



**MAURITIUS RESEARCH COUNCIL**  
INNOVATION FOR TECHNOLOGY

# **MAURITIUS AND THE INDIAN OCEAN RIM ASSOCIATION: PROSPECTS AND POTENTIAL**

**Final Report**

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## PROBLEMS AND PROSPECTS FOR MAURITIUS\*

### **Introduction.**

Mauritius became independent in 1968. Since then, it is one of the few countries in the developing world that has been able to sustain a vibrant multi-party democracy. The press is free, elections are held regularly, and democratic institutions seem well institutionalized. Economically, Mauritius has, in a generation, moved from being a mono-economy based on sugar production to a far more diversified economy with a strong export-processing sector and an ever expanding tourist industry. More recently, offshore banking, a free port authority, and a small stock exchange have been established to more fully integrate Mauritius into the global economy. The World Bank ranks Mauritius as an upper middle-income country with a GNP per capita in 1997 of ca. \$3,750, and the World Economic Forum headed by Jeffrey Sachs of Harvard University recently rated the Mauritian economy as the most competitive of 28 African economies that it studied. By most any standard, Mauritius must rank as one of the success stories of the developing world.

Internationally, Mauritius maintains strong ties with its two former colonial mentors, France and England, while simultaneously building strong international ties to the United States, the European Union, and with many countries in Asia, Africa, and the Middle East. Much investment in Mauritius has come from Hong Kong and now, in turn, Mauritius is actively pursuing new investment opportunities, particularly in Madagascar, Mozambique, and elsewhere in Africa. For such a small country, Mauritius sustains an impressive range of foreign ties. It hosted a summit meeting of the Southern African Development Community (SADC) in 1998, and Mauritius has played a significant leadership role in the rapid emergence in the 1990s of the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC). In this paper about contemporary Mauritius, I want to focus primarily on three matters: the shape of current politics in anticipation of the 2000 election; the current economic challenges faced by Mauritius; and Mauritian foreign relations with particular emphasis on the prospects for the IOR-ARC.

### **Politics.**

In order to understand the complex interworking of Mauritian politics, it is necessary to know the main political parties, the key leaders, and the current shape of alliances and coalitions. The major parties

at the present time are the Labour Party (LP), the Mouvement Militant Mauricien (MMM), and the Mouvement Socialist Mauricien (MSM). Minor parties include the Parti Mauricien Social Democrate (PMSD), the Hizbullah Party, the Mouvement Militant Socialiste Mauricien (MMSM), the Rassemblement Pour la Reforme (RPR), and two parties from the island of Rodrigues, the Organisation du Peuple Rodriguais (OPR) and the Mouvement Rodriguais (MR). A few words about each main party would help set the stage for our contemporary analysis.

The LP was the driving force of the Mauritian independence movement and headed the government from independence in 1968 until its ouster from power in 1982. The head of the LP and the Prime Minister for these fourteen years was Sir Seewoosagur Ramgoolam, the politician generally honored as the father of the modern Mauritian nation. Approximately 50 percent of Mauritians are Hindu, and it is from this community that the LP has traditionally drawn its major base of support. The LP retreated into the political wilderness throughout the 1980s and into the early 1990s. It was then rebuilt in an effort to pose a challenge to the MSM—the party that had taken over the reins of power. The key figure in the resuscitation of the LP was, and is, Navin Ramgoolam—the current Prime Minister and the son of the first Prime Minister.

The MMM, since its founding in the early 1970s, has been the most enduring and stable of all Mauritian parties. The leader of the MMM, and the driving force throughout its history is Paul Berenger, a Franco-Mauritian. Since its formation, the MMM has been a central force in Mauritian politics and has participated in the making and breaking of many different coalitions and governments. The MMM has generally been seen as the most progressive of all Mauritian parties. The most salient feature of its constituency base is that it is rooted in the minority communities: the Muslims, the Creoles, the Chinese, and to lesser extent the non-Hindi speaking Indian communities such as the Tamils and the Telegus. It is also primarily an urban party, whereas both the LP and the MSM have primarily drawn their strength from rural areas.

The MSM was founded in 1983 and is most closely identified with Sir Anerood Jugnauth, its main leader and the Prime Minister of Mauritius from 1982 to 1995. Jugnauth came to power in 1982 as the leader of the MMM, but within a year he and Berenger parted company. Jugnauth left the MMM, founded

the MSM, and, in coalition with other parties, remained Prime Minister (through several elections) from 1982 until his defeat in 1995. The MSM competes with the LP for the Hindu vote and during its years in power supplanted the LP as the dominant voice of the Hindu population.

Of the minor parties, only the PMSD is of much significance. An old Mauritian party, long associated with the Franco-Mauritian community and the Creole elite, the PMSD through most of its existence was headed by Sir Gaetan Duval, an attorney and the dominant Creole leader from the 1960s to the 1990s. Duval died in 1996 and the PMSD has since been rent with internal conflicts as Duval's brother Herve and son Xavier-Luc have battled for control of the party. The PMSD is generally seen as the most conservative Mauritian party. To the extent it has had political success in the modern era, the PMSD has always done so as a minority alliance partner with either the LP or the MSM. The other minor parties noted above, and still others that have come and gone, for the most part represent transient factions that for one reason or another have split off from one or another of the larger parties. At times these smaller parties have played a significant role in building a coalition or in bringing down a government, and the history of Mauritian politics is replete with the constant building and fraying of political alliances.

To understand the current state of Mauritian politics, it is necessary to go back the most recent election in December 1995 when a coalition of two major parties, the LP and the MMM, swept all 60 contested seats and in so doing ousted the then Prime Minister, Sir Anerood Jugnauth. Except for the reversal of winners and losers, the 1995 election mirrored the election of 1982 which had initially brought Jugnauth to power. In that earlier election, Jugnauth, then a member of the MMM, had headed a coalition that defeated the Labour Party government and in so doing had also won all 60 contested seats.

In the new December 1995 government Navin Ramgoolam became Prime Minister and headed several other ministries; Berenger became Deputy Prime Minister and Minister of Foreign Affairs. The coalition was always an uneasy one, rent both by policy differences between the parties and by personal competition between the two leaders. After eighteen months of growing internecine rivalry, the LP and MMM dissolved their coalition in June 1997 and went their separate ways. All but one MMM member of parliament joined Berenger in crossing the floor. The MMM instantly became the main opposition party and Berenger moved from being Deputy Prime Minister to Leader of the Opposition.

Since the split, the LP has governed Mauritius on its own with what seems to be a safe majority. The LP still holds 35 seats in the house, and is supported by three other members. The MMM holds 24 seats and there are four other opposition members. Prior to the split, the LP's majority had been 58; it has now slimmed to 10. The situation is also interesting in that this marks the first time since independence that the government has been run by a single party, and not in a coalition of any sort. This, of course, gives considerable opportunity to Prime Minister Ramgoolam to make his own mark, but at the same time it leaves him faced with a wide range of political opponents.

In staking out his claim to national leadership, Ramgoolam has taken (for Mauritius) some remarkable merit-based and non-communal steps that he believes can send a signal to the electorate that the LP is best prepared to meet the challenges of modernity and build a merit-based government and civil service. In late 1997, Ramgoolam suspended the Commissioner of Police, Raj Dayal, pending the completion of an investigation into alleged police complicity in a number of cases involving smuggling and fraud within the Customs Department and corruption charges involving police purchases. He was replaced by Andre Feillafe, a senior Creole officer in the force. A Commission, headed by Supreme Court Judge Bernard Sik Yuen was established in October 1997 and is presently seeking to establish the facts of the case. Dayal has vigorously challenged the legality of the Commission of Inquiry, and Sik Yuen has acknowledged difficulty in getting full cooperation from certain people. But Ramgoolam's strong action in suspending Dayal, a Hindu public figure of some importance and even a potential political rival, was to many a courageous act in that it indicated government willingness to investigate the delicate issue of official corruption. Ramgoolam has also appointed non-Hindus as heads of both the Public Service Commission and the Electoral Commission. All of these posts are politically quite sensitive and for a Hindu Prime Minister to staff them with non-Hindus has not gone unnoticed. Clearly Ramgoolam believes that he can hold onto the LP's Hindu base while taking steps to reach out to other communities.

In a second arena, Ramgoolam has further ruffled some prominent feathers by asking his Health Minister, Kishore Deerpalsingh, to investigate problems within the health delivery sector. Of particular concern here is the manner in which doctors are able to divert cases from the National Health Service into



their private (fee-paying) practices. Finally, various new measures taken in the economic policy area which will be detailed later again suggest a new activist agenda emanating from the Prime Minister.

Ramgoolam reshuffled his cabinet in October 1998, thereby bringing to the forefront the team with which he will likely fight the next election. In addition to being Prime Minister, Ramgoolam continues to hold the portfolios of Defense and Home Affairs; and External Communications and the Outer Islands. Senior colleagues holding other major positions are: Kailash Purryag, Deputy Prime Minister, Foreign Affairs and International Trade; Vasant Bunwaree, Finance; and Rundheersing Bheenick, Economic Development, Productivity and Regional Development. What was most interesting about the cabinet reshuffle, however, was the appointment of a new and younger generation of Labor party MPs to cabinet rank. Included in this group was Satish Faugoo, who became Minister of Housing and Lands; Vishnu Bundhun, Minister of Social Service; Dan Beeharry, Minister of Fisheries and Co-operatives, and Marie-Claude Arouff-Parfait, Minister of Youth and Sports. The cabinet now numbers 24; with eight other members as junior ministers, there are only three MPs on the Labor back-bench!

Ramgoolam's efforts to present a picture of leadership and LP decisiveness and competence have, however, been marred by various problems that have caused local controversy throughout 1998. Three brief stories can give a picture of his local woes. One very public dispute took place between the Chairman of the Board of the Mauritius Broadcasting Corporation (MBC), Mervyn North-Coombes, and the Director General of the MBC, Trilock Dwarka. Both men had been appointed by the Labor government but before long an intense power struggle grew, and allegations concerning both fiscal and programmatic matters were publicly exchanged. In the end Ramgoolam had no choice but to end the feuding and did so by firing North-Coombes. The opposition had a field day with this imbroglio, not so much because they had strong opinions about the relative credibility of either gentleman, but because it gave them an opportunity to air grievances about what they see as biased news coverage in favor of the ruling party. This again is hardly a new story and mostly replicates what that Labor Party used to say about Jugnauth and the MSM when they were in power. Mauritius does have a free press, especially in the print media, but there is no doubt that all Mauritian governments have used the MBC to slant the news to its own favor.

Another embarrassment, not yet fully explained by the government, was its decision to recall two ambassadors. Bye Muslim Dilmahmood, High Commissioner to Pakistan, and Haroon Aubdool, Ambassador to Egypt. In the former case there seems to have been some controversy over a land deal in Pakistan which was seen as conflicting with his diplomatic status; little information has been forthcoming in the latter case. One upshot of these incidents was the public reminder that since the Labor Party's split with the MMM in June 1997, five ambassadorial posts that had been held by MMM appointees have remained vacant: India, Australia, Malaysia, Madagascar, and the OAU. Several of these embassies are in nations that are close friends and economic partners of Mauritius so the long hiatus in filling these posts is puzzling. This again has opened up the government to opposition attack, this time for not adequately attending to Mauritian national interests. Particularly given Mauritian interest in promoting the development of the Indian Ocean Rim Association for Regional Cooperation, not having Ambassadors in India and Australia for such an extended period is surprising.

Finally, the Governor and the Managing Director of the Bank of Mauritius were both forced to resign in November 1998 after weeks of public protest over newly issued bank notes. At issue here was a change in the traditional order of inscriptions on Mauritian notes, inscriptions that are in the languages of various communities that make up Mauritian society. In this instance the Tamil community raised a protest because they felt that changes on the new bank notes slighted their community. The bank tried to ride out the controversy by saying that the inscription changes were taken for technical reasons only and in no way were meant to diminish the importance of any language or group. The crisis reached such a public frenzy that Ramgoolam was forced to intervene by sacking the top bank officials and seeing that the new notes were withdrawn; new ones--surely more attentive to precedent--will not be ready until mid-1999. The bank note controversy serves as a reminder of how salient communal feelings can be in Mauritius, even after 30 years of independence and with an orderly and functioning democratic system in place. Ethnic issues remain close to the surface and few matters of political or economic consequence can be addressed in Mauritius without a careful filtering through the prism of ethnic consequences.

Opposition to the government finds a variety of expressions. Within Parliament, a vociferous MMM is the leading voice and Berenger, as Leader of the Opposition, plays a role he has often filled in the



past. Outside Parliament, where the MSM, the PMSD, and other minor parties currently operate, additional pressures are brought to bear against the government. All were given a chance to flex their political muscles and test their electoral strength in a critical by-election held in April 1998.

The by-election was occasioned by the death in September 1997 of Gian Nath from the LP and Minister of Social Security in the first Ramgoolam cabinet. Soon thereafter two powerful national figures announced their intention to contest the seat: Sir Anerood Jugnauth, the former Prime Minister and MSM leader, and Madun Dulloo—a former minister of agriculture and a man who had at one time been number two to Jugnauth in the MSM and his presumed heir apparent. Both Jugnauth and Dulloo clearly saw the by-election as an opportunity to rejuvenate their national political ambitions. A victory for Jugnauth would provide electoral redemption from the grave defeat he and the MSM suffered in 1995 and renew his hopes to become prime minister again; for his part Dulloo had taken his own small party, the MMSM, and with two other small parties joined Paul Berenger and the MMM in a broad electoral coalition (which they called the National Alliance) to contest this by-election.

The LP took a long time to decide what to do about the by-election and the preponderance of local opinion saw this both as indecision on Ramgoolam's part and as a tactical error inasmuch as both Jugnauth and Dulloo quickly established their base in the constituency. Finally, however, the LP made a surprising and, in the event, a very shrewd decision. They selected Satish Faugoo, a young man (36) with no national political experience (or baggage) to take on the two veteran politicians. There were other aspects of the Faugoo choice that were also interesting. Like Gian Nath, the man being replaced, Faugoo was from the local constituency and a member of the Ravived (low) caste. Faugoo was a well respected leader of the national Ravived Caste Association; he resigned his position as a Senior Magistrate in the judiciary to take on the race.

The by-election embodied all the cross-cutting facets of Mauritian politics—the Hindus vs. all other groups, national ambitions vs. local politics, youth vs. age, and the politics of identity—party, caste, religion, nation. It has long been an unwritten rule of Mauritian politics that only members of the Vaish (middle) caste can be credibly considered as prime minister material. Ramgoolam, Jugnauth, and Dulloo

are all Vaish and Flacq-Bon Accueil, where the by-election was fought, is a primarily rural constituency in northeast Mauritius with a heavy Hindu concentration.

It was generally considered that Faugoo started the race well behind because he started late and was an unknown figure. But once the campaign moved into full tilt, the government fully engaged its resources on his behalf. Many small problems in the constituency were suddenly solved as roads were repaved, bus stops built, building permits arrived, and schools refurbished. LP ministers crisscrossed the constituency, lending support to Faugoo and promises to the electorate, in a way that Jugnauth and Dulloo could not match. And the Prime Minister could always be counted on to capture national headlines on the Mauritius Broadcasting Corporation's television and radio coverage of the by-election.

The intense effort of the LP government paid off in the end. In an 80 percent poll, Faugoo received 40%, Jugnauth 38 %, and Dulloo 22% of the vote. The Prime Minister quickly claimed that it was a victory for national unity in that he saw Faugoo gathering votes from across ethnic, class, and caste lines. The LP similarly affirmed that the victory confirmed its status as a truly national party, well equipped to run the country on its own. Jugnauth acknowledged that he had lost a battle, but not the war, and held out the possibility of yet another comeback attempt. He also hinted that there would be major political developments forthcoming in the near future. Dulloo had little to say and, uncharacteristically, neither did Berenger, whose absence from the constituency on election night was noticed by all.

In broad terms, there is little doubt that the big victors were Faugoo himself, and the Prime Minister. With this victory, Ramgoolam certainly took a big step in getting out from under the shadow of his father and, to a lesser extent, Jugnauth. At the very least he can claim that he has now defeated Jugnauth twice in a row. The decisive defeat of Dulloo almost certainly fatally damaged his credibility as a potential national leader; even more dramatically the results undercut any argument that Berenger and the MMM can deliver votes to any candidate other than their own. Local observers of the election saw the dominant Vaish vote split three ways, thereby especially harming Jugnauth's chances, whose historic base has always been rooted in dominant Hindu support. The minority communities—traditionally the powerful base of MMM support—divided their vote between Dulloo and Faugoo, suggesting a calculation on their part that the LP in power would be better able to get things done on their behalf than

the MMM in opposition. It probably is also true to say that youth was served in that Faugoo simply presented a more dynamic image than the aging veterans—Jugnauth and Dulloo.

In time-honored Mauritian fashion, the post-election chatter of the political class was focused on the political ramifications as all parties looked toward the next general election which must be held by 2000. In the cat-bird's seat for the moment was the LP—claiming a Labor revival and the legitimization of its rule. On the outside looking in, were the MMM, the MSM, and many smaller parties. The by-election losers, Jugnauth and Berenger, now looked to one another as potential alliance partners—a role they have often played together in the past. Indeed there was national speculation even before the vote that the MMM was essentially sitting the by-election out, doing very little to help Dulloo, in anticipation of an electoral alliance with Jugnauth and the MSM, regardless of whether Jugnauth won or lost.

Yet to make this possibility a reality, one tough problem had to be solved: who would lead? Berenger's efforts to assemble the National Alliance was clearly predicated on the assumption that he would head a national ticket and be the presumptive prime minister in the next election. His desire to break the Vaish grip on the prime minister's office is long-standing and well-known, but the by-election did little to bolster his hopes. For his part, Jugnauth has never been willing to take a back seat to Berenger before, and his ambition to be Prime Minister again is undisguised. The leadership issue aside, however, there is no doubt that both hunger for another opportunity to take on Ramgoolam. Berenger and Jugnauth share a feeling held by other Mauritians that, despite his father's esteemed national reputation, the current Prime Minister is in some sense an interloper and a political novice to boot. . The perspective largely derives from the fact that Navin Ramgoolam spent most of his life in England, only became active in politics when he returned to Mauritius in the 1990s, and (despite training as both a doctor and lawyer) never really held any job until he became Prime Minister. They see Ramgoolam as inexperienced and untested, both in local politics let alone in international affairs.

Another alliance possibility floated in the election aftermath was the so-called Bleu/Blanc/Rouge alliance of the PMSD, the MSM, and the LP. This was particularly the brain-child of Xavier Duval, one of the contenders for PMSD leadership. Duval, who supported the LP and Faugoo in the by-election, claimed that the PMSD had delivered perhaps 1,000-2,000 crucial votes to the LP. While such an alliance

might well be appealing to Duval, it is far less clear how it would be received by Jugnauth or Ramgoolam. They too would have to decide who would lead. The main chance for this occurring probably rests with the possibility of Jugnauth retiring from active national politics, accepting an appointment as President—a largely ceremonial post—and retreating to Reduit (the President's official residence) for the remainder of his career. There certainly seems to be little incentive for Ramgoolam to defer to Jugnauth in any new alliance.

All speculation ended in early December 1998 when Jugnauth and Berenger formally announced a MMM-MSM federation that will challenge the LP in the next election. Under terms of the agreement the MSM will contest 31 and the MMM 29 of the 60 National Assembly seats; the MMM will nominate the two seats for Rodrigues, a neighboring island that is part of Mauritius, thereby assuring party parity. All major cabinet positions, embassies, and senior para-statal posts would be equally shared upon victory except that, once again, the "law" of Vaish leadership prevailed; if the coalition is successful, Jugnauth will be the new Prime Minister. As a consolation prize, the MMM will name the President, a largely ceremonial post, currently held by a Cassam Uteem, a Muslim and former MMM leader.

It is much too early to make any predictions for the next election, but the latest poll conducted by the French polling firm, Sofres, for the Port Louis daily paper, **L'Express**, gives positive news to both sides. The poll, taken in September and published in October, 1998, finds the LP narrowly leading both the MMM and the MSM as the party most favored to lead the country. On the other hand, Jugnauth leads Ramgoolam by 44 to 30 percent as the preferred prime minister, and a MMM-MSM alliance is favored by 17 percent over the LP standing alone. Past election history strongly suggests that any time two major parties are partners in coalition, they can defeat the third main party, even if it draws other minor parties to its side. Most of the cards favor a Jugnauth-Berenger alliance and together they will pose a formidable challenge to Ramgoolam and the LP. To survive, Ramgoolam and the LP will need to replicate their by-election success of drawing Hindu votes from the MSM and minority votes from the MMM; this will be far more difficult in the general election, however, since it will not be a triangular race.



## **The Economy.**

One factor of national life that is for the most part strongly favorable to the government is the continuing impressive performance of the economy. The gross domestic product grew by over 5% in 1997 and similar growth is expected for 1998 and 1999. Sugar output is at a five-year high and is expected to reach 640,00 tonnes in 1998. The Export Processing Zone (EPZ) grew 10% in 1997 and is expected to grow another 7% in 1998; the EPZ is now the largest net foreign exchange producer in the economy. Tourism is growing rapidly (up 11.3% in 1997) and arrivals are expected to reach nearly 600,000 in 1998; this stands in marked contrast to official government policy in the mid-1980s that looked toward receiving approximately 300,000 tourists per year by the turn of the century. These three historic pillars of the economy are increasingly being joined by a fourth—the financial services sectors—which embraces offshore banking, the free port, the emerging stock market, and a whole host of related activities. These include the development of new warehouse and cold storage facilities, a trade and exhibition center, an ever-modernizing communications sector, and the expansion of other facilities whose collective goal is to build Mauritius into a major regional financial services provider. In a fine article published in the **Chicago Tribune** (November 30, 1997), the United States Ambassador to Mauritius, Harry Geisel, underlined the economic progress made by Mauritius to the point where now, Mauritius has “the highest gross per capita product in Africa.” (In fact, only Seychelles is higher.) All four core sectors of the Mauritian economy are participating in this sustained economic expansion.

Another promising development in the economy has been the rapid growth of Mauritian economic investment in Africa, particularly in Madagascar and Mozambique. In Madagascar, leading Mauritian textile manufacturers such as Floreal Knitwear are developing manufacturing facilities for outsourcing its low-end textile production; in so doing they are replicating the formula that initially brought Hong Kong money to Mauritius fifteen years ago. Even more exciting are the new relations struck with Mozambique. Near Beira, Mozambique has allocated 10,000 hectares of land for the Mauritian private sector to develop; in this Special Economic Zone, Mauritius is expected to develop textile manufacturing capabilities. In a related development, a Mauritian consortium composed of the WEAL, Lagesse, Mon Loisir, and



Espitalier-Noel groups, will restore two sugar processing companies and restore sugar operations to 85,000 hectares. Their goal is be at production level of 110,000 tonnes of sugar by 2005.

This is just the tip of the iceberg with plans afoot for Mauritian entrepreneurs to spread beyond sugar and textiles to agribusiness, fisheries, tourism, telecommunications, infrastructure repair, and hotel management. Air Mauritius is also preparing a proposal to participate in the privatization of the Mozambican national airline, LAM. To facilitate all these efforts the Mauritian parliament has approved a package to support business investment in Mozambique. Mauritian manufacturers are looking for similar investment opportunities in Seychelles, Comoros, Cote d'Ivoire, Tanzania, Uganda, Zanzibar, and Zambia. In a related move, Gabon officials have invited leaders of the Mauritian stock exchange to prepare a feasibility study on the potential for a Central African exchange. Further encouraging the reach of Mauritius toward Africa, the South African banking conglomerate, Nedcor, has recently acquired 20.1% of the shares of the recently privatized State Bank of Mauritius. Through its ties with Nedcor, the State Bank of Mauritius hopes to expand rapidly its activities in the Southern African Development Community (SADC) and throughout the southwestern Indian Ocean. Finally, the Mauritian Freeport is beginning to achieve success as a regional hub for the interchange of Asian-African trade and this too bodes well for the continued growth of the Mauritian economy.

Trends such as these have brought increasing international attention to the Mauritian economy, such as that mentioned by the World Economic Forum. The Forum report highlighted for the international community what was already well-known to Mauritius-watchers, that, in the generation since independence, Mauritius has moved from being a mono-crop sugar colony to a far more diversified upper-middle income country. In the aftermath of the Forum report, other leading publications have followed the trail to Port Louis, seeking the secret of Mauritian success. The **Wall Street Journal** (July 14, 1998) ran a very favorable article about Mauritius on its front page, "Mauritius, a Tiny Fish In a Big Ocean, Makes An Example of Itself." An **IMF Survey** piece (August 17, 1998), "Prudent Policies Spur Mauritius's Development From Sugar Dependency to Balanced Growth" was similarly praiseworthy. A **Financial Times** article (August 14, 1998) noted favorably why Mauritius had so far avoided the turmoil

found in other emerging markets. But all is not perfect, and **The Economist** (September 19, 1998) highlighted current economic controversies under the headline, "Paradise threatened in Mauritius."

These accomplishments, and they are significant cannot, however, hide problems that are also readily visible. Unemployment has crept up to 6%--low from the vantage point of most countries, but at the point of becoming significant in Mauritius where there has been next to no unemployment for most of the 1990s. The Asian financial crisis is worrisome in both its potential to spill over into neighboring countries and regions and also in that it will drive down labor rates in countries that are textile competitors to Mauritius. The rupee is also being slowly devalued which leads to a build-up of inflationary pressures. Finally there is the much larger question of whether the government is taking advantage of the relatively benign and favorable economic conditions of the moment to take some of the hard steps needed for Mauritius to get prepared for the less protected economic environment of the future. Here government foresight and fortitude are rather in doubt.

The government has recently taken two major financial steps. First, the 1998-1999 budget was presented by Finance Minister. Vasant Bunwaree, in June. Several items were of particular interest. A 15% corporate tax on companies within the Export Processing Zone (EPZ) was introduced; this tax will now subject EPZ companies to the same taxation arrangements as other domestic manufacturing companies. The Hotel and Restaurant Tax was reduced to 4% in September and will be phased out entirely within three years: hotel and restaurant services, however, are subject to VAT (see below) so these services are now effectively charging 14% until the Hotel and Restaurant Tax is phased out. Looking to support initiatives for economic growth, a new National Entrepreneurs Bank was proposed, and it is hoped that a new Mauritius Institute of Technology will soon provide leadership in upgrading the country's technological infrastructure.

Second, a Value Added Tax (VAT) was passed in June and became effective in September, 1998, despite considerable squabbling about its price and tax implications. The 10 percent VAT levy replaced an antiquated national sales tax structure that both the government and private sector had agreed was outmoded. The VAT, supported by advisers from the IMF, is intended to raise government revenues and recoup income loss anticipated from tariff reductions made necessary by new global trading arrangements.

The imposition of the VAT has led to what many feel are unwarranted price hikes by merchants who are using the cover of the VAT to raise prices in general. This in turn has fueled fears of inflation which has been held in check during the last decade of rapid economic expansion. The VAT was much contested politically and intensely challenged by the opposition, but the government had a more than adequate majority to pass it through parliament. There is little doubt that it will become one of the defining measures of Navin Ramgoolam's administration and how it works out will doubtless have much to do with the next election. The opposition is especially fearful that the VAT will so successfully line government coffers that a major spending spree including higher civil service wage packages and domestic spending will emerge in the months leading up to the election. They may well be right.

More daunting, however, are the economic issues over which Mauritius has very little control. Pressures for economic liberalization emerge both from the international environment focused on globalization and the domestic private sector seeking increased efficiency and improved domestic infrastructure. On the other hand, public sector employees (dominated by Hindu supporters of the government) seek economic security (protected by the government) and a powerful array of labor laws hobble private sector efforts at improving productivity. In an insightful interview published in the **Mauritius News** (April 1998), President Cassam Uteem captured well the challenges currently facing the country: liberalizing the market to improve productivity and competitiveness, the harnessing of information technology, protecting the environment to ensure sustainable development, eradicating poverty and the phenomenon of exclusion, and accommodating the needs of modernity while preserving the benefits of tradition. These problems are common to many developing countries, but the fact that they have been seen before, make them no less easy to handle. As it struggles with these various problems, Mauritius is caught between a vision of itself as an African "Tiger" where its successes of the past decade look quite grand, or as a smaller version of the Asian "Tigers" whose vulnerability has suddenly been exposed and where Mauritius fears a contagion effect from the Asian meltdown. Just where Mauritius places itself along these various economic continuums and just how serious the government is about dealing with difficult policy questions remains an open question.

What should we believe? There is no doubt that Mauritian accomplishments over the past generation have been substantial, even remarkable within the pool of developing countries. But the contemporary challenges of keeping the economy moving forward are substantial. In a revealing recent interview, Deputy Prime Minister Kailash Purryag acknowledged that Mauritius had badly failed to accomplish one key task that must precede moving the country to the second phase of industrialization—that of education reform and a sharply upgraded capacity for human resource development. Other critics of the present government emphasize a rise in corruption and demand greater decisiveness in approaching economic problems.

What is revealed in this debate is a persistent tension within Mauritius that at times can slow or even defeat efforts at reform or change. On the one hand, there is considerable cultural preference for consensus, especially on major social or economic issues. This cannot always be achieved but Mauritius has always worked better and more successfully when there is a general agreement on goals (even if there remain disagreements on tactics, priorities, etc.). Indeed the transformation of Mauritius from a sugar colony to its present circumstances was only made possible by an underlying agreement across all major parties on an economic diversification strategy and acceptance of IMF financial strictures during the 1980s. On the other hand, the style of politics and the pursuit of political power is played out in a style that has historically favored intense communal calculation. Thus the very nature of these communal calculations of benefit and loss are often at variance with the consensual notions that are simultaneously held. The result of this conundrum can be political paralysis.

At the present time this dilemma asserts itself in the following way. The Mauritian elite, whether in government, the opposition, or the private sector, has no significant disagreement about the economic challenges of the early 21<sup>st</sup> century. Mauritius must come to grips with the consequences of globalization and in particular: confront the looming threats to its textile industries caused by its own high labor costs and the impending loss of privileged access to European Union (EU) markets under changing World Trade Organization (WTO) guidelines; and meet the long-term challenge to the sugar industry posed by the possible phasing out of the protected quotas presently available through the Sugar Protocol and Lome. To prepare for these eventualities and position Mauritius effectively to compete in this ever more challenging



global environment, there is also considerable consensus on what must be done. Mauritius must phase out of the low-wage end of the global workplace and replace physical power with brain power. Industries must come to favor capital input over labor input. Technologies in all sectors must be upgraded. The education system must be steadily improved to offer both the young, and those who need to be retrained, the skills needed to operate on this faster playing field.

The problems arise in the implementation. Politicians factor every change through the prism of communal cost/benefit analysis. If they do not, they can be sure that their opponents will do it for them. This type of calculation is so ingrained, so familiar, that it is very hard for Mauritian politicians to get past it. Yet this traditional mode of political calculation stands in sharp contrast to the merit-based demands of economic transformation that must come. The education system is too poorly organized and managed to lead any transformation based on merit. To give just two examples: private schools in Mauritius are not even allowed to accept the offer of free/donated instruction in any subject (because of bureaucratic fears that such an offer would jeopardize teacher jobs); and the whole issue of guaranteed access to Oriental language training is an intense communal issue that effectively precludes any rational public discussion, either about a more effective and higher quality presentation of Oriental language training itself; or, the pursuit of other training (e.g. computer languages) in a school setting that might threaten the job security of Oriental language instructors. Any reform efforts in this area founder on religious, ethnic, cultural, and labor grounds and make efforts to depoliticize language instruction and link training to the needs of the economy all but impossible.

The Labor Party thus finds itself at the vortex of conflicting claims and pressures. The VAT is likely to increase government revenues, thereby giving the government party added resources with which to pursue pet projects. Political opponents know, from doing the same thing themselves, how politically potent these funds can be and are therefore using controversy over the VAT to attack the government and curry favor with anti-VAT interests. But how the government spends the money will reveal much about its priorities. A powerful lobby within the country is the public service sector (overwhelmingly Indian and Hindu) who have recently been granted a significant pay raise. The wage hike will likely solidify public sector support for the Labor Party but it severely undercuts pressures from the private sector who wish to



prune the public sector, hold wages in check, improve Mauritian export competitiveness, and entice foreign investment. On this issue the government is simply caught between competing but contradictory claims, neither of which it wishes to deny: the wage demands of its public sector (Hindu) electoral base and the private sector's demand for modernization of the economy, the strengthening of worker skills through an upgraded education system, the broadening of opportunity for advanced training, merit-based salaries and promotions, and a trimmed and streamlined public sector. The Labor Party sees electoral success lying with the former strategy, economic success with the latter but, like political parties in many other countries, seems to be favoring short-run political calculations over long-term national needs.

### **International and Regional Developments.**

On March 12, 1998, Mauritius celebrated the 30<sup>th</sup> anniversary of its independence. A massive party was held on Place d'Armes between the harbor and Government House. The honored guest for the event was Vice President Kant of India. Kant's visit was used as a vehicle to remind the world of India's support of Mauritius's claim over the Chagos Archipelago (Diego Garcia) and Mauritius's support for India's desire to become a permanent member of the Security Council. In addition the two countries reaffirmed their commitment to the newly established Indian Ocean Rim Association for Regional Cooperation and signed several bilateral agreements. India's intention to establish the Indian Oil Corporation on Mauritius, however, provoked outright opposition from the four oil majors already established there.

In February 1998 Prime Minister Ramgoolam paid a state visit to South Africa where he met with President Nelson Mandela and Deputy President Thabo Mbeki. Much of the focus of the talks was on bilateral trade issues and on shared interests in a variety of multilateral organizations in which both countries participate. Later in the year, on September 13-14, 1998, Mauritius hosted the annual summit meeting of the Southern African Development Community (SADC); just prior to this meeting, South African President Nelson Mandela paid a state visit to Mauritius where he was awarded a doctorate by the University of Mauritius and addressed the Mauritian National Assembly. The state visit was a popular success. Ties between Mauritius and South Africa are cordial, and new cultural, sports, and private sector business agreements were signed. Much attention was paid to trade relations between the two countries

which are in the neighborhood of US\$250 million per annum, largely in favor of South Africa. South Africa is both a major trading partner of Mauritius and the home to a significant percentage of tourists to Mauritius.

It was hoped that the summit could concentrate its attention on proposals to move rapidly toward a SADC regional free trade zone, a proposal highly favored by Mauritius because of the strength of its economy. This idea of reducing intra-African trade barriers faces considerable opposition, however, not the least from South Africa where domestic trade unions are very protectionist and fear competition from neighboring countries. Nonetheless, this issue, as important as it might be to the overall future of Mauritius and Southern Africa, was overwhelmed by the more immediate crises in Angola and the Democratic Republic of the Congo, and the rivalry between South Africa and Zimbabwe (and Mandela and Mugabe) over how regional defense and security issues are to be managed. Although other discussions will surely be held (including the interesting meeting between SADC and the South American trade organization, Mercosur, held in October 1998), further moves toward regional economic unity, however desirable in theory, will now probably have to wait the 1999 South African election and the formal installation of Thabo Mbeki as President.

The SADC summit was only the start of a busy stretch of international diplomacy on the part of Prime Minister Ramgoolam which found him speaking before the U.N. General Assembly in September and on a state visit to India in October. At the U.N. and in India, Ramgoolam reaffirmed Mauritius' claim to sovereignty over the Chagos Archipelago and requested that the displaced people of Diego Garcia be allowed to return home—positions regularly supported by the General Assembly and by India. The Indian visit highlighted growing defense cooperation between the two countries with India giving Mauritius a helicopter, a patrol ship, and arranging for Mauritian police officers to receive further training at India's National Police Academy. There was also much further exploration of trade, investment and tourism ties between the two countries, and India signed an agreement to build a science center in Port Louis. Mauritius in turn opened another branch of the State Bank of Mauritius in Hyderabad and reaffirmed continuing support for India's quest for a permanent seat on the U.S. Security Council. One other interesting aspect in the bilateral relations between Mauritius and India is the fact that due to its blossoming

offshore banking system and a double taxation agreement signed by the two countries. Mauritius has suddenly emerged as a major platform for direct foreign investment into India. By entering India via Mauritius, nations can avoid sanctions imposed by Western nations on India after its nuclear tests and also shield themselves to some extent from the Asian financial crisis due to the fact that the Mauritian rupee is freely convertible.

By far the most interesting and potentially promising development in Mauritian foreign policy has been the inauguration of the new Indian Ocean Rim Association for Regional Cooperation (IOR-ARC). The organization was established in March 1997 at a meeting in Mauritius held by the fourteen founding members: Australia, India, Indonesia, Kenya, Madagascar, Malaysia, Mauritius, Mozambique, Oman, Singapore, South Africa, Sri Lanka, Tanzania, and Yemen. The IOR-ARC, which has been strongly promoted by Mauritius, now faces significant challenges in defining its purpose and developing credible structures and programs that will prove both compelling to its members and significant to other regional and international actors.

Mauritian political parties have all strongly backed the IOR idea and there is little likelihood that this consensus will change. From the Mauritian point of view, there really is no downside to the IOR-ARC. If it does not succeed, Mauritius will carry on with what it has been doing quite successfully for nearly twenty years. But if it does succeed Mauritius sees many potential benefits arising. At the moment all that is anticipated is an organization featuring open regionalism; no free trade organization or preferential trading organization is planned. As such, it is hoped that the IOR-ARC can help the IO region adjust to the more liberalized trading regime emerging under WTO guidelines. Proponents of the IOR also see regionalism as a powerful force in the emerging global trading system, and Mauritius shares with other key actors in the Indian Ocean region the fear that the region was at a competitive risk, given far better established regional organizations elsewhere in the world. Thus the IOR-ARC is seen as filling a major vacuum in the region that can hopefully benefit member states, especially when ACP privileges under Lome, the Multi-Fiber Agreement, and the Sugar Protocol are dismantled.

Yet for the moment the benefits are all just potential ones, and there are several crucial problems and issues that must be confronted if the IOR-ARC is going to become more than just another paper

organization. One key issue is leadership: who is going to drive the regional process and be proactive in the name of the IOR-ARC? A nascent secretariat has been formed (and is based in Mauritius) with the unseemly name of Private Coordinating Mechanism (PCM). That no proper Secretariat has yet been established is primarily due to Australian reluctance and a general lack of clarity about how such an office would be funded and just what it would do. The PCM is headed by Kailash Ruhee, a U.S. educated academic and well-known Mauritian political figure (most recently as Jugnauth's Minister of Agriculture). Ruhee's task is formidable. He must both be a salesman and promoter for an organization whose goals are not yet fully defined while not seeming to be either particularly partisan to Mauritian interests, or, playing a role that is sometimes attributed to Mauritius, that of being a spokesman or stalking-horse for India.

A second immediate issue is that of membership. Discussions prior to the formation of the IOR-ARC had Australia supporting an inclusive regional membership and India favoring a slower, start slow and grow, approach to membership. The Indian position was adopted--thus the founding membership of only 14 countries. Now Bangladesh, France, Iran, Pakistan, Seychelles, and Thailand, among others, are seeking early entry to the organization. The potential membership of several of these countries pose difficult dilemmas for the new organization and the next Council of Ministers meeting, set for March 29-30, 1999, in Mozambique, is likely to have its hands full with this issue. France, in particular, has been vigorously lobbying member states but it, with Iran and Pakistan, arrives on the door-step of the IOR-ARC with political baggage that will surely complicate their proposed entry.

Related to the membership issue is how to address the so-called second-track process, emerging largely under Australian tutelage, whereby Indian Ocean countries who are not yet members are integrated into research networks, business associations, and other NGO activities centered in the region. The IOR-ARC is thinking in terms of the following classification--full members, dialogue partners, and observers--but all this is far from being worked out or clarified. In a related fashion, regional organizations with functional interests in the environment, the protection of civil society, the promotion of sustainable development, and so on are also looking to how they can interact with this new organization.

A third major problem has to do with the very extent of national commitments to this new organization. The Mauritian commitment seems to me to be the most serious and sustained. But much will



depend on how other key actors such as Australia, South Africa, and India respond. In each case there are always major distractions: Australia's pull to the Pacific is well-known and understood. The Indonesian financial and political crisis both effectively removes one founding member of the IOR from any likely leadership role and draws Australia's immediate regional attention for both financial and security reasons.

The emerging nuclear arms race in South Asia does have the interesting effect of drawing international attention to the Indian Ocean region, but whether this is this kind of attention that would be most beneficial to the IOR-ARC is problematic. Instead, it is likely to detract India's attention from a wider regional leadership role and refocus its attention on South Asia alone. Moreover, India's go slow approach to membership and insistence that security issues not be part of any IOR agenda were both clearly meant to exclude Pakistan from IOR membership. How the organization can proceed successfully when one key member's main goal is to exclude another from membership remains to be seen.

Finally, South Africa's taste for IOR initiatives must always compete with Southern Africa and more especially SADC demands that South Africa pay attention first to the African continent before it cast its eyes (and foreign policy) in too many other directions. Here SADC is at some advantage for it is already up and running whereas the IOR-ARC is at best in its nascent stage. South Africa, like Australia and India, finds other regional demands that challenge its commitment to the IOR-ARC.

With a weak center, and many unresolved organizational questions, the early work of the IOR-ARC has been left to individual countries, often working singly or bilaterally. Early accomplishments include: the setting up of the IORNET ([www.ior.net.com](http://www.ior.net.com)) by the Federated Indian Chamber of Commerce and Industry on behalf of the Indian Ocean Rim Business Centre; a report on trade and investment opportunities in the IOR by the Australian Dept. of Foreign Affairs and Trade and the Australian Chamber of Commerce and Industry; the establishment of a Chair in Indian Ocean Studies at the University of Mauritius (jointly supported by the Indian and Mauritian governments); and a first ever Indian Ocean Rim Exhibition organized by the Oman Chamber of Commerce and Industry and held in Oman in October 1998. In the near future the Confederation of Indian Industry will hold an IOR Trade Fair in February 1999. Work is also beginning to develop regional cooperation on standards and accreditation, investment facilitation, seaport and maritime management, and cross-border financial



services. A major area that awaits attention is the possibility of regional management of Indian Ocean marine resources.

These efforts, and others like them, spring directly from the tripartite nature of the IOR-ARC which, uniquely for an international organization, share responsibility for the success of the organization between three component parts: the Committee of Senior Officials, the Indian Ocean Rim Business Forum, and the Indian Ocean Rim Academic Group, representing governments, the private sector, and the academic world, respectively. Because of the singular focus of the organization to date on trade and investment issues, government concerns and business interests have tended to dominate discussions to the relative exclusion of the Academic Group. (Government and business groups are also better funded!.) It is too early to know how useful these different initiatives will be in facilitating the growth of the IOR-ARC. The IORNET, focused on bringing on-line business information to prospective investors seems particularly promising, but at first look the information offered seems cursory and dated. Having a Chair of Indian Ocean Studies at a major regional university offers the hope that a 21<sup>st</sup> Century vision for this organization can be rooted in the unique two-thousand year history shared by Indian Ocean peoples; however, the first person to hold this Chair is a macro-economist without broader Indian Ocean interests. This organization, like all others, will have growing pains.

How much can Mauritius do by itself? Mauritius sees its role as providing an effective bridge between Asia and Africa. It wants to be an honest broker between the larger Indian Ocean powers. As geographically central to the region, embodied with a population that reflects the diversity of the region, and sophisticated in the major languages and cultures of the region, Mauritius is well placed to take a leadership role. But as the IOR-ARC begins its transformation from the political issues associated with its founding to the concrete projects initiated by its Action Plan, it is going to take more than the good will and high hopes of this one small country to make the IOR-ARC a functioning reality. Proponents of the IOR-ARC have the grand idea that this organization can help the people of the region reclaim their history—a regional history that was profound and unique until the coming of the Europeans. While this may be both true and possible, much will depend upon whether the nations of the Indian Ocean can find amid their individual histories sufficient commonality to make the IOR-ARC work.

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