westminster model of parliamentary democracy but also with a legacy of socioeconomic polarization between the Indian and Creole population majority and some privileged minorities (the white “sugar barons” who assumed leadership positions in the island's economy, and Chinese business people). 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, in the judiciary and police apparatus, served to aggravate tensions between the Hindu majority and the Creoles, who, for lack of education and career prospects, became the losers of the later “economic miracle.” This is the reason why the idyll of a harmonious “rainbow society” propagated by the booming tourist industry remains deceptive. The ethnic segmentation of Mauritian society permeates all spheres of life - from kindergarten to school, from the club to the graveyard. This situation, which is rendered even more complex by the affiliation of Indo-Mauritians with different religions and castes, also plays a major role in shaping political attitudes and behaviors.

When Mauritius became independent, a situation marked by overpopulation in a limited amount of space - the country has the highest population density in all of Africa, a lack of prospects for a rapidly growing young population, and tensions between ethnic groups created the potential for political instability. The island state, so encumbered with its colonial legacy that, when it became independent it was thought to be facing a bleak future, has advanced into the small circle of the successful 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.

When the country gained independence there was also much talk of the danger of a “Malthusian catastrophe” due to the country's high birth rate. In the end things turned out differently, because prudent policies were used to advance the structural transformation of the island's economy, build a competitive textile industry and lay the groundwork for a lucrative tourist industry. Growing prosperity also contributed to shoring up the stability of a functioning democracy, and a well-developed welfare state served to deflate the looming specter of the Malthusian syndrome. A report in the *Financial Times* (December 18, 2000) discovered that Mauritius could serve firstly as a model for the “successful management of a developing economy” and secondly is “probably Africa's most robust democracy.” For the Human Development Report 2004, Mauritius is proof positive that ethnic-cultural heterogeneity need obstruct neither democracy nor political stability. However, the former sugar island's political, economic and social success story is coming under growing pressure from globalization related crises that require the country's political and economic leadership groups to come up with some innovative approaches to transformation.

## **C. Assessment**

### **1. Democracy**

Mauritius has a stable parliamentary democracy that operates on the foundation of a liberal constitution and in keeping with 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. Armed with this highest ranking, Mauritius - along with Ghana, Kenya, and Malawi - has had few qualms in submitting to the New Partnership for Africa's Development (NEPAD) African Peer Review Mechanism (APRM), which calls, among other things, for fair and free elections. This participation in the APRM has served to strengthen Mauritius' international image as a successful model of democracy and good governance.

Because the country's two ruling coalition parties blocked the constitutional and electoral reforms, proposed by an expert commission chaired by a South African judge (the so-called Sachs Commission), the task of overhauling the country's parliamentary democracy, which suffers from a number of legitimacy deficits, has been shelved for the time being. While the parties did agree on the need for reforms to adapt the norms and rules inherited from the colonial period to the altered conditions prevalent today, conflicts driven by particular party interests have thwarted any agreement on how reforms might best be approached. One important step toward more decentralization and democratization may be seen in the adoption of a Local Government Act that has made it possible to increase the number of elected district councilors from five to twelve, thus paving the way for greater democratic participation at the local level. Due in part to the small size of the political units involved, Mauritius has a vibrant democracy that is nearly unparalleled in all of Africa.

#### **1.1. Stateness**

Despite the structural ethnic heterogeneity of the island society, and the continuing existence of clan structures and a communalist "pillarization" of parties and special interest organizations, the country's stateness rests on solid foundations consisting of functioning administrative and legal structures and marked by a broad acceptance among the population. On the margins, the Islamist Hezbollah Party challenges the country's "Western" constitution and organization of government, though without being able to exert any broad influence and to win any parliamentary representation of its own. The island of Rodrigues was integrated into the country's national territory, though it has been neglected in terms of development. This was one reason for the formation of an opposition party known as the Organization du peuple Rodrigues.

Small though the island state may be, its smallness has not obstructed its viability nor its development into a well-organized and internationally respected polity, one that suffers less from a lack of state building than from over-bureaucratization. It has, in the worst case, problems using its small navy to protect its Exclusive Economic Zone from forays of foreign fishing fleets. Conflict with the former colonial power, Great Britain, over the return of the Chagos Archipelago is a symbolically charged decolonization conflict, and one concerned not least with maritime economic zones. The refugees from the archipelago stranded on Rodrigues uphold their right to return, but it is by no means certain that they really want to go back to their remote islands. They are a protest potential giving substance to the government's territorial claims, but play a modest role in the geological strategy of military bases.

## **1.2. 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 question. One question that dogged the country for some time, however, is the relative majority voting system which it took over from the British model and has been supplemented by a special provision designed to ensure that the "best losers," and thus the minorities, also have chances in elections.

There is a lively debate underway, both in parliament and in the media, on the reforms of the electoral system and the system of party funding 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 relative majority system - in accordance with the system of proportional representation, that uses party lists that win more than 10% of the votes cast nationally. The last parliamentary elections, which took place in September 2000, provided clear indications of how sharply the relative majority system works against smaller parties and minorities. An electoral alliance made up of the Mauritius Socialist Movement (MSM) and the Mouvement Militant Mauricien (Mauritian Militant Movement, MMM), having won only 55% of the votes cast, won 54 of 62 "normal" seats in parliament. Further, a law on state party financing would have restricted the influence of moneyed interest groups on parties and elections. However, in view of the fact that the governing coalition parties, among others, saw different benefits or disadvantages from a reform of the election system, the reform project was shelved for the time being.

Another factor just as important for a vibrant democracy as the regularized electoral procedures that confer legitimacy on a political system is the existence of free media and active civil society organizations. These are a given in Mauritius. It is true that the government's large advertising accounts, placed with the two most important newspapers, *l'Express* and *Mauricien*, result in a great deal of self-

restriction of their journalists, but several small newspapers and private radio stations act as a corrective. Public television, the Mauritius Broadcasting Corporation (MBC), has not been able to retain the independence of its model, the British Broadcasting Corporation (BBC); it is, however, worlds apart from public television in most African states. There are, however, good reasons why Freedom House has given Mauritius the highest marks on political rights while at the same time downgrading its ranking on civil liberties. One reason, among others, was the limited freedom of collective bargaining enjoyed by its social partners. In the context of the NEPAD process, which sets its sights on democracy and participation in civil society, the government has created the National Economic and Social Council (NESC), which provides for equal representation of government, industry or labor unions and civil society, and whose task it is to conduct consensus-oriented dialogues on important national issues.

In one important aspect of the island society, with its patriarchal structures, has a participation problem greater than that encountered in many other African countries. The United Nations Development Program's (UNDP) Gender Development Index (GDI) shows that the share of women in political, administrative, and economic leadership positions is unusually low. In parliament, the share of women representatives is no higher than 5.7%.

### **1.3. 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. Even the post-colonial constitution institutionalized the office of an ombudsman entrusted with the task of protecting civil rights. However, some weak points have also become evident. First, the national Human Rights Commission has repeatedly criticized the brutality of the police force, recruited mainly from the Hindu majority, against members of other ethnic groups. Second, in November 2003 the director of public prosecution released the chair of the Hezbollah Party (Cehl Meeah), who was accused of the politically motivated murders of three Labor Party members, from two years of detention without having to stand trial, indeed without any justification at all. In the course of a heated public debate, many voices expressed substantial doubts concerning the quality of the rule of law. The reason was that the action was obviously motivated by the political interest of the recently-elected Prime Minister Paul Bérenger in bringing the Islamic minority back into the fold of the MMM.

Third, Mauritius' weak, in-between rating on Transparency International's Corruption Perception Index indicates that corruption continues to be a serious problem. Still, compared with the rest of Africa, Mauritius has reached and maintained a high standard as far as the rule of law is concerned.

#### **1.4. Stability of democratic institutions**

Since independence, the political institutions anchored in the constitution have proven surprisingly stable. 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. In parliament, the Westminster model continues to be practiced in miniature. The factors involved include both the British colonial legacy and the influence of the world's "largest democracy" (India) on Hindu leadership groups. At the same time, the political system has proven capable of managing a process of profound structural economic change. This legitimacy through performance has earned broad political acceptance for the political system in nearly all groups of society. However, this process of acclimatization to what has proven useful also serves as a disincentive to reform, as the discussion on reform of the constitution and electoral system has shown.

The change of leadership in the offices of the president and the prime minister, agreed on by the coalition parties in late September and early October 2003, is likewise an indication of a process of "change in stability." The process brought Bérenger, the charismatic organizer of the former social-revolutionary MMM into the office of prime minister; this was the first time the country has been led by a non-Hindu and member of the Franco-Mauritian minority. Until then, all heads of government had come from the influential Hindu Vaish caste. Thus, this assumption of office by a representative of the white minority may be seen not only as a break with tradition but also as a step toward breaking up a power trust based on origin and "clientelist" relationships.

#### **1.5. 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 is Hindu, approximately one-third - chiefly Creoles - are Christian (most Catholic) and 17% are Muslim. 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 and isolation is not the only reason for this; another is the attempt of government and opposition parties, as well as many social organizations, to overcome existing communalist cleavages. Above all, the Mauritius Labor Party, which ruled the country for many years, and the present coalition government (MMM and MSM) have managed to harness economic successes and the development of a welfare regime relatively unique to Africa resulting in the reduction of 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 typically assumed pragmatism conducive to learning and change. The parties (MMM and MSM) that have ruled the country since 2000 have both discarded the goals which their party names would seem to suggest, and while the coalition has proven to be open to reforms, it has not been effective in realizing them, as documented by the failure of some of its reform projects. Even so, the party system can be said to have effectively achieved a high level of articulation and aggregation. One reason why the notion of a harmonious “rainbow society” has proven somewhat misleading is that not all groups of society have turned out to be winners of the “Mauritian miracle.” The main losers have included the Creole minority who have had insufficient access to education and training and been exposed to racial discrimination in the country administration and private sectors, both of which are dominated by the Hindu majority. There is a great deal 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 counter those developments.

After the days of unrest that broke out in February 1999 following the death of a popular Creole musician, Joseph Topize (“Kaya”), in police detention, some observers spoke of a powder keg that could explode at any moment. Above all, they saw the potential organizational core of violent revolt of losers against winners in the country’s success story in the Islamist Hezbollah Party. Even though, since the beginning of the new century, rising unemployment in the EPZs and the sugar sector has increased conflict potentials, the country's increasingly strained welfare regime does offer a chance to defuse the powder keg. Mauritius is still far ahead of all other African countries on the Human Poverty Index.

In July 2004 the MSM and MMM coalition government presented its National Action Plan for Poverty Alleviation, a comprehensive reform program designed to promote the social integration of poor population groups (the private sector also contributed funds earmarked for poverty reduction). Both sides realize that a peaceful coexistence of the country's ethnic groups is an essential condition for political stability and therefore also for the country's attractiveness for foreign investment and tourism. The growing social disparity between the winners and losers of the (now somewhat clouded) economic miracle could still prove to be a strain on the country's social and political integration capacities.



## 2. Market economy

**Table: Development of Macroeconomic Fundamentals**

	1993-03	2002	2003	2004
GDP (US-\$ billions)		4,5	5,2	
In % of GDP				
- Agriculture		7,0	6,1	
- Industry		31,1	30,6	
- Services		61,9	63,3	
GDP per capita (US-\$)		3860,0	4090,0	
Growth of GDP (annual average)	5,1	4,4	3,2	4,6
- Agriculture	0,4	6,6	-12,2	
- Industry	5,2	2,9	1,1	
- Services	6,1	5,6	6,2	
Growth of GDP per capita	4,0	3,3	2,2	
Growth of exports	5,2	9,5	-6,4	
Gross domestic investment	3,2	-3,3	12,5	
Resource balance (US-\$ millions)		172	60	
Current Account Balance		238	139	
Intern. Reserves		1018	1398	
External Debt		1766	1847	
- in % of GDP		39,2	39,7	
Debt Service		211	215	
- in % of exports		7,1	8,2	
Inflation (consumer prices) in %		6,4	3,8	
Unemployment rate			9,7	10,2
<b>Sources:</b> World Development Indicators 2004; UNCTAD: Handbook of Statistics 2004; World Bank: Global Development Finance 2004.				

### 2.1. Level of socioeconomic development

In 2003, the small island had a per capita GDP of \$11,400 (PPP), and thus the second highest figure for per capita income in all of sub-Saharan Africa. 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, thanks above all to high growth rates in its two key sectors, tourism and export-oriented textile production, an industry that has been developed and expanded in EPZs, chiefly by investors from Hong Kong, Taiwan, South Korea and Singapore. Political and economic leadership groups have made skillful use of the preferential tariffs granted under the Lomé Agreement with the European Union and the U.S. African Growth and Opportunity Act (AGOA) and good progress in harnessing the sun-bathed island's potential to develop high price tourism.

Mauritius is an island that enjoys a relatively high level of prosperity in a sub-Saharan African sea of poverty; it scores 64<sup>th</sup> on the Human Development Index (HDI) and thus ranks far ahead of all other African countries, including South Africa (which is ranked in 119<sup>th</sup> place). The situation is the same for the Life Expectancy Index, the Education Index, and the Human Poverty Index. In 2002, Mauritius ranked 16 of 155 developing and newly industrialized countries, far ahead of all other African countries, including Botswana (in 76<sup>th</sup> place), which in 2004 reached a top ranking on the BTI. Only 5% of Mauritius' population is classified as undernourished. In a 2004 country brief the World Bank noted, "the nature and depth of poverty in Mauritius is distinctly less severe than the poverty levels in neighboring African countries."

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 Creole minority. All of the announced intentions of the governing parties, which adorn themselves with attributes like "militant" or "socialist," to forge on with the democratization of the economy have foundered on the resistance of vested interests. One prime example for the conversion of a social revolutionary Saul to a neoliberal Paul is the political career of the present Prime Minister, Bérenger.

## **2.2. Organization of the market and competition**

While Mauritius has woven a market economy, the product has a dual flaw. First, a pronounced level of interventionism on the part of the state, which seeks to influence industrial relations on the basis of a complex set of regulations; second, the economic hegemony enjoyed by the Franco-Mauritian upper class, which, itself a product of the colonial plantocracy, continues to dominate major plantations, the financial and real estate markets, and the telecommunications sector. The World Bank has emphatically called for improvements to corporate governance, noting that the larger corporations continue to be inextricably entangled offshoots of the old sugar barons, who also own the auditing agencies. Here it would be wholly appropriate to speak of family oligopolies that stand in the way of competition. A weak point in the organization of the economy is the banking system, in which also rather dubious speculators are busying themselves. Offshore banking is characterized by lax public control. This is one of the reasons why Mauritius, along with other small island states in the Caribbean and the South Pacific, has been placed on the watch list of the Organization for Economic Cooperation and Development (OECD), which seeks to stop money laundering and other manipulation of financial transactions.

The announced intention of the Labor government voted out of office in September 2000 was to break up some of these oligopolies and to forge on with the privatization of state-owned enterprises; but it did not find support in the business community nor among the new ruling parties, which are still fond of

referring to themselves as “militant” and “socialist.” It must also be remembered that privatization does not always mean more competition. Even parties and persons that had earlier assumed the demeanor of social revolutionaries have in the meantime seen the light of the market economy and the country's export-oriented success model. While Prime Minister Bérenger did call on the country's influential capital groups to abandon their habit of thinking in family terms and to do more to promote democratization of the economy, no legislative reforms have been forthcoming.

In seeking to assess an economy that claims to be a social market economy oriented to social-democratic principles, one is faced with the question of how much regulation the labor market needs to protect worker rights. According to the IMF, Mauritius's overregulated labor market could hamper companies in their effectiveness and competitiveness. It was legislation from the early 1970s that gave rise to this overregulation, which has permitted the government to intervene even in most trivial aspects of industrial relations. A white book presented in November 2004 and containing proposals for a new set of regulations can be seen as a response to the fundamental changes observed in both the national and the international economy. Few individual points in the proposals failed to find a consensus. While the labor unions demanded that the right to strike be anchored in the constitution, rejecting the plebiscite called for by the government, the business lobbies above all voiced criticism of the central role played by the government in wage setting, calling for recognition of the principle of free collective bargaining.

Yet, the strategic consensus on development reached among the country's political and industrial leadership groups did provide the planning stability desired by domestic and foreign investors. The macroeconomic development of this small island economy is extremely dependent on developments in the world economy and remains vulnerable to external shocks that restrict domestic scopes of action: “size does matter!” Its membership in the WTO commits Mauritius to the rules governing free trade, which are about to cost the island the benefits it presently enjoys under the EU Sugar Protocol and the Multifiber Agreement.

### **2.3. Currency and price stability**

The government has been so successful in consolidating the national budget and stabilizing prices that the IMF gave it excellent marks in its first semiannual report of 2004. The inflation rate declined from 6.4% in 2002 to 3.8% in the 2004 financial year. This, too, is an exceptional figure in the African context. At the same time, the government, under the energetic leadership of then finance minister, Bérenger, reduced the budget deficit to a figure of 5.4%. In 2003, gross domestic savings or GDP reached a high level of 25.3%.

Since 2000 the country has managed to double its currency reserves, a fact due not least to its booming tourism and export sectors as well as to rising foreign

investment, and this has contributed to stabilizing its balance of payment and national currency, the rupee. Nor does the country's foreign debt pose a serious problem: in 2002, its general debt ratio (debt to annual export revenue) was just under 40% and its debt-service ratio (debt service to export earnings on goods and services) was 8.2%, both of which are far below the critical limits (date based on Global Development Finance 2004). Price stability could have been more impressive if the government had not twice raised the value added tax to close budget gaps. This raised the share of indirect taxes (customs duties and value added tax) to a level of 79% of overall government revenues. There is no doubt that these indirect taxes are more of a burden for lower than for higher income groups, and that they therefore have a negative income distribution effect.

A Mauritius Revenue Authority Bill was proposed to bring together the scattered authorities in charge of collecting taxes, customs and other levies in one unit, in this way contributing to the modernization of the administration. However, because the personnel of the new authorities were required to undergo a selection procedure, the labor unions threatened with strikes. The government, in the name of social peace, gave in, guaranteeing job security for the employees of all of the authorities concerned.

#### **2.4. Private property**

The constitution guarantees private property, even though this in effect means cementing the high concentration of property in the hands of the 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. Several announcements and legislative initiatives aimed at breaking up these oligopolies, which are intertwined through clan-like organizations, have proven to be more populist maneuvers than serious attempts to break up existing power and ownership structures. The lubricant of corruption has not been exactly conducive to the development of corporate governance oriented to the common good. It may thus be said that the “Mauritian miracle” also has its dark sides.

#### **2.5. Welfare regime**

Thanks to its economic successes, Mauritius has been able to build a highly developed welfare regime, a fact which is reflected in the country's high HDI ranking. Universal access to the healthcare system as well as to safe drinking water has had the effect of raising 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 0.73. 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%. In other words, Mauritius will have no problem reaching the Millennium Development Goals (MDGs) because the phenomenon of extreme or absolute poverty is unknown to the country. Nor is the spread of HIV and AIDS infections the mass problem it has come to be for the neighboring members of the SADC group of countries.

There are, however, unmistakable signs that the welfare regime is running up against the limits of its ability to deliver. At present, the country has a two-tier pension system consisting of the National Pension Fund, which is financed by employers and employees and pays out pensions based on the duration of employment, and a tax-financed pension for which every citizen over the age of 60 is eligible. The government had plans to restrict this entitlement to needy persons, but the proposed reform provoked a heated public debate. This failure of a necessary reform of social security was a sure sign that the political system, always susceptible to election-minded populism, is not so reform friendly after all. The fact that groups with campaign potential are able to safeguard their vested interests is, it seems, one of the prices that democracy exacts.

Equality of opportunity is guaranteed by the constitution and law, but limited for women with respect to senior positions in the economy and politics. The situation of women hinges on the one hand on legislation that bans any and all discrimination and on the other hand on the cultural traditions of the country's ethnic groups.

## **2.6. Economic performance**

The IMF has given Mauritius good marks for its successful course of structural change, which laid the foundations for an economic miracle and a welfare regime that seeks its equal in Africa.

In economic and social terms, however, Mauritius has had to deal with some pressing crisis phenomena and the need for structural adjustments in its export-oriented textile and sugar industries, while tourism is already running up against capacity problems. At the same time, strain factors associated with the world economy have been aggravated by rising prices for imports of energy and raw materials. While in 2004 economic growth rebounded to a level of 4.6% following a period of light stagnation in the preceding years (2001-2003: 3.9%), this relatively high rate of growth was accompanied by rising unemployment in the country's two key industrial sectors. From a figure of only 4% to 5% in the late 1990s, unemployment rose in 2003 - 2004 to roughly 10%, when several EPZ companies relocated their operations to China or Madagascar, citing increasingly high wage costs as the reason. In addition, the textile industry, whose booming expansion laid the groundwork for the "Mauritian miracle," has been faced with growing competition from China and India in regional and international export markets. In the years 2003 to 2004, the EPZs even experienced negative economic

growth of -1%. Here, within one year (from July 2003 to June 2004), 18,700 of the industry's 80,000 jobs were lost, while only 5,500 new jobs were created, the reason being that a capital-intensive specialization in high-grade goods increasingly had the effect of crowding out the country's labor-intensive mass production. The government set its sights on a forward-looking strategy based on technological innovation and the building of spinning mills for the textile industry.

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. The trend currently underway has involved further concentration in larger production units, mechanization of production, and diversification of agricultural production. The shrinking number of sugar mills is now increasingly used to process sugarcane into molasses, which is used to generate power. At present, this molasses is used to cover 18% of the country's energy needs, and there are plans to expand molasses production with an eye to further reducing the island's dependence on costly energy imports. This use of renewable energy makes sense in terms of both energy and climate policy. 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.

The island economy is not only highly integrated within the world economy; outsourcing investments in Madagascar have also served to forge close links with the neighboring island. However, these close regional economic relations have experienced considerable turbulences because of some dubious events in Madagascar. Among other things, the government of the neighboring island, citing specious grounds, impounded an oil tanker bound for Mauritius, a move that led to energy problems and political friction on the island. It was only in 2003 that a series of reciprocal diplomatic visits managed to normalize relations between the two countries.

## **2.7. Sustainability**

Sustainability poses a number of different challenges for any polity (state, economy, society): 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 (for instance, not to overexploit them at the expense of future generations). Mauritius may be said to be economically efficient, but not to ensure equity among its social groups and generations. Its education system provides all children with access to primary education and increasingly to secondary education. The low rate of illiteracy (compared to other African countries) of 16% of the population over 15 will thus continue to drop. That is an important aspect of sustainability.

Mauritius has even greater deficits as far as ecological sustainability is concerned. Its sugarcane monoculture had largely decimated the island's forest cover, leading to impoverishments of its flora and fauna. One of the effects of the country's tempestuous economic growth and the development of its tourism industry was to overexploit its natural resources, undermine its drinking water supply, pollute inshore waters, and create a waste problem that has yet to be mastered. If the main problem on Mauritius proper is pollution of freshwater resources, on Rodrigues Island it is soil erosion. The government has declared environmental protection as one of three priorities of its Economic Agenda for the New Millennium.

In view of the fact that Mauritius is likely to be severely affected by the effects of 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 won from sugarcane to generate power, Mauritius is providing at least a small contribution to reducing carbon dioxide emissions, and at the same time cutting back on costly energy imports.

### **3. Management**

#### **3.1. Level of difficulty**

The legacy of the proverbial “sugar island’s” integration into the colonial economy included, first, a moribund monoculture 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 sugar barons, who constitute an aristocracy of European descent and were able to dig in to survive the socioeconomic process of decolonization.

Even though it has a considerable tourist potential, Mauritius is poor in natural resources. It is forced to import not only energy but food as well because 90% of its farmland is planted with sugarcane. 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. That is to say, the only means the country has to keep its balance of trade and payments on an even keel is to ensure that its export and tourism sectors remain efficient. 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 difficulties it faced was high, and it remains high at the beginning of the 21<sup>st</sup> century due to the vulnerability of its external economic relations.

Despite its noteworthy rates of economic growth, the export-oriented island economy has seen itself faced with world 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 in China or in 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 Multifiber Agreement on January 1, 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.

### Profile of the Political System

Regime type:	<i>Democracy</i>	Constraints to executive authority:	2
System of government:	<i>parliamentary</i>	Electoral system disproportionality:	32.3
		Latest parliamentary election:	11.09.2000
		Effective number of parties:	1.3
1. Head of Government:	<i>Anerood Jugnauth</i>	Cabinet duration:	10/00. 09/03
2. Head of Government:	<i>Paul Bérenger</i>	Parties in government:	1
Type of government:	<i>single party majority</i>		
<p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Electoral disproportionality (Gallagher index) reflects the extent to which electoral rules are majoritarian (high values) or proportional: <math>\sqrt{\frac{1}{2} \sum (v_i - p_i)^2}</math>; <math>v_i</math> is the share of votes gained by party <math>i</math>; <math>p_i</math> is the share of parliamentary mandates controlled by party <math>i</math>. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = <math>1 / (\sum p_i^2)</math>; <math>p_i</math> is the share of parliamentary mandates controlled by party <math>i</math>.</p>			

Despite Mauritius' economic success, which made it possible to finance an exceptional welfare regime in Africa, the rising unemployment it has experienced since the beginning of the century is bound to overstrain the welfare system and intensify social distribution conflicts and tensions between the island's ethnic groups. The idyll of a multicultural "rainbow society" is and remains elusive. The country's consensus-oriented corporatism, involving government, the business sector and the country's fragmented labor unions, will not be able to avoid having to face some new challenges.

### 3.2. Steering capability

The Mauritian success story has proved 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 successful and internationally competitive textile production in the EPZs, which have been coddled on 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, and the benefits of the multilateral Multifiber Agreement and the AGOA. The successes of this successful economy have



created the conditions needed to defuse the country's social conflicts and stabilize its parliamentary democracy.

When the 21<sup>st</sup> century began, the extremely export-dependent island economy was again confronted with some major challenges: growing unemployment in its EPZs and sugar sector, to start with, and then the expiration of the Multifiber Agreement and the EU Sugar Protocol and growing competition in export markets. The government was not content simply to bemoan the cruelties of globalization. It took various strategic decisions designed to come to grips with growing competitive pressure: first, by further downsizing the sugar sector, forging on with mechanization and diversification, and stepping up the use of molasses to generate power; second, by modernizing its textile production and specializing it in high-grade products - after it had lost its labor-intensive mass production due both to growing competitive pressure from India and China and far higher labor costs in its EPZs; third, by further developing financial services; fourth, by improving infrastructure, mainly development of an effective transportation and communications system; fifth, by promoting sustainable growth, without further damaging the environment.

The country's strategic development priorities were laid down in the Economic Agenda for the New Millennium (NEA).

The government - with the support of World Bank Public Expenditure Reform Loans (PERLs) - not only made targeted investments in training for the skilled labor needed for the modernization of the textile industry, quality assurance for the tourism industry, and for the development of the island as an offshore financial center. It also invested in basic education and further education and training for marginalized population groups. The NEA identifies education as the key to the success of the pending structural changes in the country's key sectors as well as an important means to preserve social harmony. The small island state has a university that rates well by international quality standards.

The ongoing process of structural change and the efforts of the present coalition government to meet the challenges posed by globalization, with its demands on the management capabilities of government and the private sector, has shown that the country is in possession of high levels of the learning skills, steering capabilities and courage needed to make unpopular decisions. This also goes for the attempt to reform the overstrained welfare regime. In the NEA, political leadership groups laid down a number of political priorities and set out to implement them with the aid of the World Bank. These efforts have also included an 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.

### **3.3. Resource efficiency**

A small country like Mauritius is necessarily limited in the financial and personnel resources at its disposal. However, it does have a core of well-trained administrators who shore up the steering capability of the political system. One other factor that distinguishes the country from many other African countries - despite the existence of communalist clan structures and family networks with their patronage interests - is a relatively low level of "clientelism" in the filling of administrative, judicial and police positions, although minorities (Creoles, Muslims) continue to complain about the preferential treatment accorded to the Hindu minority. The government has sought, relatively successfully, to tie conflicting interests into a coherent policy. Consultation processes of a somewhat corporatist nature are conducted with relevant groups of society with a view to negotiating compromises.

The World Bank has also affirmed that the finance minister is pursuing a sound, albeit improvable, reform policy, and it has provided several PERLs in support of these reforms. Like its national debt, the country's budget deficits have remained within tolerable limits. This goes in particular for its foreign debt. The crucial factor is that the government has been using targeted public investments to implement the NEA. And its financial leeway has been enlarged by cuts in military spending: in 2002 this accounted for only 0.2% of the GDP, while even some very poor countries spend a far larger share for the same purpose.

This positive picture of a well-governed and administered small country does, though, also have a few flaws. These include in particular various forms of corruption and deficits in corporate governance. On Transparency International's Corruption Perception Index, Mauritius has a weak ranking in the middle of the field. In 2003 a corruption scandal was exposed that saw monies from the National Pension Fund vanishing from accounts of the country's largest private bank, the Mauritius Commercial Bank (MCB). Moody's Investors Service has for this reason downgraded the MCB to its category B.

Some public control mechanisms - the National Audit Office, the Economic Crime Office, and a special parliamentary committee - and the free media have provided for some anti-corruption successes. The National Audit Office regularly objects to wasteful uses of tax revenues for dubious purposes. Aided by a watchful civil society, public auditing works better than auditing under private sector corporate governance.

The World Bank has diagnosed some substantial deficits in corporate governance, noting that major companies are intertwined affiliates of the old sugar barons - who also own the country's auditing agencies. This tangled nexus, which includes the political elite, is the breeding ground for "connections" that serve to favor various forms of influence bearing on political decisions and corruption. The local representative of Transparency International has many stories to tell about

corruption networks. Even so, Mauritius ranks far higher on its Corruption Index than the great majority of other Africa countries.

### **3.4. Consensus-building**

One of the secrets of Mauritius' success is that the political leadership groups from all parties have managed to commit the heterogeneous island society to a marked-based development path. At first the social revolutionary movements, and above all Bérenger's MMM, pinned their hopes on socialist concepts as a way out of deep economic and social crises and as a means of overcoming the hegemony of the white plantocracy, a legacy of the colonial period. However, they too have remained committed to system change by democratic means. The political feat, which was achieved through the success of the country's EPZs, was to reconcile democracy and market economy.

This success converted critics of the system like Bérenger, and the boons of a welfare regime, have served to avert tensions between the country's ethnic groups and to cast anti-democratic groups in the role of maverick troublemakers. To be sure, the reformers in the parties represented in Parliament have only been partially successful in integrating the radical Hezbollah opposition and the Creole minority, which have benefited least from the “economic miracle” into the emerging, broad social and political consensus. But the reformers can be said to have made serious attempts to use social programs like the National Action Plan for Poverty Alleviation and the education program that constitute one element of the NEA to ensure that even the losers of the “economic miracle” enjoy a share of the new prosperity and are integrated into the labor market.

One aspect characteristic for the political decision-making process was that governing parties, the business sector, labor unions and civil society actors were involved in working out and formulating the NEA, which is keyed to the targets of the Millennium Development Goals. A consensus of this kind was also sought and found among the social partners when the task was to define a new set of regulations for the labor market and to downsize the sugar 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. In other words, the political leadership groups have 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 veto wielding, “clientelist” network of the propertied white oligarchy and bringing it democratic control. Democracy, a cornerstone of Mauritian national identity, ends on the sugarcane plantation, at the bank and at the factory gate. Under the surface of ethnic-cultural pluralism, the economic dominance of the Franco-Mauritian upper class leaves

room only for a gelded political pluralism. Come what may, the political leadership groups, largely recruited from the Hindu majority, are and remain reliant on its willingness to cooperate.

The country's stock of social capital and its capacity to generate solidarity are still largely determined by ethnic and religious affiliation. This is why the idyllic picture of a harmonious “rainbow society” is bound to remain elusive. Economic success and participation in the country's prosperity are the cement that creates consensus and provides for social cohesion. In addition, this is the reason why an economic and social crisis could well endanger the democratic consensus and market economy.

### **3.5. International cooperation**

For a small country, Mauritius plays a remarkably active role in regional and international politics. The country has made good use of technical and financial cooperation with bilateral and multilateral development agencies, itself moving into the role of an investor in other countries, in particular on the neighboring island of Madagascar. Thanks to its good access to private capital markets and its relatively high per capita income, Mauritius is eligible only for small doses of Official Development Assistance (ODA), though it is one of the few African countries (which, as least developed countries or LLDCs, are normally eligible for highly preferential IDA loans), that has access to regular World Bank loans.

Since independence, the World Bank has supported the process of macroeconomic structural change and administrative modernization by providing roughly three-dozen loans, most recently a number of PERLs. 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 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 one factor that has been more important than these aid programs is the trade preferences granted by the European Union in the framework of the Cotonou Agreement and the Sugar Protocol, and by the United States through its AGOA. World Bank evaluation reports have confirmed that the financial and advisory services provided by foreign partners have been used efficiently. The praise the World Bank expressed in its 2002 Country Assistance Strategy laid the groundwork for further loans in

the years that have followed. This creditworthiness is a good indication of the financial standing of a country that has earned international recognition as a reliable partner. 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.

The government headed by Bérenger, which came to power in the fall of 2003, has not only undertaken efforts to improve relations with Madagascar, which is closely interlinked with Mauritius' textile industry (outsourcing investments), it has also sought closer political and economic cooperation with India, the land of origin of Mauritius's Hindu majority. India has provided massive support in building up the 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.

The small island state has played a remarkably active and respected role on the international stage. It is a member of the Commonwealth, the African Union, SADC, 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 UN 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 UN Security Council. In August 2004, Mauritius assumed the presidency of SADC.

Prime Minister Bérenger's stated intention has been to boost the clout of this regional cooperation community in negotiations on trade preferences with the European Union, the United States, and the WTO, and to make further headway with the free trade zone envisioned for 2008, which he sees as a means of enlarging the regional market for Mauritian industries. At the same time, Mauritius has participated demonstratively 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 for the whole of Africa.

Mauritius' political leadership groups have set their sights on intensive international cooperation, because the country's model for success is reliant on smoothly functioning trade relations and regional stability. These groups have harnessed the financial and advisory assistance provided by international organizations to realize its ambitious Economic Agenda for the New Millennium. The main concern here is to secure a symbiosis between democracy and market economy.

## **4. Trend of development**

### **4.1. Democratic development**

Since the parliamentary elections held in 2000, Mauritius has been ruled by a coalition made up of the MMM and MSM, which has the support of a large parliamentary majority. This election cast a harsh light on the deficits of the relative majority voting system, which gave the parties that won 55% of the vote a total of 54 seats from the 62 election districts. Even so, party interests have brought down a reform of the electoral system proposed by a commission of experts. The proposal, based on a mix of the majority and the proportional electoral systems, was designed to increase the fairness of representation and thus to enlarge the legitimacy base of the parliamentary democracy.

The Westminster model of government has worked and has respected the separation of powers anchored in the constitution and the rule of law. Indeed, it even survived a castling maneuver negotiated between the coalition partners over the distribution of key political offices unscathed.

Mauritius has, without exception, received Freedom House's highest ranking on political rights and was therefore wholly willing to participate in the NEPAD African Peer Review Mechanism. There is, though, one major flaw here: the under-representation of women in parliament and important political offices. Thanks to its successful export sector and its developed welfare regime, the island state has remained a beacon for a symbiosis between democracy and market economy. The fact that an opposition party has managed to win a by-election may well signal a change of government following the parliamentary election due to be held in 2005.

### **4.2. Market economy development**

While in 2004 the country's economic growth again rose to 4.6% after a period of light stagnation in previous years, this development has been accompanied by rising unemployment. In particular, the textile industry in the EPZs, on which the "Mauritian miracle" was built, has had to contend with growing competitive pressure from India and China as well as with the expiration of the Multifiber Agreement. The sugar industry has been forced to downsize and diversify in anticipation of the expiration of the EU Sugar Protocol.

Yet, the island's political stability and favorable investment conditions continue to make it attractive both for investors in the technology sector and as an offshore banking center, while at the same time Mauritian companies are becoming increasingly engaged on the African mainland.

While it is true that Mauritius has a developed market economy, it does show a number of deficits: first, a marked preference for intervention on the part of the government, which uses a set of complex regulations to influence the labor market; second, an oligopolistic intertwinement among the country's larger corporations, which are owned by the former sugar barons; third, corruption networks. Attempts undertaken by the - in large measure social-democratic – MMM and MSM coalition government to deregulate the labor market and break up the present oligopolistic concentration of power and ownership have failed in the face of opposition by the vested interests of business lobbies and labor unions.

IMF and World Bank are calling for and promoting further steps aimed at privatizing the country's state-owned companies and generally deregulating economic life, but Mauritius' political leadership groups, given to a markedly pragmatic thinking, are concerned more about the social peace among the ethnic groups and their own chances of reelection than about economic doctrines. In a multiethnic state it is essential that due heed be paid to reconciling interests in order not to endanger social harmony and political stability.

### **E. Strategic perspective**

The present report has repeatedly underscored the major challenges facing the export-dependent island economy in the wake of globalization, a situation that is unlikely to change in the near future. The ability of the country's political and economic leadership groups to respond creatively is the key to the future of the “Mauritian miracle,” which has brought the country relative prosperity and preserved political stability. Far from merely bemoaning the ill winds blowing from the world economy, these groups have, in a number of decisions taken in connection with the Economic Agenda for the New Millennium, looked forward and planned for the future.

This forward planning has concentrated on the following stages of transformation: first, on specialization of textile production in the EPZs on high grade goods as a means of remaining competitive against low price products from India and China; second, on restructuring and diversification of the sugar sector, which is about to lose the protection afforded it by the EU Sugar Protocol; third, on further development of information technology and financial services; fourth, on training of the human capital needed to master this process of structural change as well as on creation of a serviceable infrastructure; fifth, on further efforts to reduce poverty so as not to endanger political stability and social peace in this ethnically heterogeneous society; sixth, on 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, the international development agencies, and above all the

World Bank, see good prospects that Mauritius will reach these goals. The country's political leadership groups are making use of international cooperation to acquire investment capital and gain influence on international negotiation processes, because the country is, come what may, wholly reliant on favorable terms of trade. Its international image as a successful model for a symbiosis between democracy and market economy and as a demonstration model for the whole of Africa is making the country increasingly attractive not only for investors and tourists but for development strategists as well. While it is true that the Mauritian model is going to have to hold its own in a number of difficult trials, the country's leadership groups have already mastered a number of major challenges. The OECD countries and the European Union in particular, have it in their power to exert considerable influence on the country's prospects of success. What Mauritius needs is not ODA but export opportunities, investors and tourists, for its politics, economy and society have proven capable of providing for the endogenous conditions needed for sustainable development.