MAURITIUS

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An island bridging Africa and Asia

Alec Russell reports on reforms aimed at creating a new business model

Prosperity in Port Louis: Mauritius is assessed as having the second most improved economy over the past year according to the Heritage Foundation Rex

Forty years ago today, as many as 150,000 Mauritians gathered in Port Louis' Champ de Mars to witness the lowering of the British flag for the last time and its replacement by the new Mauritian national ensign. It was an emotional moment. Naval ships in the harbour, the scene of a rare and bloody defeat for the Royal Navy in the Napoleonic war, fired salvo after salvo.

Mauritians were treated to the sound of their new national anthem "Motherland". Witnesses recall that Sir Seewoosagur Ramgoolam, the nation's first prime minister, and Sir John Shaw Rennie, its last colonial governor-general, were visibly moved.

But the euphoria was tempered with some trepidation. Just two months before the ceremony, rioting had erupted on the streets of the capital. Linked to high levels of unemployment, it rapidly degenerated into communal clashes between the island's different ethnic and religious groups.

Many commentators, including two Nobel laureates, James Edward Meade, a Cambridge don who won the prize for economics, and V.S. Naipaul, the writer, were profoundly pessimistic about the tiny new nation's chances.

Two fierce cyclones had ravaged the island in 1960, devastating the economy. Unemployment was estimated at between 20 and 40 per cent. The near total reliance on the sugar industry fuelled the sense of unease for the future as the population moved towards the 1m mark.

"Mauritius has not always been the picture post card Mauritius of the tourist brochures," says Paul Bérenger, the opposition leader and former radical Marxist who returned from fighting on the barricades in Paris just in time for independence. "When I came back, I could feel the place was going to blow up again."

So government officials – and indeed the opposition politicians with whom they have regularly changed roles after elections – are entitled to a bout of self-congratulation today. While, as the headline writers in the local press like to say, there are clouds on the horizon of Paradise Island, the problems facing Mauritius are minimal when set against the generally sombre predictions of 40 years ago.

"Meade and Naipaul consigned us to become basket cases," says Rama Sithanen, the finance minister, who has overseen a series of liberalising economic reforms in the past two-and-a-half years.

"They have been proved famously wrong. With all the main ethnicities and religions, we've developed into a mini-United Nations, and also a crossroads of civilisations. We've been able to make it, especially when you compare other countries that got independence at the same time."

He cites how gross domestic product was $200 per capita at independence and is now $6,300. Government advisers highlight economic growth of more than 6 per cent last year and aspire to 7 per cent this year. They also point to the 2008 Heritage Foundation Index on Economic Freedom. Mauritius is assessed as having the second most improved economy over the past year. It is also ranked 18th freest in the world and first in the 40 countries in sub-Saharan Africa.

These figures are primarily the result of the economic, business and tax reforms the government has introduced as it seeks to position Mauritius as a business hub for the Indian Ocean rim. This drive is central to its attempt to broaden the economy from dependence on sugar, textiles and tourism. It has also contributed to its success in weathering the storms of a few years ago when a combination of external factors threatened the island's prosperity.

Then, the loss of trade concessions on sugar and textiles was hitting both sectors hard. With Mauritius importing almost all its foodstuffs, the rise in global freight charges imposed further constraints. But "we have managed to turn things around even though we don't have huge natural resources," says Prime Minister Navinchandra Ramgoolam, the son of the first prime minister. Among the new projects designed to attract investment, it is promoting luxury villa and resort developments, which give the investors citizenship and hence a range of advantages for doing business.

The government has faced fierce criticism from the opposition over the social cost of the tough Thatcherite reforms it has forced through. They have also provoked unease within the ruling coalition. The prime minister argues that the government had no choice. "We live in a globalised world and these reforms were essential," he says, although he concedes that the

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Inside this issue

A lesson in reinvention

THE ECONOMY

Tony Hawkins on the performance of an island buffetted by adverse forces

Globalisation gets a bad press in many parts of the world, but not in Mauritius where policymakers and businesspeople alike say their small island economy has learned to ride with its punches.

Not that it has been easy. Initially, "the Mauritian miracle" – 45 years of average annual growth of more than 5 per cent – depended on price and trade preferences for the economy's two lead sectors, sugar and textiles. Now the preferences are going, the country has had to find a new business model.

"When we came to power in 2005, the situation was awful," says Rama Sithanen, the finance minister. The economy had been hit by a triple whammy – abolition of tariff preferences for clothing and textile exports to western markets; the phasing out of the European Union's Sugar Protocol; and the explosion of energy prices, followed by a similar surge in food prices.

To make matters worse, the miracle had run out of steam, growth had slowed; unemployment was high and rising, as was foreign debt.

The export processing zone (EPZ) was "in deep recession", with output down 30 per cent and the loss of a third of its workforce.

To cap it all, Mauritius had large budget and balance-of-payments deficits.

It was time, Mr Sithanen says, for bold measures. "We had to accept that globalisation offered opportunities as well as threats," he says. The government set out to change the way business was done with its Business Facilitation Act, designed to eradicate obstacles to investment, job creation and growth.

This meant promoting its "good story" – one with low taxes, business-friendly regulation, a stable democracy, a country that is pleasant to live in, with excellent telecommunications and good health and education facilities.

Reforms mean it is now possible to start a business in three days; multiple regulations have been collapsed into single requirements, making it easy for people to become permanent Mauritian citizens because they are investors, self-employed, highly skilled or simply wealthy.

The complex tax system was simplified to a single rate of 15 per cent (30 per cent previously) for individuals and companies.

The present strategy is to diversify and consolidate traditional industries, while adding new strings to the economy's bow. Mr Sithanen ticks off an impressive list of initiatives, including rationalisation of the sugar industry and switching to specialised value-added products. In textiles, the thrust is to strengthen the strategy of vertical integration.

Tourist operators are diversifying both markets and products, while broadening their product range. New industries include IT, legal process outsourcing and a seafood hub.

There are high hopes too for "integrated resort schemes" – prestige hotel and villa developments aimed at foreign investors.

The complex tax system was simplified to a single rate of 15 per cent

Then, there are two grandiose projects. One is construction of a $700m trade zone, financed by Chinese investors that will create 40,000 jobs over five years and a variety of export industries that will eventually earn $300m a year. The second is a new city in the highlands, a $3bn project to relieve congestion and pollution in the capital.

It is impossible to escape the feeling that this ambitious programme expects too much of a small economy of 1.2m people. Mr Sithanen is disarmingly frank about the constraints, emphasising three main challenges – the state of the infrastructure, the skills mismatch and the problem of poverty. The government estimates that 8 per cent of the population live in poverty. Mr Sithanen has a range of schemes designed to get the poor from welfare to work.

While reforms have been applauded at home and abroad, not everyone is happy. There are those who believe society is changing for the worse, that the creation of a Chinese city and the import of foreign labour will exacerbate tensions, that income gaps will widen.

Resort projects are all very well, says one critic, but the sight of the super-rich living within fenced enclosures "smacks too much of South Africa for my liking".

Of late too, the government has run into criticism from exporters warning that the hands-off approach to the exchange rate will have disastrous consequences.

Although Mauritius has a serious balance-of-payments deficit, the currency has appreciated sharply in the past five months on the back of capital inflows for resort schemes, industrial and tourist investment, real estate and portfolio investment in the stock exchange, drawing dire warnings that manufacturing is at risk.

That problem aside, the near-term outlook is good. GDP growth is projected at 6 per cent in 2008, up from 5.6 per cent last year. Some 10,000 new jobs are to be created, the budget deficit is down from 5.5 to 3.8 per cent of GDP, and the debt-to-GDP ratio at 60 per cent, down from 70 per cent, while the balance-of-payments is in surplus.

This is an impressive performance for an economy buffeted by adverse external forces. It is also a strategic lesson for those economies, especially in Africa, that prefer a reliance on oil and mineral exports rather than the tough grind of reform.

Contributors

Alec Russell
Johannesburg Bureau Chief

Sharmila Devi
FT Contributor

Tony Hawkins
Harare Correspondent

Wheatly Aycock
International transactional lawyer

Stephanie Gray
Commissioning Editor

Steven Bird
Designer

Katie Carnie
Picture Editor

For advertising details, contact:
Mark Carwardine on:
+44 (0) 207873 4880;
fax: +44 (0) 207873 3241;
e-mail:
mark.carwardine@ft.com
or your usual representative

Sugar punch: Mauritius has had to be weaned off trade preferences for its exports

Island bridging Africa and Asia

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although he concedes that the process was difficult, "because people don't like change".

With its blend of French and British colonial buildings, Hindu temples, mosques and Chinese architecture, the capital Port Louis has the air of a prosperous – if overcrowded – multi-cultural city. The juxtaposition on a billboard on a city highway of a Barclays Bank advertisement for St Valentine's Day alongside a sign for a Hindu festival seems to exemplify perfectly Mr Sithanen's claim that this tiny island of just over 1,800 sq km has a unique and successful culture.

But government officials accept that communal divisions remain an issue. Opposition politicians say simple grievances and crimes regularly escalate into sources of communal tension. Creoles, largely the descendants of African slaves brought from what are now Madagascar and Mozambique and make up about a quarter of the population, are generally less well off than those of Indian descent who comprise a narrow majority.

There is also a shadow over one of the most bountiful sectors of the economy, financial services. For two decades it has reaped huge benefits as an offshore investment vehicle. It has allowed investors to put money into Mauritius-based companies, which then used the island's tax treaties to invest in third countries, in particular India and China. Now, however, both countries are refocusing on offshore investment structures and India has indicated it might even seek to renegotiate its treaty.

But for the moment, notwithstanding the fresh challenges, including concern in local media that crime is increasing, the island is thriving, and its attempts to position itself as a link between Asia and Africa appear to be bearing fruit. The prime minister's canny wooing of Beijing helped to seal China's decision to make Mauritius the site of one of China's five special economic zones for Africa.

Indeed arguably, Mauritius now faces a problem that would be the envy of most of its fellow members of the African Union – it risks being a victim of its own success. In its drive to position itself as Asia's portal to Africa it has embarked on a series of vast urban building projects, including the Chinese economic zone and a new city to relieve pressure on the capital, although the latter project is still at the planning stage.

'The secret of the island's success lies in its origins. No one can say they came first'

Critics caution that such projects might jeopardise through overcrowding and overdevelopment what has for centuries made Mauritius such a special destination – its fabulous landscape and environment.

Reflecting on Mauritius' journey over the past 40 years Mr Bérenger concludes that the secret of its success lies in its origins, as an island with no inhabitants before the arrival of Dutch traders in the 17th century. "That makes for a bloody big advantage. No one can say they came first. There is still this feeling of common history and common problems. It's a miracle, if a fragile one."

Mr Sithanen is also wary of being too bullish but he strikes a slightly more upbeat tone. "We've not reached the destination but we've been able to turn the corner."

Good cheer: while communities mostly keep to themselves in matters such as marriage, the public sphere is generally marked by civility. No one group can truly lay total claim to the island

Rex

A model of multi-cultural co-existence

SOCIETY

Tensions bubble beneath the surface, but there has never been prolonged unrest, writes **Sharmila Devi**

Mauritians say the multi-cultural society of their island state is symbolised in the colours of its flag – red for Hindus, green for Muslims, blue for Christians and yellow for Tamils.

The peaceful co-existence of so many disparate ethnic groups along with the island's small size are often cited as reasons for the country's success when so many of its African neighbours suffer severe civil conflicts.

Mauritians like to point out that, since independence from Britain was peacefully won 40 years ago, successive governments have always passed on power via democratic means in the absence of violence.

Pulling out of poverty, let alone becoming a middle-income country, was once deemed impossible by two Nobel-prize winners.

V.S. Naipaul labelled Mauritius *The Overcrowded Barracoon*, also the title of his 1972 book, saying its "problems defy solution". Just over a decade earlier, James Meade, a Cambridge economics don, said it would be a "great achievement" if Mauritius ever found employment for its increased population.

"Mauritius has leveraged well our plurality and diversity," says Rama Sithanen, the finance minister, who is credited with opening the doors to the global economy. "We have a model of co-existence. There are problems but we can rise to the challenge with social cohesion."

Tensions bubble and simmer below the surface, for example, between Muslim and Hindu, African and Indian or rich and poor. But these differences have not manifested themselves in prolonged unrest.

While communities might mostly keep to themselves in matters such as marriage, the public sphere is generally marked by civility.

Often the sharpest disagreements occur between siblings with traditional joint households over land and property inheritance in the densely-populated island

Mauritians of Indian descent – mostly Hindu but also Muslim and Tamil – make up the majority of the island's 1.2m population.

Other ethnic groups include the descendants of African slaves, Chinese and white Europeans.

No one group can truly lay total claim to the island, particularly given the numerous waves of discovery – not always accompanied by settlement – since the 10th century, when Arabs visited the uninhabited island followed by Malays and Portuguese.

The Dutch first settled the island and proclaimed it a colony in 1638. After naming it after Maurice, Prince of Orange, and introducing African slaves, their greatest claim to fame is killing the dodo to extinction.

The French then settled the island and established the first sugar mill. But piracy and the Napoleonic wars let the British in. The 1814 Treaty of Paris ceded the island to the British but Franco-Mauritians were allowed to keep their language, sugar mills and the Napoleonic legal code.

Following the abolition of slavery in 1833, the British shipped in about 500,000 indentured labourers mostly from India but also from Madagascar, continental Africa and China to work in the sugar cane fields. These workers and their descendants eventually made up the majority and independence was granted on March 12 1968.

Indians now dominate the government, Europeans still own much of the land and sugar estates, many Chinese run retail and Africans remain mostly poor.

Universal healthcare and free education laid the framework for cohesiveness after independence. A common culture evolved in the universal use of Creole – derived from French. Many Mauritians also speak English and another language from their ethnic group, such as Hindi.

Local television news is broadcast in different languages throughout the day while most newspapers are in French and English. The media is free and noisy and the legal system is a melange of French and British law. A letter published in French in the mostly English Mauritius News weekly last week listed the factors shared by all ethnic groups characteristic of a "real Mauritian".

These included always flying with overweight baggage because of all the food taken to relatives abroad. Or remaining more attached to superstitions, such as revering the grave of a local mystic, than are usually allowed by orthodox religion. And never informing friends or relatives before visiting them at home.

Many Mauritians have emigrated in search of jobs since the 1960s. Before independence, they arrived in Britain with passports declaring them some of the last "colonial subjects" subject to "Her Majesty". But this latest voyage around the world did little to stop many Mauritians from viewing India, not Britain, as the mother country. This was symbolised by the presence of Narasimha Rao, then prime minister of India, when Mauritius became a full republic in 1992.

Globalisation means yet more influences washing across the island and most are snapped up, particularly western consumer goods. But rapid economic change and the emergence of an elite nouveau riche has led to growing discomfort over income disparities.

There is also increased worry about crime, corruption and the loss of "traditional" values. While this might be more symptomatic of economic insecurity than lasting negative change, the government will face increased scrutiny as it aims for greater equity and maintained unity.

Anxious to keep a place in the sun

TAXATION TREATIES

Wheatly Aycock on clouds hanging over third-country investment schemes

Mauritius worked hard to earn its special status, and the country might have to work harder to keep it. Its advantages as an offshore investment centre are being whittled away year by year, as the developing economies on which it relies revisit their taxation treaties with the island. For more than 20 years, favourable tax treaties with India and China have formed the backbone of Mauritius's financial sector, which is the biggest contributor to its gross domestic product.

In 2004, India, China and Indonesia together received 78 per cent of the nearly $60bn – the vast bulk of it to India – in foreign investment that flowed through Mauritius. International investors reaped huge tax benefits by putting their money into Mauritius-based companies that used the tax treaties to invest in third countries.

Tax authorities in India, China, and Indonesia, however, have lately joined more developed countries in scrutinising offshore investment structures. The Indonesian government unilaterally allowed its treaty with the island to lapse in 2005, citing "round-tripping" abuse. Indonesian companies, in other words, were putting money into Mauritius-based companies, only to reinvest that money at lower tax rates in Indonesia. India too is concerned about revenue lost to round-tripping, and may seek to renegotiate its treaty. This poses a threat to the island's most lucrative symbiotic relationship.

Mauritius-based companies have accounted for more than 44 per cent of all foreign direct investment into India over the past seven years, and the bilateral tax treaty is seen as the foundation of Mauritius's success as a financial centre.

"There is now no possibility of round-tripping," says Rama Sithanen, the finance minister, echoing the government's increasing sensitivity to the concerns of its treaty partners. "We have strengthened the regulatory framework and monitoring."

Mauritius has also tightened up its residency requirements, meaning that companies must have much more than a post box on the island to avail themselves of bilateral tax advantages. Doubts remain, however, that the authorities can eliminate round tripping. While they can identify the origin of the investment, the nationality of individual investors may not be known.

As the Indian and Chinese economies mature and their risk profiles lower, there is also less of a sense that wholesale incentives for investment are necessary to attract capital. Savvier regulators from India, China, and other emerging markets are starting to make investors pay more dearly for stakes in their markets.

China, for instance, implemented a withholding tax on dividends in January, meaning that distributions from Chinese companies to their Mauritius investors – or any investors – will first be taxed in China, resulting in diminished income streams to investors. South Africa is expected to do the same in the next couple years.

Scrutiny of investment structures comes amid a global crackdown on tax abuse and avoidance. While Mauritius is not a tax haven such as Liechtenstein – where a tax-evasion furore erupted in February – the global taxation climate is changing for offshore investment, as more countries impose anti-abuse laws and reduce the number of exemptions.

What distinguishes Mauritius from most tax havens is that it does not have strict confidentiality laws that attract investors to the Cayman Islands and Liechtenstein for example. It is thus seen to guard to an extent against tax evasion.

China, which received more than $1bn through Mauritius last year, reviewed its 21-year-old treaty in January 2007, expanding the conditions under which capital gains tax would be levied on sales of Chinese holdings. It has also imposed a domestic anti-abuse law aimed at offshore investment. It may be this latter change that proves most significant for Mauritius. Reputation is crucial to the country's success; the island must walk a line between offering investment incentives and ensuring commercial probity. "We want to sell Mauritius as a credible, strong financial centre in this part of the world, which is why we aren't going to take any risks as far as our reputation is concerned," says Mr Sithanen.

To compete with other tax havens in the stricter global tax environment, Mauritius might need to market itself anew. Enjoying the lowest withholding tax rate – 5 per cent – that China applies to any country, the island is still attracting plenty of China-bound money.

But Hong Kong and Singapore are becoming more attractive too, both for their proximity to China and for their incorporation of China's anti-abuse law into their treaties with Beijing.

For the time being, however, Mauritius continues to offer tax advantages to offshore investors and to maintain 33 treaties. Mr Sithanen says the country can adapt as needs be. "We do what most countries do," he says. "We try to keep abreast of what is going on in the world."

Wheatly Aycock is an international transactional lawyer working in southern Africa

Central bank: authorities are keen to stay abreast of events Reuters

Liberal banking policy helps exploit geography

FINANCE

Tony Hawkins looks at reform, licensing and the eastward shift of economic power

When the government launched its offshore banking scheme in 1989, it was greeted with almost universal scepticism.

The doubters argued that the domestic market was tiny, that Africa was too high-risk a region for such an initiative, that the looming threat of meltdown in South Africa would torpedo offshore banking in Mauritius, and besides the island did not have the necessary skills, communications and technology.

Twenty years later the sceptics have had to eat their words. There are 19 banks on the island, of which only three operate purely domestically. Seven are offshore operators providing purely international financial services that generate foreign currency income, while the remaining nine have a foot in each camp. Big name international banks include HSBC, Barclays Deutsche Bank, Standard Bank from South Africa, Investec and Standard Chartered.

Growth has resulted from a combination of government reforms such as the 2004 Banking Act, which created single banking licences and ended the artificial division between domestic and offshore banks, the natural evolution of banking systems worldwide and the eastward shift of economic power to Asia.

Mauritian bankers believe that they are ideally positioned geographically to exploit Asian-African business and trade links that are growing rapidly.

The country's liberal policy regime – no capital controls, a floating, but relatively stable, currency, an attractive tax regime and a large number of Double Taxation Avoidance Agreements – give it the edge over larger and stronger financial sectors, such as South Africa's, still locked into exchange controls, with a volatile currency and a government predisposed to interfere.

Rundheersing Bheenick, governor of the Bank of Mauritius, is planning to develop Islamic banking.

Because bank statistics are no longer shown on a domestic-versus-offshore basis, there is no objective measure of the size of offshore operations.

However, at the end of last year, loans outside Mauritius were larger than bank lending to the island's private sector, at MR176bn against MR134bn. Further, foreign assets accounted for almost two-thirds of total assets, a good indication of the extent to which the banks have globalised.

Similarly, a large chunk of deposits (about 68 per cent) is in foreign currency, though this is less of a measure of offshore activity because the funds may well be owned by Mauritian as distinct from foreign residents. Critics complain that, despite the infusion of international blood, the banks are stuck in their old ways, with huge spreads between deposit and lending rates and high levels of concentration.

> The number of listed equities on the stock exchange has risen seven-fold since 1989 and the index has risen 18-fold

Two banks – Mauritius Commercial Bank and the State Bank of Mauritius – account for 60 per cent of the market and, according to Mr Bheenick, the top six have an 80 per cent market share.

But, Mr Bheenick says, the old days of market share built on a dense branch network are fast disappearing. The new operators are bringing in modern technology – internet banking, automated telling machines and IT systems – that once established have very low operating costs.

Not all official reforms achieve their intended goals and while some believe the two distinct regulatory systems – the central bank for deposit-taking institutions and a Financial Services Commission for non-bank financial institutions – work well, the International Monetary Fund is unconvinced, calling for improved co-ordination between the two.

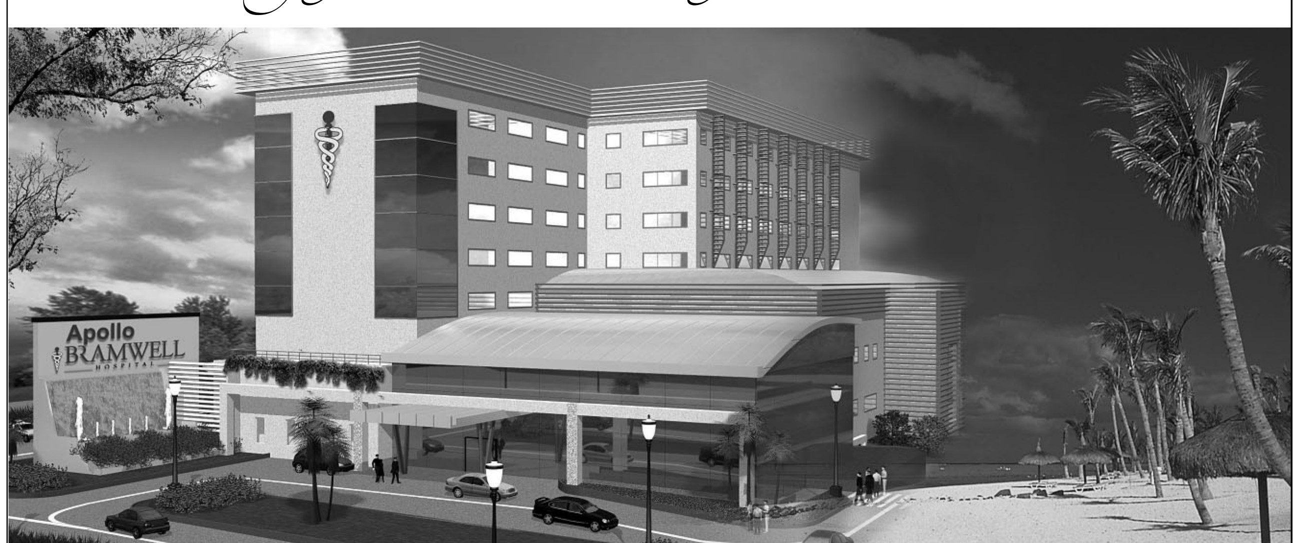
Mr Bheenick, with a wry reference to the problems of blurred regulatory responsibility in Britain's Northern Rock debacle, agrees that the system needs reviewing. Leasing institutions have a foot in both bank and non-bank camps, which leaves a question mark over which authority is responsible.

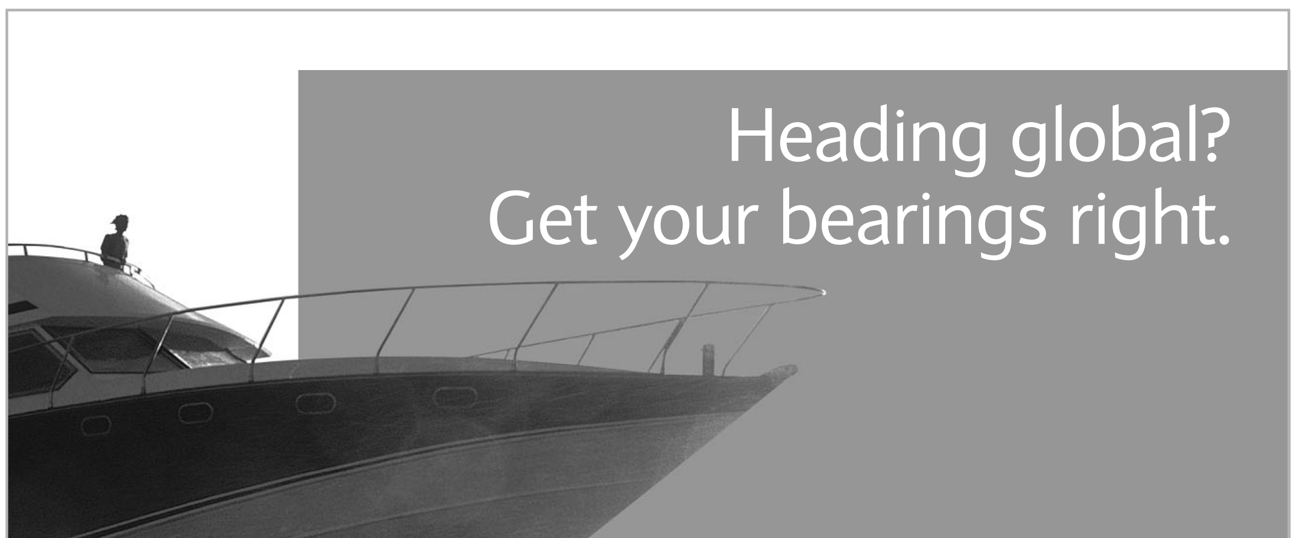
One of the unsung successes of financial reforms is the recent performance of the Mauritius Stock Exchange. Since its 1989 launch, the number of listed equities has risen from six to 41, the stock market index has risen 18-fold, doubling in the past two years alone while another 51 companies are listed on the second-tier Developmental Enterprise Market. Mauritius, with Nigeria and Kenya, is part of the MSCI Frontier Emerging Markets index.

More impressive still is the fact that share prices have been driven up by corporate performance and earnings and not hedge fund or other speculative investment interest. Sunil Bennimadhu, chief executive of the exchange, attributes the bull run to the economic reforms, the wave of international interest in Africa's frontier markets and the exchange's "aggression" in telling the good story.

Mr Bennimadhu believes growth will come from the development of derivatives and synthetics in the form of investment vehicles that will suit offshore investors.

One plan is to develop "tracking" investments that allow foreigners to buy a basket of African companies and hold the investments offshore, getting the benefits both of diversification and risk-reduction.





Tying the knot between unequal partners

RELATIONS WITH CHINA

There are few places in Africa where the Chinese are so at ease, says **Alec Russell**

A few years ago, mention of the increasing role of China in Africa would have been guaranteed a mixed response in Mauritius.

The island has a long-established flourishing Chinese community, so prospecting Chinese business people were unlikely to encounter the resentment and even hostility they have met in some countries on the African mainland in recent years. Mauritius was one of the first states in Africa to recognise China in 1972.

In a sign of the strength of the bond, Mauritius even celebrates China's Spring Holiday as a public holiday.

But ahead of the phasing out of the Multi-Fibre Arrangement, which protected the local textile industry, in 2004, there were deep fears that cheap Chinese textiles were going to flood in, devastating domestic manufacturing.

Even though Chinese textiles soared, China is very much flavour of the month in government circles. It is not just that the textile industry has been able to adapt better than expected, but Mauritius has also become – as ministers love to say – "Asia's gateway to Africa".

Such rhetoric from politicians often masks an empty relationship, but in Mauritius, just to the north of Port Louis, the capital, there are concrete signs of the partnership developing by the day, as a Chinese advance team prepares to start building a special Chinese economic and business zone.

"In the run-up to December 2004 [when the MFA was phased out], a number of clothing companies closed, leading to mass unemployment," recalls Vinaye Dey Ancharaz, at the University of Mauritius and the author of a new paper, *David v Goliath – Mauritius facing up to China*.

"Many countries in Africa were very concerned that Chinese products would sweep local markets. But look at the data. That has not happened to the extent that was feared, at least not in Mauritius. Chinese clothing has encroached on domestic production. But we have been able to cushion ourselves against the Chinese shock."

Prof Ancharaz is one of many analysts of China's re-engagement in Africa to laud the planned new zone on the beautiful Mauritian north-west coast as a model partnership. "We present to China an interesting set of incentives," he says. "It is no coincidence that China wants to come here. We offer distinct market advantages."

Traditionally, development on this stretch of the island's coastline, aptly known as *Riche Terre*, is designed to entice honeymooning couples from Europe. This enterprise, however, is aimed at tying the knot between two continents.

The Shanxi Tianli Zone, as the complex is to be known, is to be one of five such zones for Africa first outlined by President Hu Jintao at the Africa-China summit in Beijing 15 months ago.

The other four are to be strategically dotted around, in Zambia, in the south, Tanzania in the east, Egypt in the north, and Nigeria in the west. But the sophistication of the Mauritian project makes it arguably the most innovative.

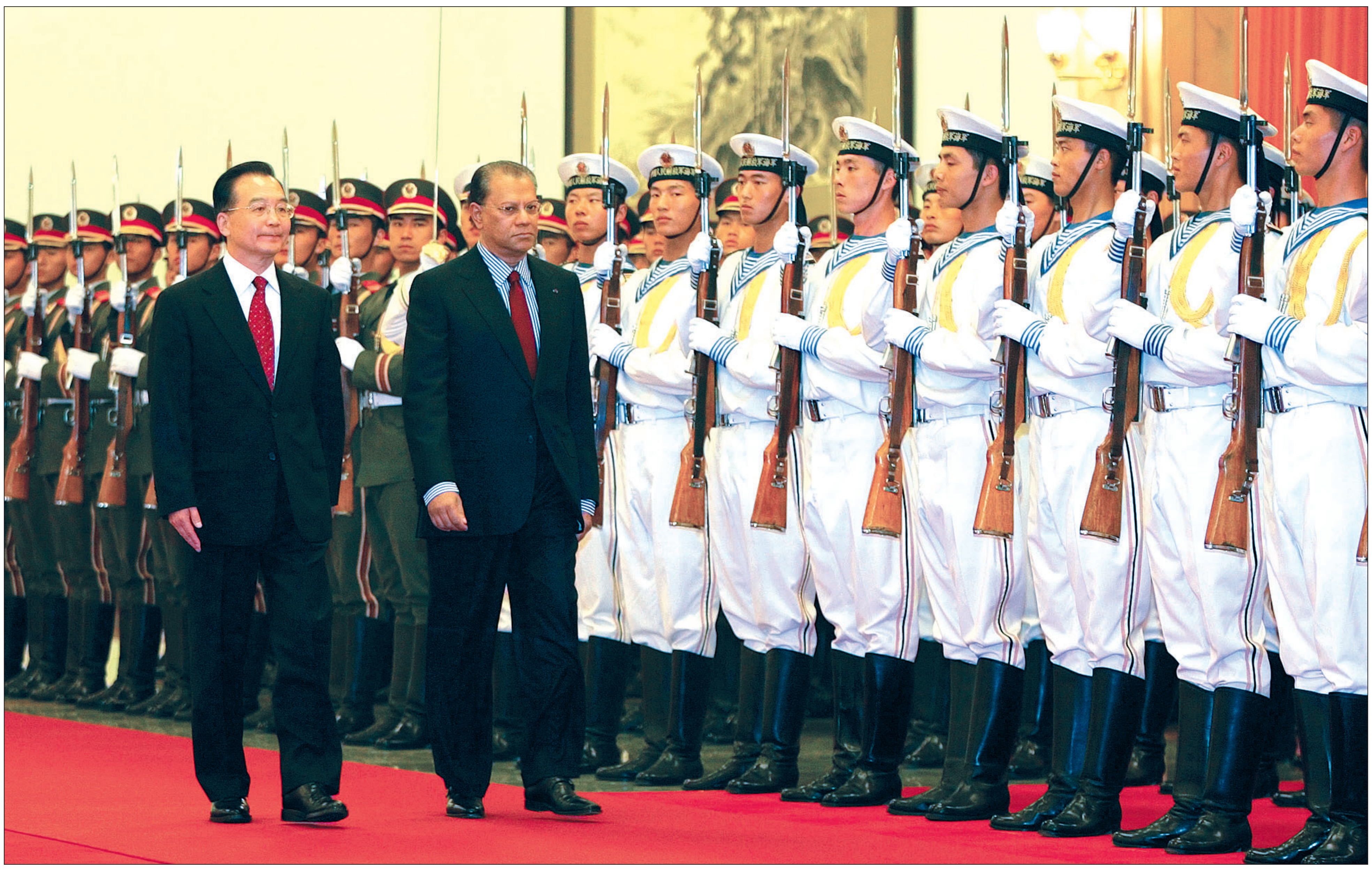
The overseer of the plan, William Guo from Shanxi Tianli Enterprises, a state industrial company, has established his office in the centre of the luxuriant 22-hectare plot of former sugar fields that are to be the site of the zone.

He explains that it will provide an offshore headquarters for Chinese businesses, safely away from the insecurity of parts of the mainland.

It will allow them access to the regional economic groupings; it will also offer a convenient rendezvous for African businesspeople keen to trade with China, sparing them the long flight to Asia.

"There are stable politics here and a stable financial environment. That is very important," he says, echoing the statements of Mauritian officials who proudly cite Beijing's endorsement of Mauritius as one of the five zones as a recognition of its reputation for sound governance.

"When big Chinese companies go to Africa, they are sometimes worried. The first thought is: are we safe? Mauritius is a fantastic place for a regional headquarters. Last year 30 or 40 delegations from companies and [the Chinese] government came. After they saw the master-plans, they were impressed."



Bonding: Wen Jiabao, China's premier, and Navinchandra Ramgoolam, Mauritius' prime minister, review an honour guard at Beijing's Great Hall of the People AP

Martyn Davies, head of the Centre for Chinese Studies at South Africa's Stellenbosch University, says the building of the zone signals the growing challenge to India in a region that it has regarded as its backyard for decades.

"It challenges Indian dominance in the Indian Ocean rim," he says. "This was traditionally an Indian sphere of influence and now it is becoming more Chinese."

Officials emphasise that they do not see the project affecting their traditional ties with France and the UK, their former colonial powers, and with India.

They also say they have taken into account concerns that the zone risks becoming a Chinese enclave. Resentment has simmered in several African states, notably Zambia, where Chinese workers have been all but sealed off from the local population.

> The zone signals the growing challenge to India in a region that it has regarded as its backyard

While a supporter of the project, Prof Ancharaz cautions that too little attention has been paid to the potential environmental impact of the development in one of the most beautiful parts of the island. "We are also quite silent about the socio-economic impact," he says.

Dan Callikan, special adviser to the Mauritian prime minister, plays down the chances of political or social tensions over the relationship.

"There are very few places in Africa where the Chinese are so at ease," he says. "They remember that Mauritius recognised them. They have long memories. And we have been taking lessons from elsewhere on how to make this work."

Mauritius

Little bitterness in spite of the rhetoric

POLITICS

Alec Russell reports on a rare example of African democratic alternation

Paul Bérenger, Mauritius' flamboyant opposition leader, describes the island as quite exceptional.

"Four times since independence [in 1968], the government of the day was thrown out in general elections. Three times it won. Then again I suppose it's not that special. After five years [of one government] people want a new dream."

He is right of course that after five years electorates often like a change at the top. Indeed, he should know. He has been in and out of office repeatedly in the 40 years since he first played a role in Mauritian politics as a radical Marxist firebrand leading street demonstrations, having cut his teeth in the 1960s student protests in Paris.

Nonetheless, when set against the anti-democratic record of most of Mauritius' fellow members of the African Union, its post-colonial history of democratic alternation is striking.

While the country's rival politicians engage in impassioned and sometimes even vitriolic debates as they vie for a parliamentary majority, the contests have broadly been conducted without the bitterness and bloodshed that have accompanied so many African exercises in democracy.

The first-past-the-post system has occasionally led to some skewed representation in parliament. In 1982, the coalition led by Anerood Jugnauth won all 60 seats and the outgoing Mauritius Labour party (MLP), which had governed since before independence, won no seats, even though it secured 30 per cent of the vote.

But even then there is the leavening factor of the slightly quaint "best loser" system. This ensures that whichever ethnic community is least fairly represented has the chance of being allocated four extra seats.

Mr Bérenger does not want to give the impression that relations across the political aisle are too cosy.

"People are fed up with the government, with price increases and corruption since they were elected two-and-a-half years ago," he thunders with a toss of his silver mane of hair.

His passion led him earlier in his career to the odd stint in police cells after he led demonstrations in the emotive post-independence years.

But he swiftly goes on to concede: "There is no great ideological divide. The three main parties have worked with each other in coalitions at one time or another."

Indeed, with the opposition parties divided, possibly the greatest political challenge facing Navinchandra Ramgoolam, the prime minister, is the tension within his Social Alliance coalition.

The son of Sir Seewoosagur Ramgoolam, who led Mauritius to independence, at the head of the MLP, he is half way through his second five-year term.

In the best traditions of Mauritius, the two terms were separated by five years of government under a coalition of the Militant Socialist Movement and the Mauritian Militant Movement of Mr Bérenger, who for two years served as the island's first and, to date, only non-Hindu prime minister.

Now, insiders suggest that traditionalists in the MLP are unhappy with the political price of the economic reforms that the government has pursued.

In particular, there is concern that the reforms have not been sold effectively to the electorate, amid increasing signs of discontent over price increases.

Rama Sithanen, the finance minister and deputy prime minister, a technocrat who was educated at the London School of Economics, says the current inflation rate of 8.8 per cent is a "blip" on the economic landscape.

> There is a 'best loser' system for ethnic communities that are least fairly represented

Asked whether the politics of the economic reforms had been neglected, he lists a series of measures introduced to ease their pain.

These include subsidies on cooking gas, school fee support for people in lower income groups and free transport for all school children.

Vishnu Lutchmeenaraidoo, an acclaimed finance minister in the 1980s, is not convinced.

"We've been living through stressful periods of price increases, accompanied by the poor getting poorer," he says. "We import 100 per cent of our rice, oil and milk. Potentially the situation is explosive. These huge increases have created a sense of frustration, and not just in the low income group. The International Monetary Fund-led reforms have extended the rubber band to a point where social peace is threatened," he says.

"Rama Sithanen is brilliant, but when you are trained as an economist, you are used to working more on charts. He's been implementing a reform programme that is not compatible with socio-economic reality."

Such statements have intensified a debate within the ruling coalition over the reform programme, and indeed over the future of the finance minister, who has long been tipped as a strong candidate for an influential job at the World Bank.

A further perennial issue for political observers is the potential factionalism of politics along community lines. The MLP has traditionally gained the bulk of its support from the Hindu majority, whereas the bedrock of the opposition parties comes from the island's minorities.

But visitors to Mr Bérenger's villa home in a hilly suburb south of the capital Port Louis only have to look beyond his perimeter wall to appreciate the rational way politics is usually conducted in Mauritius: his house abuts the tropical gardens that surround one of the official residences of his great adversary, the prime minister.

Even now, more than 50 years after the start of decolonisation, and as new democratic winds blow through the continent, there are relatively few heads of government in Africa who might be expected to be comfortable with having the opposition leader all but able to eavesdrop on official functions.

Paul Bérenger: the opposition leader has been in and out of office regularly over 40 years AFP

‘We have managed to turn things around’

INTERVIEW
NAVINCHANDRA RAMGOOLAM

The premier tells **Tony Hawkins** how the country has defyied the doomsayers

Mauritians have every reason to be proud of their achievements in the first 40 years of independence, says Navinchandra Ramgoolam, the country's prime minister.

Speaking to the Financial Times on the eve of the island's independence anniversary, Mr Ramgoolam recalls how, in the 1960s, Mauritius had been written off as a "doomed island" by James Meade, the British economist and Nobel prize-winner, while an American expert had predicted a future of "famines, epidemics and martial law".

In fact, he says, per capita incomes had risen from $200 at independence to more than $6,000 in 2007 and will surpass $7,000 this year.

Rising unemployment had been reversed for the first time in 15 years and, at 8.8 per cent was way below the 40 per cent inherited at independence, when the country had been "bankrupt".

"We have managed to turn things around, even though we don't have huge natural resources. Gross domestic product grew 6.3 per cent last year and in 2008 we are expecting 7 per cent," he says.

"Foreign direct investment is rising and this year we expect MR12bn [about $444m] – perhaps more. One of the most important things we have managed to do is to maintain social harmony".

The absolute poverty rate – the number of people living on less than $1 a day – is less than 1 per cent. Asked how his socialist administration had succeeded in pushing through Thatcherite economic reforms, the prime minister says the government had no choice.

"We live in a globalised world and these reforms were essential," though he admits that the process had been difficult, "because people don't like change. Had the reforms not got results, it would have been very difficult for us".

Responding to calls from industrialists and exporters for intervention to stop the appreciation of the Mauritian rupee, Mr Ramgoolam says the currency "had to reflect market forces. I don't think that we should intervene in the way that they [exporters] want us to. Even with the strong rupee they are still doing well".

Following the country's success in coming through the abolition of the Multi-Fibre Arrangement and the end of the European Union's sugar protocol, the premier says that he was "not terribly concerned at this stage" about the current slowdown in the global economy.

But if there were a big recession in the US that spread to Europe, that would be a different matter.

Commenting on growing business links with China, Mr Ramgoolam says Mauritius had not been on the original list of five African countries targeted for China's special economic zones.

"But I managed to persuade China to use Mauritius as a bridge between Asia and Africa."

China plans to invest $700m in a range of industries that will create 40,000 new jobs, generate foreign currency earnings and transfer technology to Mauritian workers and companies.

Growing business with China did not mean any downgrading of links with India. "Not at all. Indian businesses are also investing in Mauritius."

The prime minister rebutted criticism that his government is insensitive to the plight of the Mauritian underclass, saying that "relative poverty in Mauritius is only 8 per cent compared with 14 per cent in the US".

"There has never been a Mauritian government that has been so focused on the poor and those who need to be empowered."

Responding to criticism of the government's integrated resort schemes (IRS) targeting wealthy individuals, Mr Ramgoolam says he does not want to see "rich enclaves in poor areas".

But the scheme attracted foreign investment, and generated tax revenue and jobs. "Growth of today is prosperity of tomorrow," he says, "but that growth must be inclusive and that is why we are so focused on poverty alleviation."

Asked how Mauritius had managed to maintain a free and stable democracy while most of Africa had been unable to operate competitive political systems, the Mauritian leader explains the country's long tradition of political freedom that is "ingrained in our culture – an open society, a free press, people are free to express themselves and they are used to going to the ballot box and deciding whom they want to govern".

'There has never been a Mauritian government more focused on the poor'

The island's strong constitution with its protection of human rights had also played an important part in the democratic process.

Referring to media reports that the recently elected leader of South Africa's ruling African National Congress, Jacob Zuma, was trying to get the Mauritian courts to deny access to documents sought by South African prosecutors, Mr Ramgoolam says he met Mr Zuma about two weeks ago when he visited Mauritius.

"I explained to him that we have an independent judiciary. We don't intervene. The courts will have to decide."

Navinchandra Ramgoolam: 'People don't like change. Had the reforms not got results, it would have been very difficult for us' AFP

Mauritius


A stitch in time: most factories are expanding but there is deep concern about the rupee's appreciation and the government's hands-off policy Alamy

Restructured and refocused

TEXTILES

Tony Hawkins on the strategies that have kept the island's manufacturers afloat

Three years ago in the immediate wake of the abolition of the international Multi-Fibre Arrangement, the Mauritian textile industry was in deep trouble. Output had fallen for four consecutive years, declining by a third while employment was down to 67,000 people from more than 91,000 at then end of the 1990s. The Export Processing Zone's (EPZ) share of gross domestic product had plummeted below 7 per cent from 12.5 per cent and the island was thick with gloomy forecasts of the future.

Pundits said the industry that had grown up on the back of trade preferences in the European Union could not survive the onslaught of low-cost competition from China and other Asian manufacturers. They were wrong. After turning around in 2006, textile and clothing output surged 10 per cent last year, net exports which had fallen by a fifth enjoyed a strong rebound, but the employment shake-out – 27,000 job losses since 2000 – continues.

Industry-wide trends masked the two-tier nature of the industry. In the early 2000s, it was the "island-hopping" Hong Kong-based manufacturers who had located in Mauritius to exploit quota and duty preferences in the European Union market that folded their tents and left. The hard core Mauritian companies stayed, restructured and refocused, as a result of which the sector is more resilient and stable now that the artificial benefits of protection have gone, with the exception of the US African Growth and Opportunity Act (Agoa) that is a market option for vertically-integrated Mauritian manufacturers that make their own yarn or import it from continental Africa.

Mr Ali Parkar, president of the Star Knitwear group, and a hugely successful industrialist and exporter, says his group sailed through the crisis as if nothing had happened. Mauritian manufacturers got the basis right in terms of product selection, quality, price competitiveness and, above all, rapid response times. At Star, he says, "we work with lead times as short as two to four weeks. We may be 30 per cent more expensive than China, but the quality is not the same". In reference to manufacturers in southern Europe that can no longer compete, he says: "We are replacing Europe. We are not fighting China."

Mauritian suppliers have a proud reputation with the retail chains they supply in the EU. Trust levels are high. Business is done on open account. Both sides are happy. "It works beautifully," says Mr Parkar.

Maurice Vigier de la Tour, general manager of denim manufacturer Denim de L'ile, concurs, showing an aerial photograph of his factory, nestling close to the shoreline. "That's one of my best marketing tools," he says. "Buyers are only too happy to come here." His vertically-integrated factory imports cotton from continental Africa (Benin, Mali, Niger, Zambia), and manufactures yarn, fabric and jeans. The company's strategy is based on value-addition – making and selling more jeans rather than exporting the fabric. His main market – 75 to 80 per cent – is Europe with 15 per cent going to the US and some to South Africa. "The industry is much stronger today and more efficient than 10 years ago with long-term strategies in place."

Francis Woo, managing director of Compagnie Mauricienne de Textile (CMT), has a remarkable story to tell. His business, started 23 years ago with just 20 employees, now has 10,000 workers – the biggest private sector employer in the country. CMT is also a vertically-integrated operation, importing African cotton, processing it from yarn to fabric and ultimately to knitted shirts which is the group's specialty. "Costwise, we cannot match China or India," he says, "so we are niche market players." With one big reservation – the overvalued rupee – Mr Parkar is bullish about future prospects.

"Almost all the factories in the industry are expanding," he says. Industrial exporters agree with his view that "the government cannot allow destruction of the manufacturing base by an unreasonable and unwarranted appreciation of the rupee". Industrialists warn that there is no way the economy can replace 64,000 jobs in the manufacturing export sector, should companies go to the wall because of an overvalued currency.

"Rupee appreciation took us by surprise," says Mr de la Tour. "We sell six months in advance and, during that period, the currency has appreciated 13 to 15 per cent".

Mr Woo says the country cannot afford to sacrifice the industry to market forces in the currency market. "Once an industry goes," he says "it is gone forever. There is no coming back. We should not play with fire."

Mr Parkar wants the government to fix the rate, but this is unlikely and probably the best the industry can hope for is lower interest rates and active central bank intervention to stave off any further appreciation. But if the capital inflows persist and inflation remains high, as seems probable, the authorities will be forced to choose between a hands-off policy and watching exporters go to the wall.

Learning to live without preferential treatment

SUGAR

Tony Hawkins on the wrenching reform of an industry that might turn positive again

One aspect of globalisation – the gradual abolition of trade preferences – has brought wrenching reform to the Mauritian sugar industry, once the country's economic dynamo.

At independence in 1968 and for the first dozen years thereafter, Mauritius was a sugar economy, producing more than 620,000 tonnes a year in the 1970s and early 1980s, employing upwards of 50,000 people or a third of the workforce and responsible for 40 per cent of exports.

Then, the industry accounted for a fifth of gross domestic product but today sugar cane's share is down to a mere 2.3 per cent, while sugar milling and refining contribute another 0.7 per cent.

In some respects this is just how it should be. Sugar's declining importance reflects the healthy, impressive, diversification of an economy moving upmarket from its roots as a primary producer, but the industry has also shrunk as it battles to become more efficient and competitive.

In 2007, sugar production was estimated at 475, 000 tonnes but that is not the end of the story because, as a big beneficiary of the European Union's 1975 sugar protocol, which is being phased out, Mauritius faces daunting challenges in restructuring its sugar sector in line with the new unregulated market.

The protocol provided that all African, Caribbean and Pacific (ACP) countries could export an agreed tonnage to the EU at extremely preferential prices – more than double the free market. As part of its Economic Partnership Agreements, the EU will phase out the sugar protocol over the next seven years so that by 2015 all preferences will have gone.

Following a 5 per cent price cut last year, Mauritian producers – the 20 corporate farms that grow two-thirds of the crop and hundreds of small and medium-scale, family growers – face a 19 per cent price cut in 2008, with a further 36 per cent reduction from 2009 though, even then, EU prices will still be substantially above those in the free market.

Industry export figures underline the crucial contribution of the protocol. In 2006, exports to the EU accounted for almost 95 per cent of the total, with only 2.5 per cent being sold in the free market.

The industry is already in restructuring mode.About 15,000 jobs have gone since 2000 – with former workers getting "generous" compensation packages and reskilling assistance, partly funded by the EU – so that today sugar employs only 6,000 people. The 200-odd mills dotted around the island have been drastically rationalised so that today there are just six large plants – soon be cut to four.

Arvin Boolell, the agriculture minister, who has been deeply involved in negotiations with the EU says Mauritius is "well on target" in its sugar industry reform programme, although he acknowledges that there are "conflicting views" between the government and the big producers.

Both parties agree that the "days of preferences are over" and that the industry is in "an era of competitiveness".

The government wants

> Producers face a 19 per cent price cut this year and a further 36 per cent reduction next

planters and workers to participate in the "new configuration", so that they share in all parts of the value chain, including energy, milling, refining and distilling. Accordingly, in the 2007 budget, the shareholding of planters and employees in sugar mills was increased from 20 per cent to 35 per cent.

Dr Boolell flags three crucial aspects of the reforms, not all of which are compatible with the government's political agenda of protecting the lower income echelons of the industry. Production costs on the island, he says, are "slightly high" but because there are no supply-side constraints, there is scope to maintain, if not increase, production in a post-protocol economy.

For this to happen, the industry must exploit scale economies, which in turn will mean fewer jobs, while on the product side it must diversify from raw sugar into specialised sugars and by-products, including ethanol, produced from a by-product, molasses.

The minister's third priority is "flexi-factories" – plants that can switch their product line, possibly producing ethanol rather than sugar. He believes ethanol production in Mauritius is viable at world oil prices in excess of $80 a barrel and that the country will become an ethanol exporter.

The EU is helping the restructuring process with aid grants of €11m to help cushion the impact of the closure of three factories and the loss of 1,500 jobs.

The government hopes the combination of public reforms, financial assistance and private sector restructuring will provide a sound platform for an industry whose long-term prospects have improved with the recent boom in food prices globally and the growing interest and investment in biofuels.

It could well be that long-term sugar downsizing in Mauritius is nearing its end and that sugar's contribution to economic growth will turn positive once again.

MAURITIUS

Official name
Republic of Mauritius

Form of state
Republic within the Commonwealth

Legal System
Based on English common law, the Napoleonic Code and the 1968 constitution

National legislature
National Assembly; 70 members elected by universal suffrage every five years, in 20 three-member constituencies on Mauritius and one two-member constituency on Rodrigues, plus eight 'best losers'

Elections
Last general election July 3rd 2005; next election due in 2010

National government
Council of ministers appointed and headed by the prime minister

Main political parties
Alliance Sociale (AS) government; coalition of the Labour party (LP); Parti Mauricien Xavier Duval (PMXD), Mouvement Militant Socialiste Mauricien (MMSM)

Prime minister, minister of defence and home affairs
Navinchandra Ramgoolam

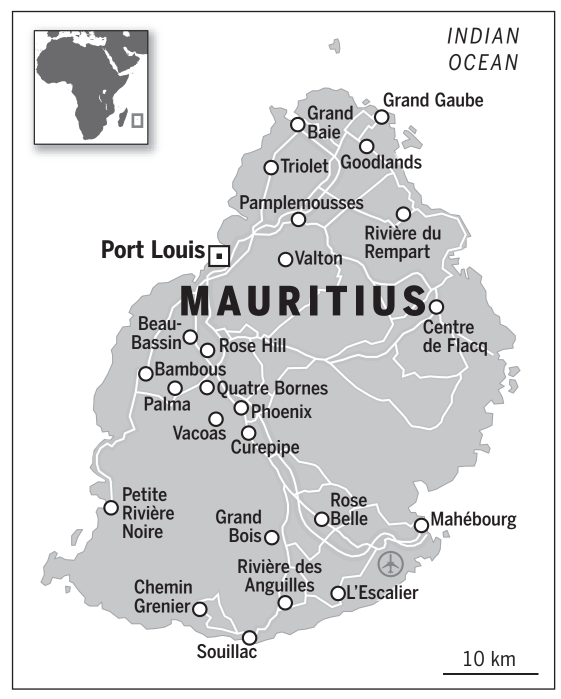
Economic summary

	2008 (forecast)	2009 (forecast)
Total GDP (Mauritian rupee bn)	258.5	282.8
Total GDP ($bn)	9.009	9.221
Real GDP growth (annual % change)	5.8	5.8
GDP per head ($)	7,854	7,170
Inflation (annual % change in CPI)	5.2	6.2
Agricultural output (annual % change)	2.0	2.3
Industrial production (annual % change)	4.9	4.8
Unemployment rate (% of workforce)	8.6	8.4
Money supply, M3 (annual % change)	9.4	10.5
Foreign exchange reserves ($bn)	1.873	1.997
Budget balance (% of GDP)	-4.1	-3.9
Total foreign debt (% of GDP)	26.5	26.1
Current account balance ($bn)	-0.506	-0.399
Merchandise exports ($bn)	2.725	2.718
Merchandise imports ($bn)	4.158	4.125
Trade balance ($bn)	-1.433	-1.407

Country information

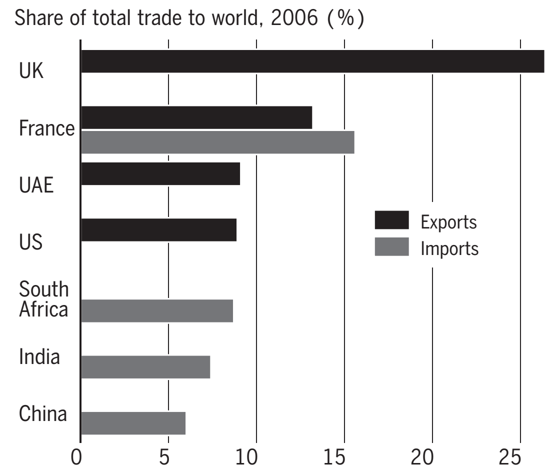
Area	2,040 sq km
Languages	English, French, Creole, Bhojpuri, Tamil, Hindi, Urdu
Population (2006 est)	1.26m
Currency	Mauritius rupee (MRs)
Exchange rate	
2007 average	$1 = 31.09 MRs
2008 latest	$1 = 27.30 MRs

Source: EIU



Main trading partners

Share of total trade to world, 2006 (%)



Main cities and population (mid 2004, million)

Port Louis	148,300	Vacoas and Pheonix	103,200
Beau-Bassin and Rose Hill	107,800	Curepipe	82,100
		Quatre Bornes	79,100

Sovereign credit rating

Moody's	Baa2

Fancy a pad in paradise?

REAL ESTATE

Sharmila Devi reports on incentives designed to boost international interest in property

Banyan Tree resort: designed by the UK-based Foster and Partners, it is using local materials and will be car-free

Mauritius is putting the rich first when it comes to expanding the tourism and hospitality sectors in a strategy that focuses on exclusivity.

But to offset criticism in a country where the gross domestic product per capita is below $7,000, the government is also promoting training and social programmes with the help of international developers to provide more than just low-grade work.

To boost international real estate interest, there is the integrated resort scheme (IRS), allowing foreigners to obtain residency if they spend a minimum $500,000 on a property at several developments under way across the island. Incentives are also offered to encourage construction in sectors including offices to hospitals to biotech.

"We want the local community fully integrated with these developments," says Rama Sithanen, deputy prime minister and finance minister. "We are encouraging outsourcing to SMEs, talking with fishermen and planters and helping with training and economic empowerment."

The IRS was born about five years ago, allowing former sugar estates to convert into luxury resorts with hotels, spas, golf courses and other leisure amenities along with residential villas and properties sold for between $1m and $4m. Mauritius ended its restrictions on property purchases by foreigners and streamlined residency, tax, work and other bureaucratic legislation.

"Apart from being a beautiful place, Mauritius is friendly and offers safety, democracy and the rule of law," says Xavier Luc Duval, tourism minister. "Coupled with the growth in tourism, the IRS offers good investment and rental prospects."

The Board of Investment has approved 10 projects, representing about 3,500 units. High prices and careful approvals are intended to prevent any flooding of the market.

"We are promoting aesthetic beauty while at the same time retaining our cachet and reputation for hospitality," says Raju Jaddoo, managing director. He says the government will make about 25 per cent from the sale of each villa, mostly from the developer. "The government will get between $150,000 and $200,000 straight away and paid at source." This includes land transfer and registration costs.

Buyers and developers are enticed by Mauritius's flat 15 per cent tax rate and no capital, inheritance or withholding taxes. The downside is that some facilities, such as shops nearby, have yet to be developed.

The developer must also provide an environmental and social impact study and pay about $6,000 per villa into a social fund. This money can be held in an account controlled by the developer but must be spent in accordance with the study and under scrutiny from outside auditors.

"If the money was transferred to the government, then all sorts of rules to do with things like procurement would have to come in," says Mr Jaddoo.

Anton de Waal, chief executive officer of the Villas Valriche resort that is under construction, says its social fund has four pillars: to raise awareness; employment and training; infrastructure such as water provision; and a venture capital fund to boost entrepreneurship in fields such as arts and crafts.

Property buyers are mostly from Europe but also from South Africa, India, Russia, Australia, the United Arab Emirates and the US and appear to be hooked by the resorts' exclusivity and modern-colonial design.

> Property buyers appear to be hooked by the resorts' exclusivity and modern-colonial design

Banyan Tree Corniche Bay, for example, is designed by the UK-based Foster and Partners, which is using local materials and the resort will be car-free and use electric vehicles.

The Anahita resort is close to completion and has sold 143 properties out of 320. Seamus Moore, sales manager, says a lot of time was spent educating buyers about the complex paperwork that is needed to obtain residency and to prevent money laundering.

"It's a lengthy process and some people even spoke of invasion of privacy, but I don't agree," he says. "Financial intelligence and controls are needed and there's no way round that."

Local Mauritians keen to develop small plots of land but with few other resources are being encouraged under the Real Estate Scheme run by the Board of Investment. Sellers are put in touch with developers and potential buyers include diaspora Mauritians and foreigners who wish to buy for residential or business purposes.

"This is more suited to professionals rather than people in the luxury market and we wanted to give opportunities to people in Mauritius to leverage their land," says Mr Jaddu. "Lots of Mauritians have made money in the UK property market, for example, and we want to encourage them to come and give us a helping hand."

Dream town in the heart of the island

NEW CITY

Alec Russell reports on plans for relieving some of the pressure on a crowded Port Louis

Among the many striking historical monuments in the centre of Mauritius' bustling capital, Port Louis, possibly the most eye-catching is the statue of Bertrand François Mahé de la Bourdonnais.

One of the island's early French colonial governors, after his arrival in 1735, he dreamt of building the perfect town and set about transforming the then small trading post into a flourishing capital and port.

In swift order, he designed new quays, forts, warehouses, as well as government buildings, a celebrated botanical garden and roads. Long after the British ousted the French as colonial overlords he was venerated as the "father of the island".

More than 250 years later, there is a revolutionary new urban plan for Mauritius and, if it comes to pass, it may be the turn of Bhagwansingh Dabeesing, the chief executive officer of the State Land Development Company to be commemorated by a statue.

Mr Dabeesing is in charge of planning for a new city in the centre of the island. He too is dreaming of a perfect town. He has earmarked 1,060 hectares of state-owned sugar cane plantation in the hills away from the tropical heat of Port Louis.

On his office wall are detailed maps of the region, which would be bisected by north-south and east-west highways.

The area is called *Mon Rêve*, and with good reason. The principal aim of the development is to relieve Port Louis of the punishing congestion that clogs the roads first designed by Mr de la Bourdonnais.

Among the first to move would be 16 ministries, says Mr Dabeesing. Within a few years there would be up to 30,000 civil servants there, and 15,000 working in the IT sector, a projected boom industry in Mauritius, he believes.

"And you really will be in the heart of Mauritius. You can move to any part of the country in 30 minutes or so... We are still working on which ministers will move," he says. "We are ambitious but it's an ant process, slowly, slowly.

"More than two centuries ago we constructed a great city. Now everyone wants to make Port Louis more efficient. Every Mauritian who comes down to town to work has at the back of his mind how can we improve transport and access."

> For the moment, the site consists of acres of sugar cane and there is the small matter of the $3bn projected as the initial investment

That the roads of Port Louis need urgent relief is not open to doubt. Even as Mr Dabeesing was speaking to the FT in his official car, shuttling him between meetings, heavy traffic ensured his progress was barely faster than walking pace. Diplomats, civil servants and business people complain about the difficulties of navigating rush hour.

Certainly, the prospect of a new city is beguiling to many Mauritians. The views from the office buildings would be magnificent: the site is flanked in the middle distance by the crenellated summits of the island's old volcanic mountains. Yet, for the moment it consists merely of acres of sugar cane divided by the Terre Rouge and Cascade rivers and there is the small matter of the outstanding $3bn projected as the initial investment.

Officials however dismiss the idea that this is a pipe dream that will never be realised. They point to two vast construction projects near Port Louis that are close to completion – the La Tour Koenig industrial area, and a hi-tech centre, nicknamed Cyber City – as proof of Mauritius' ability to follow through on its ideas.

Cyber City was first conceived under the previous government. Paul Bérenger, a veteran former prime minister and finance minister who is now the opposition leader, comments wrily that when he and others proposed the idea at the turn of the millennium, the Labour party which now heads the ruling coalition government, said it would be a "white elephant".

Now, however, the government is promoting it assiduously as an investment opportunity and as a way of modernising Mauritius.

A transaction adviser has just been appointed for the new inland city and, this month, officials plan to tender for a master developer to take charge of the project. "We have got the land but we don't have the funds," says Mr Dabeesing.

So what of the risk that Port Louis, with its rich blend of French, British, Indian and Chinese architecture, will become a backwater?

"It will be complementary," says Mr Dabeesing. "It will stay the capital with its cultural heritage. It will still be the commercial centre but with less congestion. The heart will remain there. Port Louis will remain Port Louis for ever."

Making the most of instability elsewhere

TOURISM

Sharmila Devi reports on an industry that is anxious not to miss any opportunities

Lazy days: rather than just lounging about on the beach, tourists will be encouraged to explore the interior. More national parks and ecology centres have been created Getty

Thanks to Bollywood, Mauritius is benefiting from free publicity worth thousands of dollars, as it seeks to tap new sources of tourists, such as India's growing middle class.

Scores of Indian movies have used Mauritius as an exotic backdrop, making the island a trendy destination for rich Indian holidaymakers and honeymooners.

"Indian tourists are more upmarket, they are counter-seasonal as they often come to escape the monsoon and they visit everywhere in the island because they don't need to tan!" says Xavier Luc Duval, the tourism minister.

Europeans and South Africans have long been lured to the tropical paradise, but Mauritius is targeting other markets including Australia, east Africa, Russia, the Gulf and China.

The government is also promoting niche sectors, such as medical and eco-tourism, business conferencing and cruising, all the while maintaining an emphasis on exclusivity. The strategy includes the integrated resort scheme, which allows foreigners to gain residency through the purchase of luxury villas and apartments at resorts offering golf courses, spas and other facilities (*see article on Page 9*).

An ambitious plan to double tourist arrivals from just under 1m expected this year to 2m by 2015 has raised fears of saturation among tourist operators and worries about rising food costs and infrastructure strain among many locals, who only number 1.2m.

But Mr Duval stresses the figure of 2m tourists is simply a way to focus the public and private sector on expansion. "It's a way of focusing the mind and generating resources rather than an absolute target. We are aiming for 10 per cent growth a year and we've achieved this quite easily over the past couple of years," he says.

"We tend to work in numbers of arrivals but we are really aiming to maintain overall spending. If there is buoyant growth in hotel occupancy, that means no discounting and that's good for us. Tourism generates about €1bn for us and we want to maintain and protect the quality of our destination."

On average, tourists stay for 10 nights and spend $1,500 a head. Hotels have been reporting occupancy rates of about 85 per cent over the past year or so. The tourism industry provides direct employment for about 25,000 people and indirectly for about 50,000, making it one of the most important sectors in the island's economy.

Hotel companies are expanding, including Starwood Hotels & Resorts, which is opening the luxury Grand Mauricien spa hotel later this year and a new Sheraton hotel in the capital Port Louis to cater to the growing business segment.

"There are always concerns about saturation, which would be to the detriment of everybody, but we have full confidence in the Mauritian authorities," says Jason Barry, Starwood sales and communications director.

Mauritius is responding to the growing concern about ecological and environmental issues. An inter-ministerial committee this year approved a number of measures, including restrictions on motor boat engine size and speed limits to protect the coral reef and lagoon. There is also an expanded system of mooring buoys for fishermen to stop them throwing anchor.

Rather than just lazing on beaches, tourists will be encouraged to explore the island's interior and a number of clean-up measures are under way – erecting international road signs, eliminating fly-posters and sterilising wild dogs. New museums are planned, including the Citadel in Port Louis and one dedicated to the extinct dodo in the south.

More national parks and ecology centres have been created, particularly in the volcanic island's rainforests, offering walking, hiking, quad biking and ravine sliding as activities to rival diving and snorkelling. Whale-watching tours and music festivals are planned.

For shoppers, there is the island's duty-free status, with little or no tariffs on an expanding list of luxury items.

> New museums are planned, including the Citadel in Port Louis, and one dedicated to the dodo

The relaxation of Air Mauritius's stranglehold is taking place route by route, causing impatience among some competitors.

There is increased competition on routes from the UK, France, Italy, South Africa and the United Arab Emirates. Mauritius needs more carriers from India and Australia, which would help create two-resort holidays linked to safaris in continental Africa.

Medical tourism is a niche sector – for example, in-vitro fertilisation and hair replacement – but expansion is coming. A $70m, 200-bed hospital will open next year and offer treatments from cardiology and hip replacements to cosmetic surgery. It is being developed by India's Apollo Hospitals and the Mauritius-based British American Investment Company and will employ about 500 staff.

"We want to provide leading-edge facilities, such as tele-medicine with links to centres of excellence in India, the US and elsewhere," says Bertand Rassool, managing-director at British American. "We are aiming at the local market as well as tourists."

Instability in the region could continue to boost Mauritius, as violence scared tourists away from Kenya this year and South Africa's recent electricity supply problems could divert medical tourists in future. Mauritius is trying to make sure it does not miss any opportunities.