

BTI 2010 | Mauritius Country Report

Status Index	1-10	7.94	# 18 of 128	
Democracy	1-10	8.45	# 17 of 128	➔
Market Economy	1-10	7.43	# 22 of 128	➔
Management Index	1-10	6.91	# 10 of 128	

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

This report is part of the Transformation Index (BTI) 2010. 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 128 transformation and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University.

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Key Indicators

Population	mn.	1.3	HDI	0.80	GDP p.c.	\$	11296
Pop. growth	% p.a.	0.6	HDI rank of 182	81	Gini Index		-
Life expectancy	years	72	UN Education Index	0.84	Poverty ²	%	-
Urban population	%	42.4	Gender equality ¹	0.60	Aid per capita	\$	59.2

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) 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 resulted in a win for the Mauritius Labor Party, and its leader, Navinchandra Ramgoolam, became prime minister. Mauritius shows the second highest per capita income in sub-Saharan Africa, and outperformed all other African countries on the Human Development Index (HDI), in which it was ranked 74th worldwide in 2008. Mauritius is the only African country ranked in the HDI's medium category of human development. Thus, the country had legitimate grounds on 12 March 2008 to celebrate the 40th anniversary of its independence, as one of the rare countries to have successfully combined modern Western democracy with globalization and a market economy.

Viewed against the background of Africa's political and economic fragility, Mauritius is an instructive exception. Despite its potentially conflict-prone 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. For this reason, Mauritius has always been given the highest marks for political rights in international rankings. Yet, the mediocre ranking in Transparency International's Corruption Perception Index must be seen as an indication of weaknesses in corporate governance, an issue that has also drawn criticism by the World Bank.

In economic terms, Mauritius has been facing signs of crisis in its two key industrial sectors: textiles and sugar. Although a booming tourist industry allowed the country's economic growth rate to stabilize at 5% in 2007 – 2008, this development has been accompanied by rising jobless rates in the Export Processing Zones. Unemployment has risen from a low of 4% to 5% in the late 1990s to around 8.6% in 2007 – 2008. Offshore finance, a third key area of economic activity, came under increasing pressure due to the worldwide financial crisis in 2008, as well as to a general tendency in OECD countries to bar use of tax havens. In addition, the offshore finance business faced strong pressure from India, where a crackdown on tax and finance fraud

by that country's domestic companies and individuals was underway, particularly after the Satyam affair, where executives of Indian high-tech firm Satyam Computer Services allegedly perpetrated massive fraud using company capital, using Mauritian off-shore banking facilities as a tax haven and transit point.

The Labor government and the business sector have aggressively addressed structural problems that have been exacerbated by globalization. They have continued efforts to downsize and modernize the sugar cane industry, to induce the textile industry to specialize in high grade and competitive goods, to consolidate the country's role as an offshore banking centre, and to promote an upgrade in skills and human capital which the country will need to master the process of structural change. Efforts to attract capital for new sectors such as seafood processing and pharmaceuticals show the government's commitment to diversify in order to meet the demands of globalization.

History and Characteristics of Transformation

Before achieving independence in 1968, this former British colony was faced with social and economic structural problems typically associated with colonialism. The burdens left by colonial rule, (French (1715-1819), and then British) included a sugar cane monoculture that was vulnerable both to weather conditions and to demand and price fluctuations in European (at that time British) markets. Socially, sugar brought about the country's "oligarchy" of plantation and sugar factory owners of European origin, who even today dominate the ownership ranks of industry, services and trade. This colonial economic legacy also left the island society with a high degree of ethnic and sociocultural heterogeneity. Some two-thirds of the island's residents today are descended from contract workers recruited from British India. Other immigrants are of Malagasy or African descent, 3% are of British or French origin (Franco-Mauritian), and 3% are of Chinese extraction (Sino-Mauritian); collectively, these groups have brought with them a number of different languages and religions. In geographic and political terms, the island of Mauritius (including Rodrigues Island and the Chagos Archipelago), which forms part of Africa, is a member of the Southern Africa Development Community (SADC). Mauritius seeks to serve as a bridge from Asia to Africa, Europe and the United States: in the 1980s, companies from Taiwan, Hong Kong, and Singapore settled in the country's economic processing zones (EPZs), and were joined in 2007 and 2008 by companies from mainland China. As a member of the group of the African, Caribbean and Pacific Group of States (ACP), Mauritius has had a preferential access to the European Union that has been progressively eroded in recent years, 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 a Westminster model of parliamentary democracy and with a legacy of socioeconomic polarization between the Indian and Creole population majority

and some privileged minorities (particularly the white “sugar barons” who assumed leadership positions). The emancipation of an educated class of Indo-Mauritians, whose members took over many leadership positions in the country’s post-independence political and administrative system, and in the judiciary and police apparatus, served to aggravate tensions between the Hindu majority and the Creoles and Muslims, who, due to a lack of education and career prospects, did not benefit from the later “economic miracle.” The ethnic segmentation of Mauritian society permeates all spheres of life – from kindergarten to school, from the club to the graveyard. This plays a major role in shaping political attitudes and behaviors. Contrary to the bleak outlook in 1960, when the country seemed hampered by overpopulation, limited space, a sugar cane monoculture, a 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). It is Africa’s most successful emerging economy, an assertion supported not only by economic performance but also by UNDP data on human development.

Prudent policies have supported structural transformation of the island’s economy. A competitive textile industry, a high-end tourism industry, modern information technology and banking services have provided growing prosperity and contributed to the stability of a functioning democracy, and – to a certain degree – welfare-state policies. However, the former sugar island’s political, economic and social success story is coming under pressure not only from globalization, but also from short-term fluctuations in factor prices and the effects of the world economic and credit crises.

Transformation Status

I. Democracy

1 | Stateness

Despite the small size of the island republic, Mauritius legally, technically and politically manifests its statehood to the full extent possible. However, it is not feasible to exert its authority evenly over the full stretch of its vast maritime territory in the southeastern Indian Ocean.

Monopoly on the use of force

Mauritian citizenship is universal, and the notion of a Mauritian nation-state is generally accepted. Refugees from Chagos, who were stranded on Mauritius and Rodrigues after their eviction from the islands in 1960, retain their right to return. Because they created a potential for protest, and gave substance to the government's territorial claims, some of them were granted British citizenship. A substantial number who declared their wish to return home were partly acknowledged by British courts in 2007, but in 2008 were definitively denied homecoming rights by the highest British judicial authority (House of Lords).

State identity

The Mauritius state is conceived as a secular entity. Hindu, Muslim and Christian values influence political decisions in specific sectors (such as education, public holidays, culture and sports) but Mauritius' basic constitutional provisions are not derived from religious dogmas.

No interference of religious dogmas

Differentiated administrative structures are established across the islands. Mauritius has developed into a well-organized and internationally respected polity with a capable administration. The island of Rodrigues has now interior/regional autonomy, with its own legislature and government dealing with domestic, social, economic/budget and cultural affairs. However, Mauritius' navy has difficulties in controlling the country's vast maritime exclusive economic zone, which comprises a large section of the Indian Ocean from the Chagos Archipelago to the extreme south (former British Indian Ocean Territory).

Basic administration

2 | Political Participation

In Mauritius, national and local elections are regularly held based on rules prescribed by law. The legitimacy of these elections has never been in question. The country has a stable parliamentary democracy based on a liberal constitution, and which operates in keeping with the rules and procedures inherited from the colonial period in the form of the Westminster model. This invariably allows the island state to earn top marks in international rankings.

Free and fair elections

The majority-vote system which the country took from the British model can produce big swings in the composition of the parliament. A special electoral provision (largely considered undemocratic and unconstitutional) for “best losers” gives representation to minorities in the National Assembly by reserving eight seats for candidates who, although having lost by majority rules, nevertheless win a sufficiently high percentage of the vote to qualify under this clause. Electoral reforms have been debated in parliament and in the media, with a focus on adding a degree of proportionality and public funding of political parties to the system. But the reform drive ultimately stalled. The last parliamentary elections, which took place in July 2005, indicated how strongly the majority system reacts to small changes in voting. An alliance between the Mauritius Labor Party and several smaller parties won 38 seats, while the coalition between the Mauritius Socialist Movement (MSM) and Mauritius Militant Movement (MMM) was defeated, receiving 22 seats. The ratio of votes between the two blocks was 1:1.14; the distribution in seats is 1:1.72.

Elected governments have the effective power to govern, and the opposition sticks to parliamentary rules. Both government and parliament accept their respective roles as part of the political system. The president of the republic was unanimously reelected by parliament in 2008. Prime Minister Ramgoolam reorganized his government in 2008, a move accepted by the majority of his party. Parliamentary commissions and committees are strong and relatively effective in controlling the government. Due to a strong societal commitment to consensus, important decisions (e.g., sugar industry reform) are prepared extensively in tripartite working groups consisting of government, business and labor representatives.

Effective power to govern

However, democratic institutions have not succeeded in breaking up the veto power of the old propertied white oligarchy or in bringing it under democratic control. Democracy, a cornerstone of Mauritian national identity, ends on the sugar cane plantation, at the bank and at the factory gate. Under the surface of ethnic and cultural pluralism, the economic dominance of the Franco-Mauritian upper class is still effective.

Constitutionally as well as factually there exists a broad spectrum of associations. Political parties and trade unions are free to organize. Civil society exerts its rights. A great number of associations structure the society's cultural life on ethnic, local or religious lines. Given the Hindu and caste origin of the immigrant majority, benevolent and sponsorship activities based on cultural, ethnic or religious grounds are widespread. This may undermine the secular character of the republic to the extent that the political leadership associates itself with individual cultural, ethnic or religious initiatives. Political parties, trade unions and civil society organizations frequently hold meetings and express themselves openly in public, thus contributing to the atmosphere of a vibrant modern democracy

Association /
assembly rights

Liberty of expression is a matter of fact. A pluralist range of media organizations are permitted to articulate public opinion. Television is government owned, and the mass media is partly subject to political patronage, which dominates public debate to a considerable degree. Daily and weekly newspapers provide media pluralism; they depend economically, however, on government and company advertising campaigns. This exerts an implicit pressure on journalists in their editorial work. Independent FM radio stations enlarge the spectrum of freedom of speech. Mauritius is ranked relatively high with respect to press freedom by Reporters without Frontiers (ranking 34 out of 167 since 2005), with no incidents of censorship reported in 2007 or 2008.

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 oversight control on the government. Frequent "private question notes" make government actions subject to vibrant parliamentary debate; however, the government's administrative apparatus gives the executive some preponderance of resources as compared to the legislature.

Separation of
powers

The judiciary is an independent third power, headed by a Supreme Court. However, there have been cases in which verdicts have seemed to be more opportunistic than founded in the law as such. On the one hand, procedural details impede objectivity and the rule of law when the social status of the person under trial is taken into account. On the other hand, the judiciary seems to be beyond technical and procedural control, as someone without protection can be held in custody without charge or trial. Observers express occasionally substantial doubts concerning the quality of the rule of law.

Independent
judiciary

Misuse of power by office holders is penalized by law and in principle, yet individual cases seem to offer considerable room to escape serious ramifications. Some ministers have resigned due to corruption charges and even convictions. An Independent Commission against Corruption (ICAC) was established in 2002, but personnel difficulties and parliamentary feedback have produced too much political interference to let the body be really effective. International assessments indicate that corruption continues to be a serious problem. The national Human Rights Commission has repeatedly criticized the brutality of the police force, particularly when cases have an ethnic aspect, and procedure degenerates into some sort of “ethno-corruption.”

Prosecution of
office abuse

The office of Ombudsman is entrusted with the task of protecting civil rights, and a consumer protection organization is tasked with protecting other citizen rights. The Mo Ibrahim Foundation’s Index of African Governance put Mauritius first in its 2008 ranking (out of a total of 48 African states), for a second consecutive year, with regard to participation and respect of human rights.

Civil rights

4 | Stability of Democratic Institutions

Since independence, Mauritius’ political institutions have proven to perform effectively and to be surprisingly stable. Not only have they survived frequent domestic government crises, but also lasted through the dismantling of Western constitutional models that took place on the African mainland in the 1970s. During the same period, the political system has also proven capable of managing a process of profound structural economic change. The recent shift of leadership, with turnover in the offices of the president and the prime minister in late September and early October 2003, is an indication of “change within stability.” The process brought Paul Bérenger, the charismatic organizer of the former social-revolutionary MMM into the office of prime minister; it was the first time that the country has been led by a non-Hindu and member of the Franco-Mauritian minority. In July 2005, a Hindu was voted back into power: Navinchandra Ramgoolam, son of the founding father of the state, Seewoosagar Ramgoolam. Anorood Jugnauth was reelected by parliament as president of the republic for a second term in September 2008.

Performance of
democratic
institutions

Practically all political actors accept democratic rule. No political grouping or leadership has a dictatorial or autocratic objective in its program. There are no security forces with autocratic ambitions in Mauritius. Some doubts have been expressed about the constitutionality of the radical Muslim Hezbollah, which enjoys some electoral support in the capital city of Port Louis, where it is part of the municipal council. However, the group offered no obvious threat during the current assessment period.

Commitment to
democratic
institutions

5 | Political and Social Integration

The post-independence period saw the development of a relatively stable party system consisting of three parties, each led in part by charismatic figures, who typically pursued a pragmatic approach conducive to learning and change. Each of these, including Labor, the MMM and the MSM, began with socialist, social-democratic or social-revolutionary leanings, but ultimately ruled the country in a pragmatic, and at times innovative way. The party system can be said to have effectively achieved a high level of articulation and aggregation. The main losers include the Creole and Muslim minorities, who have insufficient access to education and training, and are exposed to racial discrimination by the country's administration and the private sector, both of which are dominated by the Hindu majority. This has persisted even though members of these minority groups, Cassam Uteem and Carl Offmann, have twice held the office of president. After the ethnic riots in 1999, some observers saw the Islamist Hezbollah Party (with its political stronghold in the municipality of Port Louis) and the Republican Party as a potential organizational core of violent revolt. But democratic procedures remained stable. When the MSM/MMM government was finally considered by the people to be too technocrat and "arrogant" despite its education program and a National Action Plan for Poverty Alleviation, Labor was voted back into power in 2005.

Party system

Interest groups representing both business and labor exist. Trade unions associated with the struggle for independence were widely respected in the early post-independence period (at least politically). However, they have recently lost ground due to structural change in society and internal fragmentation. In addition, the trade union movement is highly fragmented into 300 trade unions of different size and representation.

Interest groups

Interests on the capital side are treated more or less informally within the 12 leading families/clans who were Mauritius' stockholders some 150 years ago.

According to various surveys, consent to democracy is high in Mauritius. The overwhelming majority of the population clearly adheres to democratic values and institutions. In addition to the survey data, the high turnout in elections reflects strong support for democracy. The turnout rate in the 2005 elections in Mauritius was about 80%.

Consent to democratic norms

A strong cooperative movement developed in the early post-independence period, sponsored by the Labor Party and trade unions. At various times, this included thrift societies, housing groups, consumer cooperatives and cooperative banks. Structural economic and social change (individualization and welfare) have contributed to a decline in these initiatives. Today, a certain experience with self-help exists, and a government-sponsored home ownership program has somewhat countered the

Associational activities

growing levels of social disparity, while contributing to the formation of social capital. The National Action Plan for Poverty Alleviation and Vulnerable Groups is a comprehensive reform program designed to promote the social integration of poor population groups (with participation by private individuals, civic groups and government). However, self-help initiatives seem more deeply rooted in religion and ethno-cultural beliefs than in civic or secular concerns.

II. Market Economy

6 | Level of Socioeconomic Development

In 2008, Mauritius had a per capita GDP of \$11,000 (using 2007 data), putting it in the category of middle income countries. Since independence it has experienced a roughly 15-fold increase in wealth, thanks above all to 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 and Singapore. The tourism industry is dominated by a chain of some 120 luxury hotels and tourism resorts along the coast. The country's political and economic leadership has made skillful use of the preferential tariffs granted under the Lomé Agreement with the European Union; to a lesser extent, this is also true of opportunities provided by the United States' African Growth and Opportunity Act (AGOA), and by exploitation of the island's potential for attracting high-end tourism. Mauritius is ranked 74th in the UNDP's Human Development Index (HDI), placing it far ahead of all other African countries. The situation is the same for the Life Expectancy Index, the Education Index and the Human Poverty Index. Only 11% of Mauritius' population is classified as poor, living 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, and above all the Creoles. On the whole, the dualistic structure of the economy and of the employment market has been reduced. The informal sector is secondary both from a statistical perspective and in actual importance. For example, informal employment for women represents only about 6% of women's non-agricultural employment according to the UNDP Human Development Report 2008.

Socioeconomic
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	6064.3	6289.6	6433.1	6786.5
Growth of GDP	%	4.7	4.6	3.6	4.7
Inflation (CPI)	%	4.8	4.9	8.9	8.8
Unemployment	%	8.4	9.6	9.1	8.5
Foreign direct investment	% of GDP	0.2	0.7	1.6	5.0
Export growth	%	-2.1	5.1	8.0	4.7
Import growth	%	-0.2	4.6	9.1	5.9
Current account balance	\$ mn.	-111.8	-324.0	-604.4	-433.9
Public debt	\$ mn.	853.8	723.5	585.5	572.3
External debt	\$ mn.	2289.0	3124.9	2624.1	4252.5
Total debt service	% of GNI	4.3	4.9	4.8	3.7
Cash surplus or deficit	% of GDP	-3.1	-2.1	-3.0	-2.3
Tax Revenue	% of GDP	17.7	18.1	18.2	17.6
Government consumption	% of GDP	14.2	14.4	14.5	13.7
Public expnd. on edu.	% of GDP	4.7	4.4	3.9	-
Public expnd. on health	% of GDP	2.4	2.2	2.0	-
R&D expenditure	% of GDP	0.4	0.4	-	-
Military expenditure	% of GDP	0.2	0.2	0.2	0.2

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | 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. State intervention influences the markets for raw materials, products and services. Strong regulation of industrial relations (labor laws) exists, alongside marked intervention by state or parastatal companies in markets such as energy, transport and the trade of basic products (flour, rice, edible oil, milk, etc). Mauritius's labor market is considered by observers such as the IMF to be overregulated, which hampers companies in their effectiveness and competitiveness. Labor legislation dates from the early 1970s and reflects strong interventionist thinking on the part of the government, and is strongly biased against strikes. The International Labor Organization (ILO) has called for a thorough overhaul of labor laws, so as to bring them in line with international conventions. During the assessment period, the government proposed a labor framework which was rejected by unions. Labor unions demanded that the right to strike be anchored in the constitution, rejecting the plebiscite called for by the government. For their part, business lobbies have voiced criticism of the central role played by the government in wage setting, calling for recognition of the principle of free collective bargaining.

Market-based
competition

Markets and free competition are limited by the actions of the oligarchic families who dominate major plantations, financial institutions, real estate, trade and telecommunications. The World Bank has called for improvements in corporate governance, noting that the country's larger corporations continue to be offshoots of the old sugar barons' holdings. On paper the companies are independent, but in practice are managed by the same families. During the period of assessment, the National Assembly adopted a competition bill (in December 2007) aimed at preventing monopolistic pricing and collusion in domestic consumer markets (referring to practices such as artificial constraint of supply by suppliers). At the end of 2008, a British expatriate was named executive director of the independent Competition Commission. There are few monopolies left, aside from Mauritius Telecom, Television MBC and the State Trading Corporation for selected staple food and essentials.

Anti-monopoly
policy

International trade is liberalized, although subject to considerable regulation and red tape. Corruption in customs is widespread. Mauritius' 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 member of the COMESA free trade zone for Eastern Africa, and of SADC for Southern Africa. The Labor government envisions turning the whole island into a customs- and excise-free zone as a long-term macroeconomic growth strategy,

Liberalization of
foreign trade

The banking system is characterized by a small number of banks (sometimes with dubious investors or overseas speculators as partners), dominated by the Mauritius Commercial Bank. Oversight of the offshore banking sector is said to have improved, earning positive mention in the OECD's money laundering watch list. Some 9000 offshore financial institutions provided services in areas such as fund management, international arbitrage and other capital market activities (with annual turnover of more than \$1 billion) in 2007 and 2008. The central bank has a supervisory function with respect to banks, but this has not impeded significant defaults and frauds, even in the dominant Mauritius Commercial Bank and in other institutions. Recently, India has attacked offshore privileges in Mauritius, with a Mauritius-based subsidiary (Lakeview) of the Indian Satyam Computer Services conglomerate suspected of being instrumental in a case of massive capital fraud.

Banking system

8 | Currency and Price Stability

The global trend of high energy prices in 2008, in combination with domestic effects (particularly capital inflow), have increased inflation rates to about 9% per annum. This prompted liquidity-absorbing measures and a temporary revaluation of the rupee by the central bank. However, in order to be competitive on the world market, particularly in attracting tourism, the rupee had been continuously depreciated in the preceding period. With a high public budget deficit for the 2008 – 2009 fiscal year, in combination with the current economic crisis, observers expect continuing pressure on the currency and on prices.

Anti-inflation /
forex policy

Mauritius was one of the first countries to undertake an IMF-led structural adjustment program in the 80s, leading to a general commitment toward macroeconomic stability by the government, the political elite and the central bank. But even if a culture of macroeconomic stability is part of everyone's discourse, the properties of a very small, fragile economy by global terms complicate the quest for stability. With the reduction of sugar preference prices and quotas by the European Union, the end of the Multi-Fiber Agreement and a high level of debt accumulated through past expansionary policies, the years to come will be characterized by a struggle to conserve macroeconomic stability. Inflation has been reduced in recent years to between 5% and 9% per year, and is closely monitored by the central bank. Reserves for imports are large enough to cover about six months of trade. Tourism, as an inconsistent industry that draws on foreign reserves to provide the industry's inputs, has considerable effects on the balance of payment figures. Growth, projected at 6.5% – 7% for the 2007 – 2008 fiscal year (ending in June), was broad-based but especially strong in tourism, banking and offshore financial institutions, construction, and services. Rising fiscal receipts and expenditure containment reduced the budget deficit, and public sector debt continued to decline (the overall budget deficit was 3%, with a primary budget surplus of 1.7% and accumulated

Macrostability

public debt reaching 59% of GDP). With exports (goods and services) totaling about 60% of GDP, Mauritius is highly dependent on a functioning and growing world economy. It is therefore evident that the current world credit, finance and economic crisis will have a strong impact on Mauritius' macroeconomic stability. The country's ability to maintain stability by its own means alone is very limited.

9 | Private Property

The constitution guarantees the protection of private property. In practices, this translates into a perpetuation of the high level of concentration of property in the hands of the former sugar barons, who also dominate the financial and real estate markets.

Property rights

The sugar barons have been the main beneficiaries of the privatization of state-owned enterprises, above all in the transportation and telecommunications sectors. In rankings of ease of doing business, Mauritius takes 24th place (out of 181 countries). According to the World Bank's Doing Business 2009, Mauritius offers a delay of only seven days for starting a business, one of the shortest such times in the world. Creation of companies has been simplified, and small-scale industries can win government support.

Private enterprise

10 | Welfare Regime

Thanks to its economic success, Mauritius has been able to build a well-developed welfare regime, a fact 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. The country's Education Index value is 0.81. Special welfare programs have been used to lower the country's rating on the Human Poverty Index value to 11.3%. HIV and AIDS are a problem, but not to the same extent as in the neighboring members of the SADC group of countries. However, within a single generation, the population's illness profile has changed from that of a poor country to one resembling an industrialized, Western nation: heart attacks, diabetes, kidney disease and cancer rates have risen rapidly in recent years, setting new challenges for the welfare and health system. Mauritius has developed all the signs of an aging society. Therefore, it is not clear whether the present stage of welfare can be preserved. The present pension scheme consists of the National Pension Fund, which is financed by employers and employees, and pays pensions based on the duration of employment. An additional tax-financed pension, for which every citizen over the age of 60 is eligible, is under revision. The basic guarantee of social security is the small family, consisting of parents and

Social safety nets

children. Three-generation households are also common, whereas extended family structures such as those often seen on the African continent are rather rare. Local agencies organized on an ethnic, religious or caste basis provide additional mutual aid or aspects of social security.

Equality of opportunity is in theory guaranteed by the constitution and the law, but the reality is different. Members of the Creole and Muslim minorities have difficulty reaching positions of leadership or prosperity. There are elements of exclusion facing these minorities in the system, often due to drug problems, relatively high school dropout rates and broken homes, but there is also a great deal of commitment in civil society and among religious communities to combat these issues. Approximately 20% of the paid labor force consists of women, who occupy generally a subordinate role in society. Only a limited number of women reach senior positions in the economy and administration (only 5% of the senior posts in the 100 top companies are women). The government passed a law in 1997 aimed at protecting women from domestic violence, the first country in the region to do so. However, women's status in practice represents a balance between legislation banning any discrimination in theory and the reality of cultural traditions held by the country's ethnic groups. Violence in families, marital disputes and rape all are frequent.

Equal opportunity

On the level of political representation the situation has improved, as 17 percent of parliamentary seats have been held by women since the 2005 election.

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 virtually without equal in Africa. Mauritius is practically the sole country in the ACP group of countries that has managed to diversify from a monocultural agriculture sector to a five-pillar economy, based on agriculture, industry, tourism, offshore finance and information technology. But the period of almost double-digit economic growth rates dates back about 20 years. During the assessment period, Mauritius had to deal with pressing effects of the worldwide economic crisis, at the same time as structural adjustments in its export-oriented textile and sugar industries were needed. Tourism is running up against capacity problems, particularly with regard to air transport. Strains associated with the world economy have been aggravated by rising prices for the import of energy and raw materials. During the 2007 – 2008 review period, the growth rate was about 5.4% (estimation for 2007) and the unemployment rate 8.8% (estimation for 2007), slightly below the critical mark of 10%. Some textile companies relocated their operations partly or entirely to China or to Madagascar, citing increasingly high wage costs as the reason. Some companies have decided to pursue a strategy of capital-intensive

Output strength

specialization in high-grade goods. The government has proposed a forward-looking strategy based on technological innovation and vertical integration from spinning mills to final product. At the same time, the process of structural change induced by the expiration of the EU-ACP Sugar Protocol has led to further challenges for the traditional backbone of the island's economy. The trend currently under way will lead to further concentration into larger production units, mechanization of production, and diversification of agricultural production. Sugar mills, which are rapidly declining in number, are now increasingly used to process sugar cane into exportable ethanol and molasses that can be used to generate power domestically, reducing the island's dependence on energy imports. This use of renewable energy makes sense both in terms of energy and climate policy. The government, sugar companies and labor unions have agreed on a Voluntary Retirement Scheme, which has been used to mitigate the social effects of mass layoffs on sugar cane plantations and in sugar mills, but implementation has been more painful than anticipated.

12 | Sustainability

Mauritius has great deficits as far as ecological sustainability is concerned. Its sugar cane monoculture largely decimated the island's forest cover, impoverishing 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 (while largely externalizing costs) was an overexploitation of natural resources. This undermined the country's supply of drinking water, polluted inshore waters, the lagoons and barrier reef, and created a waste problem that has yet to be sufficiently addressed. While the primary problem on Mauritius' main island is pollution of freshwater resources, Rodrigues Island faces difficulties of water scarcity and soil erosion. The government has declared environmental protection to be one of three priorities in its Economic Agenda for the New Millennium, supported by the World Bank and the European Union. 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 to generate power, above all molasses derived from sugar cane, Mauritius is providing a noticeable contribution to the reduction of carbon dioxide emissions, while simultaneously cutting back on costly energy imports.

Environmental
policy

Mauritius' education system provides all children with access to primary education and increasingly to secondary education. A large secondary education sector is provided by private organizations, including Christian churches, Hindu communities and Muslim foundations. This works against the principle of universality of education, and produces differentiation among the educated population. At the top, there is a tendency towards social selectivity. School reform

Education policy /
R&D

is under consideration, a topic that has proved controversial. Although university education is free in principle, entering university is strongly socially conditioned. The 2008 – 2009 budget provided supplementary funds in order to lower the entry barrier to education for the poorer sections of society. Expenditure on education is relatively high, at 3.9% of GDP (as of 2006). The low illiteracy rate (compared to other African countries) of 16% of the population over 15 years of age will thus continue to fall.

Transformation Management

I. Level of Difficulty

Mauritius' integration into the colonial economy left the island with a number of structural hurdles, including a sugar-cane monoculture that also shaped the island's social structure; an ethnic heterogeneity that burdened the country with considerable integration problems; and third, continued economic dominance of the former sugar landowners, who constitute an aristocracy of European descent and who were 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 food as well as energy, because 90% of its arable land is planted with sugar cane, and the country's agricultural base has diversified only slowly. 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 by means of export earnings. At the same time, the process of structural change poses major challenges to the country's human capital. When Mauritius gained its independence, the level of difficulties it faced was almost insurmountably high. The country was prone to fast population growth, leading to a "Malthusian equilibrium" without any prospects of improvement. After 40 years of transformation, the level of difficulties facing the country's leadership remains high due to the vulnerability of its external economic relations (in tourism, offshore banking, sugar and textiles), and to the small size of the country's economy. But compared to most African states, structural constraints are moderate.

Structural
constraints

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 been 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 the relocation of Hong Kong- and Taiwanese-owned textile companies to mainland China or to Madagascar, forced Mauritius to abandon its labor-intensive mass production model in favor of capital-intensive production of high-grade goods. One consequence of the expiration of the Multi-Fiber Agreement was an intensification of competition in export markets in Europe and North America. The expiration of the EU-ACP Sugar Protocol in 2007 has led to a downsizing of the sugar sector. These foreign-trade risks have been exacerbated by rising prices for imports of energy and raw materials.

Civil society initiatives in political, social, and cultural activities were brought with British colonialism to Mauritius. Hence, there is a moderately strong and socially embedded tradition of civil society. Unionism, cooperative societies and public participation represents one aspect of Mauritian society; however, a culture of administrative superiority and dominance characterizes another, which impedes social creativity. Furthermore, the fragmentation of trade unions and other civil society organizations impedes their political influence. A group of larger and established civil society organizations have federated in order to collectively voice their concerns and call for government support.

Civil society traditions

Despite Mauritius' economic success, which made it possible to finance an exceptional welfare regime by African standards, rising unemployment from the year 2000 to the present time has strained the welfare system, intensified social distribution conflicts and tensions between the island's ethnic groups. Thus, the Mauritian multicultural "rainbow society" remains fragile. The country's consensus-oriented corporatism, involving government, the business sector and fragmented labor unions is facing permanently new challenges, calling indeed for integrative leadership.

Conflict intensity

II. Management Performance

14 | Steering Capability

The Mauritius success story has proved one particular point that is important for all developing countries: policy decisions matter. The sugar island's starting conditions were extremely precarious. Political decisions set the course for a process of profound structural change, from dependence on a moribund sugar cane monoculture to successful and internationally competitive textile production in the Export Processing Zones, which were 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 and other trade partners, especially under the EU-ACP Sugar Protocol and the Lomé Agreement, the multilateral Multi-Fiber Agreement and the American Growth Opportunity Act (AGO). This defused the country's social conflicts and stabilized its parliamentary democracy.

Prioritization

However, a new set of priorities has become imperative. The extremely export-dependent island economy is now confronted by a different set of challenges: growing unemployment in its EPZs and its sugar sector, the expiration of the Multi-Fiber Agreement and the EU-ACP Sugar Protocol, and growing competition in export markets. According to the IMF, 12% of the country's GDP, 20% of its employment and 50% of its exports are in jeopardy.

Independently of parliamentary results and government composition (and despite the swing from the MSM/MMM to the Labor-led government), the country's leadership has shown its commitment to structural reforms. Although Labor came to office on a "social ticket" during the last election campaign, the pressure for structural reforms forced the Labor government on the whole to address these challenges too. In particular, Finance Minister Rama Sithanen stresses the importance of structural reforms. This might produce cleavages inside the governing bloc.

Mauritius pursues a course of active diplomacy aimed at securing market opportunities in negotiations with the European Union, the WTO, and the U.S. government. In terms of its implementation capability, Mauritius is far ahead of the poor political management typical of most other African countries. In order to secure its access to the European market, Mauritius signed an interim economic partnership agreement with the European Commission as a part of the Cotonou Treaty complex. However, the economic and political question of whether the principle of non-differential market access for qualitatively different economic partners would work has not yet been settled.

Implementation

Mauritius' leadership is highly flexible, possibly even to the point of appearing as hypocrisy. It is a philosophical question as to whether leadership and people learn from past errors individually or collectively. There is no question as to whether Mauritian people are able to learn; the important question is rather whether the process of globalization is sufficiently flexible in terms of economic theory and political practicability to provide adequate answers to highly fragile, vulnerable and small economies such as this one. The government did not simply bemoan the results of globalization; it designed an "adjustment plan" with the following components:

Policy learning

- Downsizing the sugar sector quantitatively, and modernizing qualitatively (mechanization, diversification, generate power, producing chemical derivatives);
- Modernizing textile production (specializing in high-grade products, vertical integration);

- Further developing the service sector, with particular reference to tourism (implementing an open-sky policy sky, charter flights), financial transactions and information technology;
- Improving infrastructure, mainly by developing an effective transportation and communications system;
- Promoting sustainable growth without further damaging the environment; and
- Reforming education and investing in training.

15 | Resource Efficiency

Mauritius has used its limited financial and personnel resources efficiently. Bilingual, well-trained public service personnel, managers and technicians have been able to run the country, and have increasingly contributed to regional integration and globalization by means of international delegations and consultative work. International funding has been used efficiently and wisely. Preferential trade arrangements with the European Union (through the Lomé Treaty, quotas and preferential prices for sugar) have been utilized properly and have led – unusually among ACP countries – to a diversification of the economic structure rather than to a consolidation of the old inherited monocultural structures. With the Cotonou Agreement, the government has pushed for further modernization in the sugar industry, including a reduction in surface area, reduction in the number refineries, and diversification in final output into sugar-related chemistry and bio-fuels. Mauritius efficiently used the instruments and incentives of the United States’ African Growth Opportunities Agreement (AGOA) in the textile industry. Public service is well established and respected; occasionally observers complain that pockets of communal or ethnic clientelism still exist in some government services, such as the police. Public mismanagement and waste of tax payers’ money is regularly reported in National Audit Office annual reports, with the aim of increasing transparency in government and administration, and improving efficiency.

Efficient use of assets

A culture of negotiation, compromise and adaptation contributes to the solution of corporatist conflicts. Three- or four-party negotiations are a typical pattern of coordination. Representatives from government, employers, trade unions and civil society discuss issues in public, in committee meetings and in plenary sessions in parliament. The prime minister’s office coordinates policies dealing with large domestic sectors such as social affairs or security. As Mauritius has no explicit development plans elaborated by a Ministry of Planning, policy coordination is outlined in the government program for the respective legislative period (the current program, “Putting People First,” was read by the president of the republic for the

Policy coordination

opening session of parliament, and covers the years 2005 – 2010). Sithanen's Finance Ministry is central to all short and medium-term budgetary coordination as he introduced, as suggested by IMF and World Bank, a multiyear budgeting procedure that includes forecasts, implementation and cost effectiveness oversight (Program Based Budgeting).

Although an Independent Commission against Corruption and an Economic Crime Office were established in 2000 – 2001, their effectiveness has been limited due to personnel problems and political interference. Weak leadership, political patronage and possibly professional deficits led to the suspension of Commissioner Indira Manrakhan in January 2009, as the parliament established a fact-finding mission reviewing an alleged plot against the chairman of Air Mauritius. Therefore, Mauritius still has a mediocre performance in international corruption rankings. In June 2006, Moody's Investors Service downgraded the country to the category Baa1. The World Bank has diagnosed substantial deficits in corporate governance, noting that major companies are intertwined affiliates of the old oligarchy, members of which also own and run the country's auditing agencies.

Anti-corruption
policy

16 | Consensus-Building

One of the aspects of Mauritius' success is that the political leadership of all parties has managed to convince the population to support a market-based development path. British "Fabian" labor philosophy and Indian political belief in negotiated compromise may be at the roots of this phenomenon. Even the trade union movement initially opted for an evolutionary approach of growing incomes, personal freedom, fringe benefits and welfare instead of systemic change. To be sure, Paul Bérenger's MMM pinned its hopes on socialist concepts derived from the May 68 revolution in Paris. Yet, Bérenger too was a trade union leader of Port Louis municipal workers. Seewoosagur Ramgoolam, the first prime minister of independent Mauritius, implemented law-and-order politics which convinced the Hindu majority to remain committed to evolutionary change by democratic means. The political benefits achieved through the success of the country's Economic Processing Zones reconciled the goals of democracy and a market-economic system.

Consensus on goals

After the collapse of the Socialist bloc, there is little political argument for changing systems. Latin American Third-Worldism à la Hugo Chavez has little attraction in Mauritius. The Hezbollah opposition unrest on Islamic grounds and the Creole minority's uneasiness with development has no ideological content aimed at systemic change. At any rate, given a turnout of 81.5% of voters at the last general elections in July 2005, it appears that there is practically no sign of "democracy defection" in Mauritius.

Anti-democratic
veto actors

All major political parties – the Mauritius Labor Party, which ruled the country for many years and again since July 2005; the Mauritius Militant Movement (MMM); and the Mauritius Socialist Movement (MSM) – have managed to harness economic successes and develop a welfare regime relatively unique to Africa. This has resulted in the reduction of latent, sometimes virulent ethnic tensions.

Cleavage /
conflict
management

One aspect characteristic of the country's political decision-making process is that governing parties, the business sector, labor unions and civil society actors all are involved in working multiparty consultations. Without consensus, if necessary supported by external international advice, no reform is practicable in Mauritius: neither a reform of the labor laws, of the sugar sector nor of the banking sector. Consultation processes between political figures, the business community and interest organizations regularly take place ahead of important reform projects, and are aimed at mitigating conflicts and improving social cohesion in this ethnically and culturally heterogeneous society.

The political leadership groups have promoted the participation of civil society in the process of shaping public opinion and translating it into political decisions. In the context of the New Partnership for Africa's Development (NEPAD) process (African Peer Review Mechanism, APRM), which evaluates and monitors democracy and civil society participation, the government has created the National Economic and Social Council (NESC), which provides for equal representation of government, industry, labor unions and civil society. The group was criticized when formed, however, and the results of its work are so far meager. While civil society groups are much appreciated by the government in social activities such as fighting HIV/AIDS and drugs, consumer protection and integration initiatives (youth drop-outs), their influence on policy formulation is limited.

Civil society
participation

The discussions on compensation payments for slavery to selected groups of Creole people led parliament in 2008 to establish a Truth and Justice Commission in order to examine the country's history of slavery and forced labor, and to consider possible reparations. Internationally, the issue of the Chagos refugees (people who were evicted from the British Indian Ocean Territory of the Chagos Archipelago – mainly Diego Garcia – when the United States took over in 1971 in order to establish an air base) has not yet been settled between Mauritius, Great Britain and the United States.

Reconciliation

17 | International Cooperation

The Mauritian leadership has made extremely good use of technical and financial cooperation with bilateral and multilateral development agencies. Mauritius is among the only countries in the ACP group to have successfully implemented Europe's Stabex payments (a compensatory financing facility for Europe's trade partners) within the Lomé Convention in order to diversify its economy. The country has now 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 sought alternative investments and "safe havens" ahead of the transfer to mainland China. Since independence, the World Bank has supported the process of macroeconomic structural change and administrative modernization by providing roughly three dozen loans, most recently including 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 reduction programs, and the African Development Bank's education programs. Great Britain, France, the United States and Japan have provided support for individual physical and social infrastructure projects. But the most important factor was the developmental paradigm of "trade, not aid." The trade preferences granted by the European Union within the framework of the Lomé and later the Cotonou Agreement, the EU-ACP Sugar Protocol, and by the United States through its AGOA all allowed agriculture and industry to grow on a commercial basis. World Bank evaluation reports have confirmed that the financial and advisory services provided by foreign partners have been used efficiently.

Effective use of support

Mauritius government has a solid record of credibility, allowing the country to attract investments from established industrial countries and from newly industrialized countries such as China, India and South Africa. 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 has signed all international treaties with respect to industrial and commercial properties and impedes brand piracy on its territory. It cooperates with the World Bank and the OECD with respect to money laundering, financial terrorism and international tax evasion.

Credibility

The government headed by Paul Bérenger (2003 – 2005) improved relations with Madagascar, which is closely interlinked with Mauritius' textile industry (through outsourcing investments). Bérenger and Ramgoolam have since sought closer political and economic cooperation with India, the land of origin of Mauritius' Hindu majority. India has provided massive support in building up the country's information technology sector, and has provided several credit lines for private-sector Indian investments in Mauritius and for Indo-Mauritian joint ventures on the African mainland.

Regional
cooperation

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 Indian Ocean Commission (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 group of countries' negotiations at the WTO, and it has played an important role in negotiations with the European Union and the United States. This solid international reputation also found expression in its election to the U.N. Security Council. In 2004 – 2005, Mauritius assumed the presidency of SADC. The former minister for foreign affairs and international trade, Jaya Cutteree, was proposed (but not ultimately selected) as a candidate to chair the WTO organization. While serving, 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 to be signed in 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 for the whole of Africa.

Strategic Outlook

It has repeatedly been underscored that Mauritius' export-dependent island economy will permanently face major challenges in the highly volatile global economy. This situation is unlikely to change in the future.

The ability of the country's political and economic leadership to respond creatively was the key to the "Mauritian miracle," which has brought the country relative prosperity and preserved political stability. This leadership ability will be the main asset in the future as the country faces globalization. Though Mauritius has benefited in the past by globalization, it must permanently adjust in order to master this new, dynamic environment. The Economic Agenda for the New Millennium is seen by World Bank and the IMF as the road map for continuous transformation. The broad agenda items include:

- improving the competitiveness of the Mauritian private sector;
- investment in people and society;
- preserving Mauritius' fragile environment; and
- improvement in economic management.

Mauritius' government has repeatedly declared its intention to make the country a "high tech, high-income service and knowledge-based economy." In 2009, it is evident that under present conditions this will be a permanent task of adjustment, including:

- focusing textile production in the EPZs on high-grade goods as a means of remaining competitive against low-price products from India, Bangladesh and China;
- restructuring and diversifying the sugar sector, which lost protection under the EU-ACP Sugar Protocol in 2007;
- further developing information technology and financial services;
- training the human capital needed to master this process of structural change, and creating an adequate infrastructure;
- further efforts at reducing poverty so as not to endanger political stability and social peace in this ethnically heterogeneous society;
- promoting a sustainable growth that does not further threaten the integrity of this fragile environment, which has already been seriously degraded.

Thanks to Mauritius' proven management capabilities and its achievements in the process of transformation, international development agencies including the IMF and the World Bank see reasonable prospects of reaching these goals. The country's political leadership is making use of international cooperation to acquire investment capital and gain influence in international negotiation processes, because the country is completely reliant and dependent on favorable terms of trade. What Mauritius needs is not aid but export opportunities, investors and tourists; given these, its leadership, economy and society have proven capable of providing the endogenous conditions for success.