Mauritius

key figures
- Land area, thousands of km$^2$ 2
- Population, thousands (2005) 1 245
- GDP per capita, $ PPP valuation (2005) 13 542
- Life expectancy (2000-2005) 72.1
- Illiteracy rate (2005) 13.6

Mauritius

All tables and graphs in this section are available in Excel format at:
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Mauritius has one of the highest standards of living in Africa. It enjoyed sustained growth of more than 6 per cent in the 1990s and reached GDP per capita of $11,287 (in PPP terms) in 2003. The traditional engines of growth in Mauritius have been sugar, textiles, and tourism. More recently, Mauritius has diversified into financial services and information and computer technologies (ICT). Mauritius has one of the most competitive economies, ranked first in Africa, and 23rd worldwide for its business activity facility. Mauritius is now a middle-income country as a result of good economic performance, and ranks 65th in the world and second in Africa (after the Seychelles) on the 2005 Human Development Index. The economic track record of Mauritius is the product of its sound institutions, good level of human capital and preferential access to the European Union (EU) market for its key exports.

However, since 2000, Mauritius has faced new challenges and its economic performance has suffered, resulting from its loss of preferential access to the EU sugar and textile markets. In the textile sector, Mauritius is facing increased competition from cheaper Chinese and other East Asian country exports. These new constraints mean there is an urgent need to diversify the Mauritian economy. The persistent budget deficits must be reduced. Moreover, labour market and education reforms are prerequisites for absorbing the unemployed.

The end of preferential treatment and a high budget deficit threaten the economy.

Recent Economic Developments

While the annual growth rate was on average above 6 per cent at the end of the 1990s, it has fallen to a much lower level since 2000. Performance for 2005 is expected to be even lower at 3.1 per cent, 1.7 percentage points lower than in 2004. Indeed GDP grew by only 0.7 per cent in the first quarter of 2005, as compared to 6.6 and 3.5 per cent in the first quarters of 2003 and 2004. Excluding sugar, the 2005 growth rate is expected to reach 3.6 per cent, compared to 4.2 per cent in 2004. The lower than expected growth rate is
due to the poorer performance of the four main economic sectors. First, sugar production in 2005 is expected to be around 520 000 tonnes, instead of 550 000 tonnes, because of the excessive rainfall in September 2005. While the area under sugar cultivation has been falling between 2001 (73 196 hectares) and 2005 (68 883 hectares), sugar yield has also fallen from 79 to 72 tonnes per hectare over the same period. Second, the export processing zone (EPZ) has contracted by 13 per cent due to the end of the textile trade quotas in January 2005, coupled with competition from low-cost textile producing countries. Third, the construction sector contracted by 3.7 per cent in 2005, mainly because of delays in or the non-execution of several projects. Fourth, the non-EPZ manufacturing sector grew by only 2.5 per cent as a result of increased competition from imported goods faced by these domestic-oriented manufacturing industries.

Recent poor economic performance has meant that the unemployment situation and public finances have deteriorated. Unemployment has risen steadily since 2000 to peak at around 10 per cent in 2005. The reasons for this lacklustre performance are, as has already been noted, the changes in the EU Sugar Protocol and increased competition on the international textile market.

Sugar has always been the main pillar of the Mauritian economy, enjoying preferential EU market access. Under the EU Sugar Protocol, ACP countries export 1.6 million tonnes of sugar to the EU at a price which is usually two or three times world market prices. The current price paid to ACP producers is 632 euros per tonne. Mauritius is the ACP country that benefits the most from the Sugar Protocol, accounting for one third of the total quota. Exports to the EU account for more than 90 per cent of the sugar cane production of Mauritius.

Following a WTO ruling, the EU had to reduce the ACP-guaranteed sugar price. The guaranteed price will gradually be lowered between 2006-2009 by 36 per cent (instead of the worst-case scenario of a 39 per cent cut) to 400 euros. The price of sugar will fall by 5 per cent in 2006, representing lower export earnings of 500 million rupees for Mauritius. There will be a further reduction of 17 per cent in 2008, i.e. an additional loss of 1.8 billion rupees, and finally, the full price cut will come into effect in 2009. This cut would translate into lower earnings of approximately 4 billion rupees.

Mauritian sugar producers will find it difficult to compete on the international market because their production costs are much higher than the world market price. In fact their cost of production is twice that of the most efficient ACP suppliers, and even higher when compared to Brazilian prices. To tackle the anticipated fall in the guaranteed sugar price, the sugar industry and the government have taken some measures to adapt to the new situation. A 5-year Sugar Sector Strategic Plan (2001-05) was implemented to restructure and rationalise the sugar industry. The goal was to decrease the number of sugar mills from 14 to 7 or 8, so as to benefit from any increasing returns to scale, to reduce by up to 7 000 the current labour force of 30 000 through a voluntary retirement scheme, as well as proposing a number of other cost-reducing and diversification measures.

In an effort to diversify away from sugar, the government has planned a number of Integrated Resort Schemes (IRS) offering luxury villa complexes for sale to foreigners at a price exceeding half a million dollars. Villas sold under the scheme form part of international-standard building complexes offering high-class facilities and amenities such as golf courses, marinas and individual swimming pools, nautical and other sports facilities, health and beauty centres and high-quality restaurants. The acquisition of a villa under the IRS will grant resident status to the investor and their spouse and dependents.

The government is also offering incentives to encourage the transformation of Mauritius into a seafood-producing hub, with the expectation that 2 000 new jobs will be created in this sector by 2008. The Mauritius Freeport Development Corporation is expected to invest 300 million rupees in the construction of a fishing harbour which should come into operation in March 2006. A number of private companies are also
increasing their investment in the sector, especially in tuna fishing and canning.

Unfortunately, these reforms have so far been too slow and have yet to produce significant gains in employment or competitiveness. For example, 11 sugar mills - instead of the planned 8 - were still operating in 2005. Both the sugar sector and the government were under the impression that EU-guaranteed sugar demand would not be drastically reduced, or, if this were the case, that Mauritius would benefit from sufficient monetary compensation and a long transition period before the lower price came into force. However, this did not happen and the EU has reduced its price. It is now expected that one third of all employees in the sugar sector will be made redundant.

Figure 2 - GDP by Sector in 2004 (percentage)

Source: Authors' estimates based on Central Statistical Office data.

Figure 3 - Sectoral Contribution to GDP Growth in 2004 (percentage)

Source: Authors' estimates based on Central Statistical Office data.
Drastic adjustments in the sugar sector are needed. At the end of 2005, there were indications that two sugar cane mills located in the south of the island (Mon-Trésor/Mon Désert and Riche-en-Eau) will close in 2007. Mauritian sugar cane producers have started to invest in Mozambique and Tanzania where the costs of land and production are lower than in Mauritius. In addition to potential sugar mill mergers and voluntary retirement schemes, sugar can also be used to manufacture other products that are in greater demand on the market. Other higher value-added types of sugar product yielding a higher export price have already been exported to niche European markets. However this, as yet small, volume cannot adequately compensate for the expected loss in raw sugar revenue. Another of these types of products is ethanol, which can be blended with gasoline to create a cheaper fuel that could reduce the energy bill of many oil-importing countries. It is estimated that some 30 million litres of ethanol could be manufactured for use in blended gasoline products. Some initiatives have already been taken in Mauritius to produce ethanol for this purpose. However, the benefits of these will only appear in the long run. For now, higher unemployment caused by the downsizing of the sugar sector remains the challenge to be overcome.


Mauritius was able to diversify out of sugar by attracting investors into the Export Processing Zone (EPZ), especially in the textile sector. The manufacturing boom has largely been responsible for this economic turnaround. Incentives in the form of tax holidays, exemptions from import duties and from some aspects of the regulatory regime, as well as preferential credit, were provided to foreign and domestic investors who would specialise exclusively in exporting. The volume of EPZ activity expanded rapidly, benefiting from high profits recycled from the sugar industry and from trading arrangements and protectionist EU and US policies which placed textile quota restrictions on some countries while allowing free entry to others.

However, the EPZ, especially the textile sector, is now at a turning point. Restrictions mandated by the EU and the United States are inhibiting its survival. The GATT has eroded preferential access to these markets for Mauritius and rising labour costs are threatening to reduce international competitiveness. EU proposals to cut import duties on textile and clothing by half will also have severe negative consequences. The Mauritian textile sector would be severely affected because most (80 per cent) textile products (sweaters, tee-shirts, trousers) are not in the high-quality category and also face stiff competition from Chinese, Indian or Bangladeshi producers. Cheap textile products from China and other South East Asian countries are now reaching US and EU markets at much lower prices than those made in Mauritius. Moreover, most Hong Kong investors moved elsewhere after the ending of the favourable tax regime. Some estimates point to a loss

<table>
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<th>Table 1 - Demand Composition (percentage of GDP)</th>
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<tr>
<td><strong>Gross capital formation</strong></td>
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<td><strong>External sector</strong></td>
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<td>Imports</td>
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Source: National Statistics Office data; estimates (e) and projections (p) based on authors’ calculations.
of 22 000 jobs in the EPZ. Investors have started responding to this situation by looking for new markets, by delocalising production to lower-cost economies, and by recycling profits in the services and financial sectors. Reflecting these developments, textile production fell in 2005 and is expected to continue contracting in 2006 and 2007.

Tourism has been the second engine of economic development in Mauritius since the early 1980s. The government took advantage of its tropical island appeal, beautiful beaches, security and absence of tropical diseases to promote Mauritius as an exclusive destination. Tourism is still very much a growth industry in Mauritius. Indeed, foreign earnings from tourism now exceed earnings from sugar.

In spite of the lackluster performance of world tourism markets in general, Mauritius has performed quite well. The number of tourist arrivals during January-September 2005 reached nearly 530 000 compared to 503 300 for the same period last year. This is an encouraging sign given that the peak tourist season for Mauritius occurs during the last three months of the year. Thus, it is expected that 755 000 tourists will have visited Mauritius in 2005 compared to 718 861 in 2004.

Gross foreign earnings from tourism amounted to 23.5 billion rupees in 2004. The first semester receipts for 2005 are 5 per cent higher in rupee terms compared to the first semester of 2004. Finally, the number of employees in large hotels has increased by 12 per cent between March 2004-2005. Good performance in the Mauritian tourism sector can partly be attributed to the perception that Mauritius is a secure destination and to the promotion efforts made by the Mauritius Tourism Promotion Authority (MTPA) in Europe and India. Moreover, emerging markets such as Austria, Spain and Australia are rapidly growing.

Much hope is being placed on the tourism sector to help Mauritius overcome its looming economic crisis. An additional 3 000 rooms are expected to be ready by 2006 with the opening of five new hotels representing an investment of 4 billion rupees. These investments are expected to create 1 400 new jobs. Projects are being developed in line with the concepts of the Integrated Resorts Scheme (IRS) and also green tourism. The IRS was introduced in the 2002/03 budget, with the hope of boosting foreign direct investment in the tourism sector. It promotes the construction of luxury villas with golf courses and hotels. Villa prices start at $500 000, which is the minimum investment threshold necessary for a foreigner to qualify for Mauritian citizenship.

The government is still targeting the upper end of the tourism market, which is high-spending and low-impact. However, given the recent trends in the world tourism industry, this strategy does not seem to be widely accepted. In order to fully exploit other avenues for the development of tourism, new air landing rights have been the subject of recent discussions both at government and at private sector levels. One of the strategies is to gradually open air access and promote Mauritius for leisure, business and shopping. The present government is in favour of a gradual liberalisation policy regarding air access. In fact, air access has already been granted for a second French and Indian air carrier to land in Mauritius. Discussions are also ongoing for a second carrier from the UK. Other European carriers are also trying to lobby for the same advantages. The idea is to allow airlines to make additional flights during peak seasons.

The government is also looking at opening up new direct routes for the national carrier to destinations such as China and Spain. However, faced with already well-developed destinations offering the same product, such as Dubai and Singapore, the government and private sector operators need actively to be exploring more innovative concepts. Given the problems in other areas of the economy, tourism could partly contribute either directly or indirectly to reduction of the unemployment problem and could also generate economic growth.

The savings rate is expected to fall to 18.3 per cent in 2005 from 22.7 per cent in 2004. This gives cause for concern because most GDP growth in the past has
been fuelled by domestic investment. Public sector investment share of GDP is forecast to stay constant in 2005. Private investment share is expected to increase and reach nearly 20 per cent by 2007.

Strong emphasis is being placed on information and communication technology (ICT) as an important engine of economic growth in Mauritius. However, there are still many hurdles to overcome. One of the star performers in ICT in Africa, Mauritius had 180,000 Internet users in September 2005, providing the highest Internet penetration rate (14.2 per cent) in Africa, along with 267 mobile phone users per 1,000 inhabitants in 2003, also the highest penetration rate for this sector in Africa. The liberalisation of telecommunications services since 1 January 2003 has given a major impetus to the ICT sector.

Mauritius has the capacity for broadband Internet access. The Southern Africa Far East (SAFE) optical fibre cable links Portugal to Malaysia via South Africa and Mauritius. The first cyber-city which opened in Ebène in 2004 has attracted a number of renowned international firms engaged in software development, ICT training, PC manufacturing and call centres. It currently has an almost full occupancy rate. The Ebène cyber-city provides a telecommunications network, through both satellite and the SAFE optical fibre cable. However, the lack of skilled individuals is a major constraint in the implementation of ICT strategy. Infosys, a leading Indian IT company now operating in Mauritius, must send Mauritians to India every year for training. However, a significant share of those students either do not graduate or find employment with other companies. One solution to this shortage of skilled labour is to further loosen immigration rules for highly-skilled individuals in the IT sector. Currently, Indian IT specialists are automatically granted a 6-month work visa upon entry into Mauritius.

Another fundamental challenge to the use of SAFE as a development tool for Mauritius is the provision of competitive prices and services to the customers. However, exclusive ownership of the SAFE cable has been granted to Mauritius Telecom, which holds the existing monopoly. This means that Internet prices are much higher in Mauritius than elsewhere. For example, at the beginning of 2005, the price of SAFE between Reunion and Paris was 1,550 euros per megabit per month compared to $8,600 for the same service in Mauritius. Hence, it is urgent to address the human capital and connection costs constraints for Mauritius in order for it to fully reap the benefits of the ICT revolution.

Although Mauritius relies heavily on the exports of sugar, textiles/garments and tourism, services like the Freeport, offshore business, and financial services constitute other pillars of the economy. The offshore sector is playing an increasingly important role in the financial services sector and is emerging as a growth vehicle for the economy. At the end of October 2002, 20,111 companies were registered in the offshore sector. New regulation has been introduced to remove the distinction between offshore and local banks.

The Mauritius Freeport, the customs duty-free zone in the port and airport, aims to transform Mauritius into a major regional distribution, trans-shipment and marketing centre. The Freeport zone provides facilities for warehousing, trans-shipment operations and minor processing, simple assembly, and re-packaging. At the end of the fiscal year 2004/05, there were 349 licences active in the Freeport. One goal of the government of Mauritius is to use the Freeport to re-export to Asia and Africa. After handling 11,350 containers in 2003/04, that number fell to 9,225 in the fiscal year 2004/05. However, the traded value (in Mauritian rupees) has increased by 46 per cent over that same period.

The mixed picture of growth and decline in the various economic sectors has been associated with increased unemployment. This combined with inflationary pressures has weighed heavily on household incomes. Consequently, growth in private consumption slowed from 12 per cent in 2004 to 9 per cent in 2005 and is not expected to recover much in 2006 or 2007. Meanwhile growth in private investment slowed as well. Deterioration in the balance of payments on goods and non-factor services as expressed in constant prices has also depressed growth in 2005, while the stance of fiscal policy has been mildly expansionary. Thus, GDP growth is expected to decline from 4.3 per
cent in 2004 to 3.1 per cent in 2005 and to exhibit little recovery in 2006 and 2007.

Macroeconomic Policies

Fiscal Policy

There is a disconcerting trend of deterioration in fiscal deficits, which could approach the same level as they did in the crisis year of 1982. For 2004/05, a budget deficit of 5 per cent of GDP was announced. However, this deficit excludes 1.76 billion rupees in interest payments on T-Bills in that year, which were postponed to 2007/08. Moreover, the Road Development Authority also contracted a loan of 500 million rupees. Finally, the STC has incurred a deficit of 578 million rupees on petroleum and other products. If all this were taken into account, the overall current deficit would reach 6.2 per cent of GDP.

One of the problems for Mauritius is its narrow tax base. Indeed, direct taxes (on income and profits) have not accounted for more than 3 per cent of GDP over the past five years. Most of the government’s revenue has been from indirect taxes since the fiscal year 2000/01 and its share in GDP has constantly increased over that period. In the fiscal year 2004/05, indirect taxes accounted for 9.3 per cent of GDP. Interestingly, trade taxes have fallen from a high of more than 5.8 per cent in 1999/2000 to 4.2 per cent during the last three fiscal years. This reflects the fall in import duties in line with the GATT.

Transfers account for the largest share of government expenditure and have remained stable at around 39 per cent during the past ten years. Salaries and wages have accounted for approximately one third of government expenditure in the recent past. Interestingly, government investment has stagnated in nominal value during the past two years after having increased by 38 per cent in the fiscal years 2000/01 and 2002/03. Since then the cumulative increase has been lower than the inflation rate. This means that Mauritius is not investing enough in long-term growth-enhancing public projects.

The public finance situation is quite bleak; initial measures taken by the incoming government will not help reduce the budget deficit but will rather exacerbate it. In 2005 the new government quickly implemented two of its electoral promises, which will probably increase current expenditure in an ongoing way. The first promise was to grant free bus transportation to all pensioners (i.e. all those over 60) and students. While pensioners can use all buses for free, to travel anywhere, students enjoy free transportation between their places of residence and their schools. The free public transport programme is expected to cost approximately 600 million rupees per year. The subsidies are not paid to students, but to bus owners, who receive 11 000 rupees per day, per bus, irrespective of the number of students they actually transport.

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<th>Table 2 - Public Finances* (percentage of GDP)</th>
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<td><strong>1996/97</strong></td>
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<tr>
<td><strong>Total revenue and grants</strong></td>
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<td>Tax revenue</td>
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<td>Grants</td>
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<td><strong>Total expenditure and net lending</strong></td>
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<td>Current expenditure</td>
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<td>Excluding interest</td>
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<td>Salaries</td>
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<td>Interest</td>
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<td>Capital expenditure</td>
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<td><strong>Primary balance</strong></td>
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<td><strong>Overall balance</strong></td>
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Source: National Statistics Office data; estimates (e) and projections (p) based on authors’ calculations.
The second promise was to re-establish universal old-age pensions to all those aged over 60. The previous government changed old-age pensions criteria from being universal to means-tested, whereby all those with earnings above a specified threshold received no old-age pension. The new government reinstated universal pensions as soon as it assumed power.

As a result of its recurrent budget deficit, Mauritius has been resorting to increased public borrowing over the last five years and rolling over interest payments in the form of deferred Treasury notes. Public debt (and the interest servicing burdens this imposes) is now approaching levels where room for manoeuvre is highly constrained.

**Monetary Policy**

Mauritius has been able to achieve low and stable inflation after adopting inflation targeting. While inflation was approximately 6.7 per cent at the end of the 1990s, it only exceeded 6 per cent in 2002 and is estimated to have been at 5.1 per cent in 2005. This figure is higher than the inflation rate for 2004 because

| Table 3 - Current Account (percentage of GDP) |
|---|---|---|---|---|---|---|---|
| 1997 | 2002 | 2003 | 2004 | 2005(e) | 2006(p) | 2007(p) |
| Trade balance | -10.5 | -4.4 | -5.4 | -9.1 | -13.6 | -15.6 | -15.3 |
| Exports of goods (f.o.b.) | 40.1 | 37.7 | 33.9 | 31.6 | 28.1 | 26.3 | 25.9 |
| Imports of goods (f.o.b.) | -50.7 | -42.2 | -39.2 | -40.7 | -41.7 | -41.9 | -41.2 |
| Services | 5.7 | 7.5 | 6.7 | 6.8 | |
| Factor income | -0.4 | 0.3 | -0.5 | -0.2 | |
| Current transfers | 0.2 | 1.9 | 1.0 | 0.7 | |
| Current account balance | -5.1 | 5.2 | 1.8 | -1.8 | |

Source: National Statistics Office data; estimates (e) and projections (p) based on authors’ calculations.

| Figure 4 - Stock of Total External Debt (percentage of GNI) and Debt Service (percentage of exports of goods and services) |

Source: IMF and World Bank.
of the high price of oil. Interestingly, this relatively low and stable inflation rate has been achieved during a period of relatively high output growth.

**External Position**

At the end of the 1990s, Mauritius registered a balance of payments surplus leading to a comfortable external reserves position of more than nine months of imports, an external debt service ratio of only 7 per cent, and modest single-digit inflation on average. While the current account posted sizeable surpluses in past years, it is expected that Mauritius will post a negative trade balance of more than 20 billion rupees in 2005, i.e. more than double the amount for 2004. Moreover, the energy bill is constantly increasing because of the high price of oil. For the fiscal year 2004/05, the cost of petroleum imports has tripled compared with three years ago. For the coming year, it is expected that the value of oil imports will increase by 3 billion rupees. It is a matter for concern that petroleum currently accounts for 13 per cent of all imports.

Net foreign reserves were lower by 6 per cent in 2005 than in 2004. This occurred because the Bank of Mauritius repeatedly intervened by selling US dollars in order to manage the exchange rate. Indeed, the Mauritian rupee has depreciated by approximately 6.8 per cent in relation to the US dollar in 2005. The Bank of Mauritius rate was increased to 7.46 per cent in December, which is the highest rate since the end of 2003. The debt situation is also very worrying. Public debt was estimated at 120.4 billion rupees in 2005, which represents about 66 per cent of GDP. Such high public debt was one of the motivating factors for the ratings agency Moody to downgrade Mauritius.

**Structural Issues**

**Recent Developments**

While unemployment rates were below 3 per cent in the early 1990s, the labour market situation has since significantly worsened. The unemployment rate has increased continuously to reach 8.5 per cent in 2004. The upward unemployment trend is not expected to change soon and it is estimated that the unemployment rate in 2005 will peak at 9.5 per cent. The current unemployment rate is at the same level as rates observed in the mid-1980s when the Mauritian economy was in very poor shape.

A number of reasons lie behind this steady increase in the unemployment rate in Mauritius. First, the number of employees in the textile sector has declined, following the end of the tax exemption that was granted to Hong Kong investors. This decline has been compounded by the increase in the cost of labour in Mauritius. Between 2000 and 2004, average wages grew by 36 per cent outpacing inflation for the same period by 9 percentage points. The number of employees in the export processing zone, which has been the main engine of growth in Mauritius, is now (2005) at its lowest level since 1994.

Interestingly, Mauritius has been making intensive use of imported labour from China and India. The number of foreigners working in large establishments in Mauritius has been increasing continuously since 1990, when there were 1 000 foreigners working, to 2003 when there were 19 121. For the first time since 1990, the number of foreign workers in Mauritius fell to 18 062. This fall is partly due to the closure of a number of textile companies. Interestingly, since 1997 there are more female than male foreign workers in Mauritius. This is because of the demand for unskilled females to work in the textile sector. The second major employer of foreign workers is the construction sector.

This situation is quite paradoxical in light of the number of unemployed people in Mauritius. It indicates a mismatch between labour demand and labour supply that needs to be addressed in order to resolve the unemployment problem. It is true that employment in the export processing zone is low paid with very long working hours. Another interesting factor about the Mauritian labour market is the relatively high number of vacancies. The number of posted vacancies in establishments with more than 10 workers has doubled between 2002 and 2004 to reach 3 225 vacancies, about the same level as the peak reached in 2001.
Mauritius faces serious challenges in the coming years to find employment for low- or medium-skilled labour market participants. One positive element has been employment in the tourism sector. Between March 2004-2005, 2,559 jobs were created in large hotels and restaurants (i.e. those with more than 10 employees). In fact, tourism is the sector that has created the most employment over that period.

With regard to privatisation, very little has been done since 40 per cent of Mauritius Telecom was sold in 2000 to France Telecom. No major state-owned corporation has been sold. However, the government has taken some important steps to deregulate the telecoms sector. A major new player is scheduled to deliver phone services in 2006. Some steps have also been taken to integrate the private sector as a supplier of electricity. Hence, some 45 per cent of electrical power is generated by private sugar operators using bagasse.

**Transport Infrastructure**

For a small island of 1,865 sq km, there are 2,020 km of roads in Mauritius, of which 47 per cent are main roads, 29 per cent are secondary roads, 4 per cent are motorways and the remaining 20 per cent are made up of other types of roads. The road network in Mauritius is quite mature and since 2001 only 20 km of road (15 km of motorway and 5 km of main roads) have been added. The bus network is quite extensive and is organised around Port Louis. New air-conditioned buses have been introduced to link Port Louis with the main residential areas of the island.

The main transport problem in Mauritius is severe congestion afflicting all traffic entering and leaving Port Louis during the morning and evening peak periods. This problem has become more acute in the last five years as more people have acquired cars and started to use them to commute to work. Between 2000 and 2004, there were more than 22,000 private cars (i.e. an increase of 41 per cent) and 5,800 lorries and vans (an increase of 20 per cent) in circulation. If the current trend continues, Mauritius will face even greater traffic and pollution problems. One major constraint to alleviation of the problem is the difficulty of finding ways of expanding road capacity in, and around, Port Louis where space is exceedingly scarce. The topography, and the necessity of protecting remaining wildlife, also prevent any radical expansion of the road network. It is in this light that the recent change of plans should be viewed concerning the road through the Ferney Valley, which has a unique ecosystem.

Any solution to the transport problem in Port Louis should target better road access into and around Port Louis, the supply of alternative transport modes to reduce car use for commuting to work, and the introduction of user fees for those who decide to use their cars at peak hours. Over the years, the government has contemplated the introduction of a light rail transit system from the centre of the island, through the main towns down to Port Louis. However, the light rail transit system has not materialised because of the high level of investment required and uncertainty about the financial viability of the project. Other alternatives are dedicated bus routes into Port Louis and a ring road around Port Louis so that north and southbound roads do not have to go through Port Louis. Numerous studies have been produced on the road traffic situation in and around Port Louis. It is now time to act before the cost of commuting to Port Louis becomes untenable.

For a small island which relies heavily on tourism, good access links with other countries are crucial for its development. Mauritius has one fully modern airport located in Plaisance in the south of the island. There have been repeated calls to build a new airport in the north. However, it would be difficult to justify such an investment in view of the current utilisation of Plaisance, where the main problem is one of peak usage, as most aeroplanes from and to Europe, land and depart at around the same time. It would therefore appear that the construction of a second runway in Plaisance, both for security and business reasons, should be the next step in improving airport infrastructure. Moreover, there is only one airport terminal in Plaisance, which does not allow for the separation of departing and arriving passengers. This poses security concerns and for this reason the
construction of a second terminal should be considered.

Up until now, Mauritius has had a restrictive air access policy based on bilateral agreements. The government of Mauritius signs bilateral agreements with other countries (not airlines) determining the number of companies based in that country which can service Mauritius. The rates are then jointly set by Air Mauritius (the local carrier), and the company, which is nominated by the foreign country. Hence, the air service into Mauritius is characterised by a collusive duopoly. Among all companies landing in Mauritius, Air India is the only one that can pick up passengers in Mauritius en route to other destinations. Given the nature of the bilateral agreements, it is therefore not surprising that Air Mauritius has earned approximately 600 million rupees in profits in the past fiscal year.

There have been consistent calls, especially from the tourism sector, to at least partially liberalise air access into Mauritius. In that respect, a recent report entitled “Master Plan for Air Transportation” showed that present air access policy is uncompetitive and designed to restrict and manage competition. Some changes in air access policies were implemented in 2005. First, a privately-owned company (CatoVair) is now allowed to operate domestic flights between Mauritius and Rodrigues. This new airline company will be a welcome competitor to Air Mauritius, which until now has had the monopoly on that service line. Second, the government of Mauritius has agreed that the French government can send a second airline to Mauritius. However, although charter flights are (in theory) not allowed to operate to Mauritius, some companies have operated some special flights from new tourist markets (e.g. Eastern Europe) to Mauritius.

Port Louis, the capital of Mauritius, is a deep-sea harbour where ships are quite well protected from strong winds. In Mauritius, most of the cargo (99 per cent) is exported by ship and the cargo sector is fully liberalised. Mauritius has a Freeport which provides free repatriation of profits, exemption of duties on goods imported into the free zone and access to local market and banking services.

Political and Social Context

Since gaining independence from the British in 1965, Mauritius has been a fully-fledged democracy with regularly contested and transparent elections. There is complete freedom of the press and civil society is fully engaged in the debate about policy options. The government is accountable to the electorate and there has been a healthy turnover of governments since independence, with regular, peaceful multiparty elections. Democracy is vibrant and there is real debate about the validity of government policies. The last general elections were held in August 2005. The incumbent government was defeated and replaced by the Social Alliance party. By all accounts, the elections were fair and 81.5 per cent of registered voters cast their ballot.

After being ranked 54th out of 145 countries by Transparency International in 2004 for its level of corruption perception, Mauritius has progressed to 51st position (out of 158 countries) in 2005. The index rating of Mauritius has improved marginally from 4.1 to 4.2 per cent during this period. However, although Mauritius has improved its score over the past two years, it still ranks below other African countries with similar levels of economic development (Botswana, Tunisia and South Africa).

Steps have been taken to reduce the incidence of corruption. In February 2002, the Mauritian parliament passed an act to establish the Independent Commission Against Corruption (ICAC). ICAC’s mandate is to fight against money-laundering and corruption. Since its inception, ICAC has endeavoured to try some high-profile alleged corruption cases in court. However, ICAC has been dogged by procedural issues and its success rate has been quite low. One such case was the disappearance of 800 million rupees from the National Pension Fund account held at Mauritius Commercial Bank between 1988-2003. The case was still being tried in 2005. ICAC has also been facing staffing issues and it has been difficult to find a suitable candidate who is willing to head the Commission. In 2005, the ex-minister for social security was tried and sentenced for alleged corruption. He was found guilty of taking
approximately 1 million rupees from a 1998 contract for just over 100 000 protective mattress covers.

More responsibilities have been divested to other levels of government. In that regard, it is noteworthy that more administrative independence has been granted to Rodrigues Island, located 560 km east of Mauritius with a population of nearly 35 000. For some time, the inhabitants of this small island had been asking for greater autonomy from Mauritius.

In summary, the long-term challenges facing Mauritius are daunting. The trade preferences and market protection on which Mauritius has built its success are being eroded. The elimination in December 2004 of the global quotas on clothing under the Multi-Fibre Arrangement has exposed the local textile sector to competition from other exporting countries, including those in Asia and South America. Finally, the new EU Sugar Protocol and future multilateral liberalisation will probably reduce the profitability of the Mauritian sugar industry. A complete reappraisal of the role of the government and a greater opening of local markets are required for Mauritius to regain the growth rate it achieved in the 1990s.