Mauritius

2011

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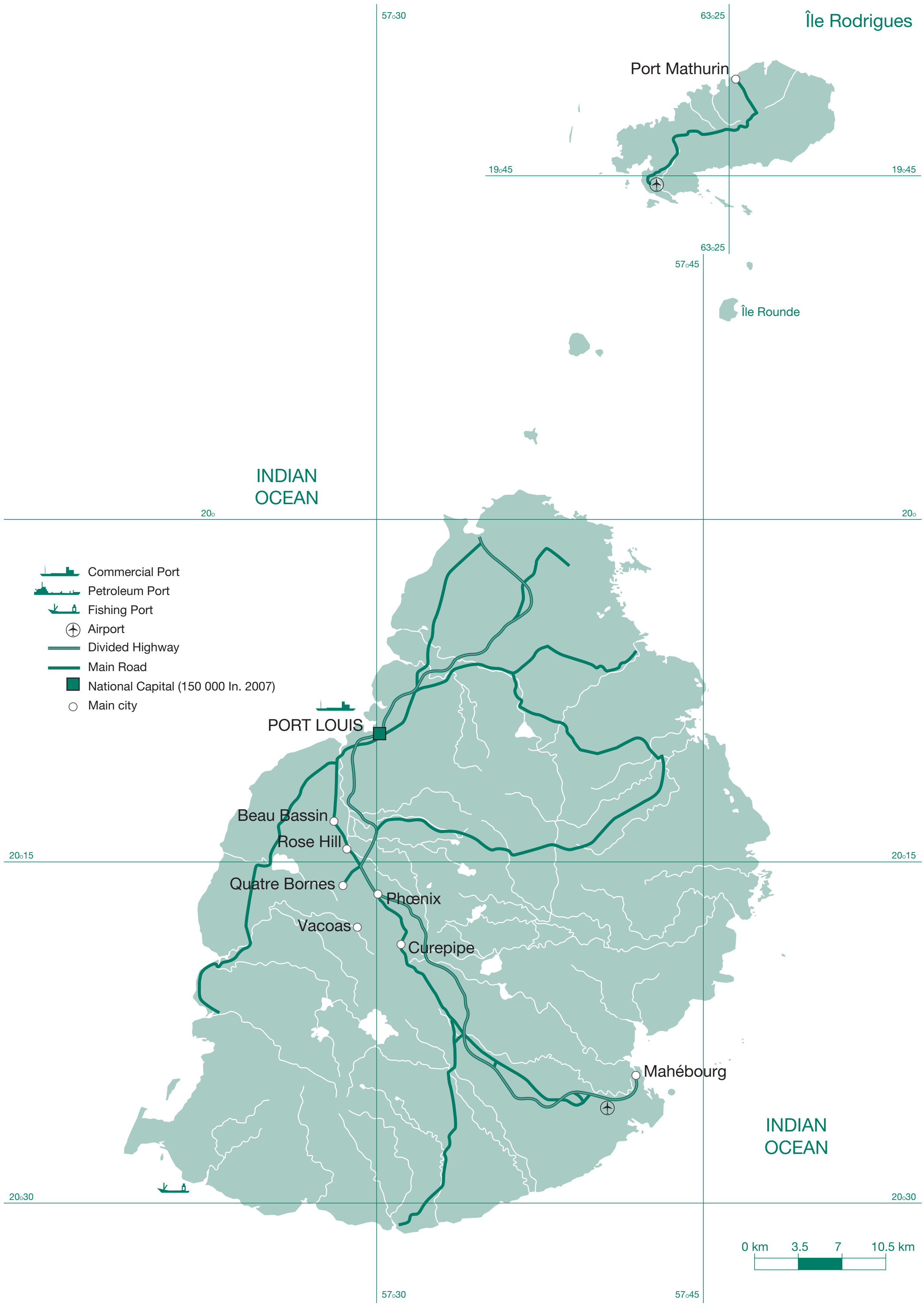

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Mauritius

Overview

Mauritius is striving to diversify its "four-pillar" economy – sugar, textiles, tourism and financial services – to make it more resilient to shocks, enhance productivity and competiveness, and support growth and job creation. The 2010 budget focused on job creation, social development and the environment. It maintained previous support measures taken by the government. For 2011, the three main thrusts of the budget are rebalancing growth, boosting productivity and consolidating social justice.

Real gross domestic product (GDP) grew by 4.1% in 2010, up from 3.1% in 2009 but lower than the 5.5% in 2008. Despite challenges at home and abroad, the government has maintained a growth path. In 2011, GDP growth is projected to remain around 4%. However, this will depend on the recovery in the main European trading partners, but could be faster if Mauritius reduces its dependence on sending exports to slow-growing traditional markets and charting a new economic model more resilient to future shocks. Projections for 2012 put economic growth at 4.1%. The overall 2010 budget deficit was estimated at 4.7% of GDP against 6.6% in 2009. It is projected to fall back to 4.4% in 2011 and 4.3% in 2012. The relatively high fiscal deficits are caused by rapidly increasing government expenditure (including capital repayments) compared to revenues.

In 2010, the key Repurchase Agreement (Repo) rate was reduced from 5.75% to 4.75% and the headline inflation rate stood at 2.9% compared to 2.5% in 2009. Inflation is expected to rise to 3.0% in 2011 and 3.9% in 2012. The current account deficit stood at 7.9% of GDP and is projected to rise to 9.2% in 2011 and 9% in 2012. The higher deficits are due to an expected higher trade deficit as imports outstrip exports. Amid volatility in the foreign exchange market, the Mauritius rupee (MUR) ended 2010 appreciating against major currencies. Against the US dollar (USD), it gained from an average of MUR 31.94 in 2009 to MUR 30.89.

In 2010, tourist arrivals were estimated at about 934 000 compared to 871 000 the previous year and 2010 tourism earnings were estimated at about MUR 39.5 billion, up from MUR 35.7 billion in 2009. Gross foreign direct investment (FDI) stood at MUR 10.6 billion at the end of September 2010 against MUR 8.8 billion for the same period in 2009, a 20% gain. The investment went mainly to health and social work activities, real estate, finance and insurance.

Apart from infrastructure development, Mauritius is giving priority to the small and medium enterprise (SME) sector, which has been the main source of employment creation during the financial and economic crises. The government is also increasing support to export-oriented industries, especially textiles and clothing, which have been under severe stress in the crisis.

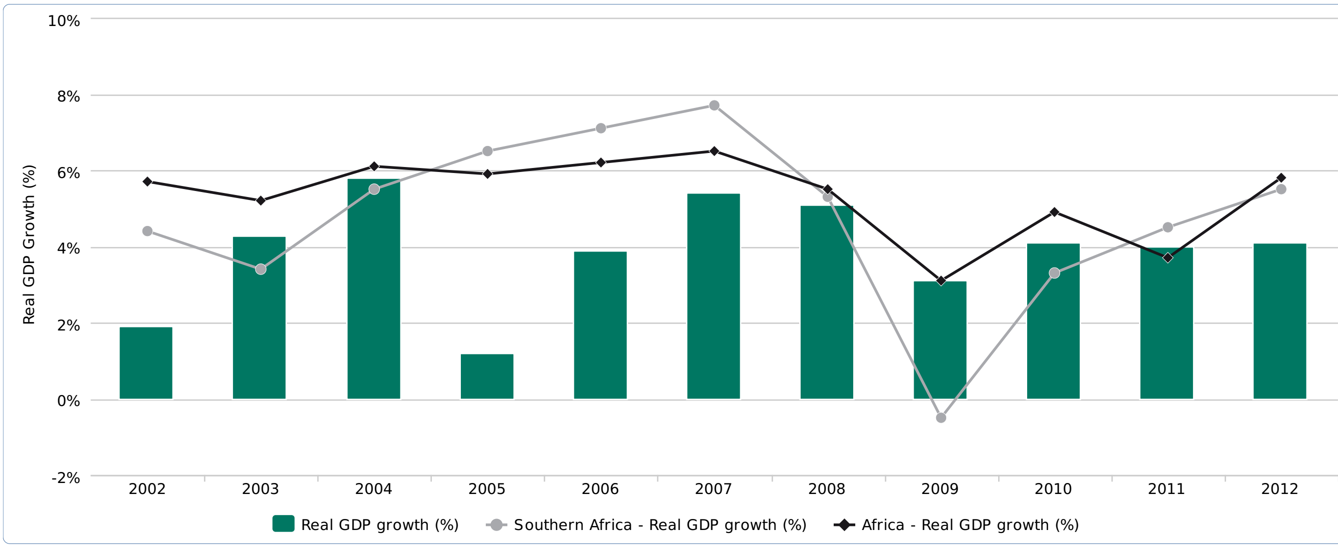
Mauritian banks are healthy, profitable, well-capitalised and resilient with an overall capital adequacy ratio well up with international standards.

The unemployment rate rose from 7.3% in 2009 to 7.5% in 2010.

Estimates indicate that primary sector activities, mainly related to agriculture, grew by 2.5% in 2010, down from 8.7% in 2009. Sugarcane grew by only 0.6% while “other agriculture” expanded 3.7% in 2010. As part of efforts to make the economy more resilient, an agricultural production and marketing information system is being set up for planters and breeders to optimise revenue. Sugar co-operatives are being helped to get the European Union's Fair Trade accreditation. This will enable them to obtain a premium of USD 60 per tonne of sugar. The government has provided liberal tax regimes for agriculture in the 2011 budget. In addition, the Leasing for Equipment Modernization Scheme is being extended to December 2012 to cover heavy duty agricultural equipment.

Future overall growth will rely in some part on Mauritius tackling its fiscal and current account deficits, high dependency on traditional export partners, high import-dependence, and relatively poor infrastructure. Poverty and inequality are also edging up. Traffic congestion and the high number of road accidents are also a problem.

Figure 1: Real GDP growth (S)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	3.1	4.1	4	4.1
CPI inflation	2.5	2.9	3	3.9
Budget balance % GDP	-6.6	-4.7	-4.4	-4.3
Current account % GDP	-7.4	-7.9	-9.2	-9

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2005	2010
Agriculture, forestry, fishing & hunting	5.7	3.6
Agriculture, livestock, fishery, forestry and logging	-	-
of which agriculture	-	-
of which food crops	-	-
Mining and quarrying	0.1	0
Mining, manufacturing and utilities	-	-
of which oil	-	-
Manufacturing	19.2	18.5
of which hydrocarbon	-	-
Electricity, gas and water	1.9	2.2
Electricity, water and sewerage	-	-
Construction	5.4	6.9
Wholesale and retail trade, hotels and restaurants	19.1	18.5
of which hotels and restaurants	7.1	6.9
Transport, storage and communication	11.9	9.6
Transport and storage, information and communication	-	-
Finance, real estate and business services	19	22.1
Financial intermediation, real estate services, business and other service activities	-	-
General government services	14.2	14
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	-	-
Public administration, education, health & social work, community, social & personal services	-	-
Public administration, education, health & social work, community, social services	-	-
Other community, social & personal service activities	-	-
Other services	3.6	4.5
Gross domestic product at basic prices / factor cost	100	100

Source: AfDB Statistics Department; national authorities.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink http://dx.doi.org/10.1787/888932407676

Growth in “real estate, renting and business activities”, “transport, storage and communications” and “financial intermediation” kept the Mauritius economy on an expansionary path, but tourism numbers are rising again and the country has maintained its record for being one of the best places to do business.

In 2010, transport, storage and communications grew 5.5%, against 4.7% in 2009, financial intermediation 4.3%, against 3.8% in 2009, construction by 4.3%, down from 6.2% in 2009, export activities, mainly textiles and fish processing, shot up to 4.1% growth after a 1.3% decline in 2009. Hotels and restaurants grew 3.8% after a 5.9% fall in 2009. Manufacturing grew 2.2%.

The primary sector, mainly agriculture, grew by 2.5%, compared to 8.7% in 2009. Sugarcane, fishing and fish processing growth all fell. The secondary sector grew by 2.9% compared to 3% in 2009. The tertiary sector saw growth of 4.8% in 2010, up from 2.8% the previous year.

Total investment fell. In particular, private sector investment decreased due to the completion of major construction projects and lower investment in machinery and equipment. Sugar refineries and telecommunications invested heavily in equipment in 2009. Public sector investment fell by 5.7% compared to very high growth of 59.5% in 2009. Total consumption expenditure rose by 2.5%, compared to 2.4% in 2009. However, net exports of goods and services as a percentage of GDP decreased by 12.4% after 2009’s 9.2% decrease.

In 2011, GDP growth is projected to remain stable at 4% with business activities, transport, storage, communications, and financial intermediation still the key sectors. Reaching this target will depend on the recovery in the main trading partners (chiefly France and Britain) but could be faster if Mauritius can find new markets. Projections for 2012 put growth at 4.1%.

Table 3: Demand composition

	Percentage of GDP (current price)		Percentage changes, volume			Contribution to real GDP growth		
	2002	**2009**	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**
Gross capital formation	22.1	26.3	-0.7	6.5	6.8	-0.2	1.7	1.8
Public	6.9	6.6	-1.1	5	3	-0.1	0.3	0.2
Private	15.3	19.7	-0.5	7	8	-0.1	1.4	1.6
Consumption	74.8	83	5.1	5.2	4.1	4.3	4.5	3.5
Public	13.9	9.3	4	3.5	3.2	0.4	0.3	0.3
Private	60.9	73.7	5.2	5.4	4.2	4	4.1	3.2
External sector	3	-9.2	-	-	-	-0.1	-2.1	-1.2
Exports	62	48.8	3.9	3.2	3.5	1.9	1.6	1.7
Imports	-58.9	-58.1	3.2	6.1	4.7	-2	-3.7	-2.9
Real GDP growth rate	-	-	-	-	-	4.1	4	4.1

Source: Data from national authorities; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Fiscal Policy

The government pursued its expansionary fiscal policy in 2010 for a third straight year. The 2010 budget, titled “shaping recovery, consolidating social progress, and sustainable green Mauritius”, was the first on a calendar year basis and is intended to support moves to boost development.

Several tax changes were made. Income tax thresholds were increased and companies listed on the stock exchange, and with a minority foreign shareholding, no longer need approval to acquire immovable property. A tax on payments of royalties to non-residents was increased from 10% to 15%.

A betting tax on foreign football matches was increased from 2% to 8% to put it on a par with the horse racing gambling tax. The Gaming Regulatory Authority Act was amended to provide for the regulation of amusement machines with prizes and video lottery games terminals.

To improve the business climate, the procedure for registration and charges at the Registrar General’s Department was simplified and the time limit for submission of documents reduced.

A stimulus package introduced in May 2009 to save jobs and prepare for recovery was maintained up to December 2010. In August 2010, the government launched an Economic Reconstruction and Competitiveness Programme costing MUR 12 billion (about USD 380 million) over five years. The programme aims to help the economy deal with the effects of the euro area crisis and the global economic rebalancing, both of which had an impact on Mauritius's export markets. The programme will target tourism, sugar, textiles and small businesses.

The government's five-year plan (2011-15) contains around 1 100 projects worth MUR 140 billion with projected investment of MUR 93 billion, with the emphasis on improving infrastructure financing and planning.

Government revenue and grants amounted to 19.8% of GDP in 2010, compared to 24.5% for government expenditure and net lending. In 2011, revenue and grants are expected to rise to 20.5% while expenditure and net lending is projected to rise to 24.9%. The overall budget deficit in 2010 was estimated at 4.7% of GDP, down from 6.6% in 2009. It is projected to slightly fall back to 4.4% in 2011 and 4.3% in 2012. The relatively high fiscal deficits are caused by increasing government spending (including capital repayments).

Table 4: Public finances (percentage of GDP)

	2002	2005	2007	2008	2009	2010	2011	2012
Total revenue and grants	18.5	20.0	17.6	19.6	18.8	19.8	20.5	20.6
Tax revenue	15.2	18.1	15.5	16.8	15.6	16.6	17	17
Oil revenue	-	-	-	-	-	-	-	-
Grants	0.2	0.2	0.1	0.2	0.8	0.8	1	1
Other revenues	3	1.7	2	2.6	2.4	2.4	2.5	2.5
Total expenditure and net lending (a)	22.2	25.3	19.7	21.7	25.4	24.5	24.9	24.9
Current expenditure	18.5	21.4	16.9	17.2	17.7	16.5	17	16.9
Excluding interest	16.2	17.7	14.3	14.3	14.9	13.2	15.2	15.2
Wages and salaries	7.3	6.3	6.4	6.5	6.6	6.5	7	6.9
Goods and services	2.5	2.3	2.1	2.1	2.4	1.7	2.3	2.4
Interest	2.4	3.8	2.6	2.9	2.8	3.3	1.8	1.7
Capital expenditure	3.4	3.6	2.6	3.1	6.8	6.5	6.7	6.7
Primary balance	-1.4	-1.5	0.6	0.7	-3.8	-1.3	-2.6	-2.6
Overall balance	-3.7	-5.3	-2.1	-2.1	-6.6	-4.7	-4.4	-4.3

a. Only major items are reported.
Source: Data from national authorities; estimates (e) and projections (p) based on authors' calculations.
Fiscal year July (n-1)/June (n)

Figures for 2010 are estimates; for 2011 and later are projections.

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Monetary Policy

The Monetary Policy Committee maintained a stable stance until September 2010, when it reduced the key Repo rate from 5.75% to 4.75% because of faltering external demand and increased risks to domestic growth. The rate was kept until the end of 2010.

As an example of the country's interest rates, the annual rate charged on the Special Deposits Facility, set at 100 basis points below the Repo rate, was 3.75%, while the Overnight Facility, 150 basis points above the Repo rate, was 6.25% at the end of 2010. Broad money liabilities increased 7.6% to MUR 319.1 billion at the end of 2010.

Excess liquidity in the banking system made monetary authorities introduce new longer-term Bank of Mauritius (BOM) instruments. In August and September 2010, the BOM issued 91-day, 182-day and 364-day bills and two-year, three-year and four-year notes. It twice increased the cash reserve ratio, from 4.5% to 5% in June 2010, and to 6% in October. These measures enabled banks’ excess reserves to return to normal levels before December 2010 when they started rising again. These measures seemed to have paid off as credit to the private sector rose from MUR 184.7 billion for 2009 to MUR 209.6 billion at the end of 2010. The construction sector took the largest chunk (MUR 46.4 billion), followed by tourism (MUR 40.4 billion) and traders (MUR 24.1 billion).

Headline inflation for 2010 stood at 2.9% up from 2.5% in 2009. There were higher prices for food, cigarettes and alcohol, some clothing and footwear, electricity, bus and taxi fares, motor vehicles, gasoline and diesel. Inflation is predicted to rise to 3.0% in 2011 and 3.9% in 2012. Pressure will come from predicted rising international commodity prices, imported inflation from major trading partners, weak export activity, expected high public spending, rising producer prices for manufactured products, higher labour costs, loss of productivity and high food prices.

External Position

Total exports of goods and services were estimated to have risen from MUR 1.38 billion in 2009 to MUR 1.49 billion in 2010, an 8% increase. In real terms, exports grew 11% after 3.4% in 2009. Total imports of goods and services were estimated to have increased to MUR 1.86 billion from MUR 1.64 billion in 2009, a 13% gain. In real terms, imports grew by 5.9% following a decline of 9.2% in 2009.

The deficit in net exports of goods and services had been estimated to have grown from MUR 2.6 billion in 2009 to MUR 3.7 billion in 2010, taking the deficit up to 12.4% of GDP, at 2010 market prices, compared to 9.2% in 2009.

The 2010 current account deficit stood at 7.9% of GDP and this is projected to rise to 9.2% in 2011 and stay at 9% in 2012. The higher deficit is due to an expected higher merchandise trade deficit as imports grow and become more expensive. Exports growth is projected to be restrained by Britain's muted economic performance and the euro area debt crisis. Persistently high deficits blamed on higher imports must be addressed through more intense efforts to diversify the export-base and export markets as well as reduce non-essential and unproductive imports.

Amidst volatility in the foreign exchange market, the rupee ended 2010 higher against major currencies. It moved from an average of MUR 31.9 in 2009 to MUR 30.9 against the US dollar.

October 2010 saw the launch of the Global Board of Trade (GBOT), a high-tech international exchange that offers a basket of commodity and currency derivatives as well as currency pairs. The government needs to closely monitor its implementation to avoid the market being used as a platform for rupee speculation that damage the economy.

On top of the 7.3% increase in tourist arrivals and 10.5% growth in tourism earnings in 2010, already noted, for the second consecutive year Mauritius was voted the World’s Best Island Destination at the World Travel Awards ceremony in London in November 2010. The awards for the Indian Ocean’s leading airline and airport went to Air Mauritius and Mauritius’ Sir Seewoosagur Ramgoolam International Airport, respectively. These are a valuable boost for the tourism sector.

Gross foreign direct investment (FDI) amounted to MUR 10.6 billion at the end of September 2010 against MUR 8.8 billion in 2009, a 20% increase. Most of it went to health and social work activities, real estate, financial and insurance activities. The main sources are Europe, Asia and Oceania. But on a country basis, the main sources are India, Britain and France. In the first six months of 2010, outward FDI was estimated at MUR 2.5 billion, the largest proportion going to human health and social activities.

At the end of 2010, Mauritius's gross official foreign reserves were MUR 79 billion (USD 2.6 billion). This represents an increase of 4% over the end of 2009 level. In net terms, foreign reserves were the equivalent of about 8.8 months of imports. Projections put net international reserves at a stable level for 2011 and 2012 around at least 8 months. Inward remittances at the end of 2010 stood at MUR 20.6 billion while outward remittances stood at MUR 19.3 billion.

Government debt, estimated to have risen to 52.5% of GDP in 2010 from 51% at the end of 2009, is nearly all held by the National Pensions Fund and commercial banks. The debt is projected to rise to 52.7% of GDP in 2011. Public sector debt was estimated to have increased to 60.7% of GDP in 2010 from 60% in 2009. It is projected to decline in 2011 to 60.3%.

The domestic portion of public sector debt fell from 50.2% of GDP in 2009 to 49.6% in 2010 while the foreign portion rose from 9.7% to 11.1%. Foreign aid (grants) increased from MUR 2.5 billion in 2008 to MUR 3.4 billion in 2009. As a percentage of GDP, grants stood at 0.5% in 2010 against 2.2% during the second half of 2009. Grants are projected to rise to 0.9% in 2011 and 1.2% in 2012.

Table 5: Current account (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Trade balance	-4.4	-18	-20.6	-17.4	-17.6	-19.1	-19.4
Exports of goods (f.o.b.)	37.8	28.6	24.8	21.8	20.4	19.2	18.8
Imports of goods (f.o.b.)	42.3	46.6	45.4	39.2	37.9	38.3	38.2
Services	7.5	8.7	7.5	8.1	6.9	7.3	7.7
Factor income	0.3	2.3	0.8	-0.5	1.5	1.4	1.6
Current transfers	1.9	1.6	2.3	2.4	1.3	1.2	1.1
Current account balance	5.2	-5.4	-10.1	-7.4	-7.9	-9.2	-9

Source: Data from national authorities; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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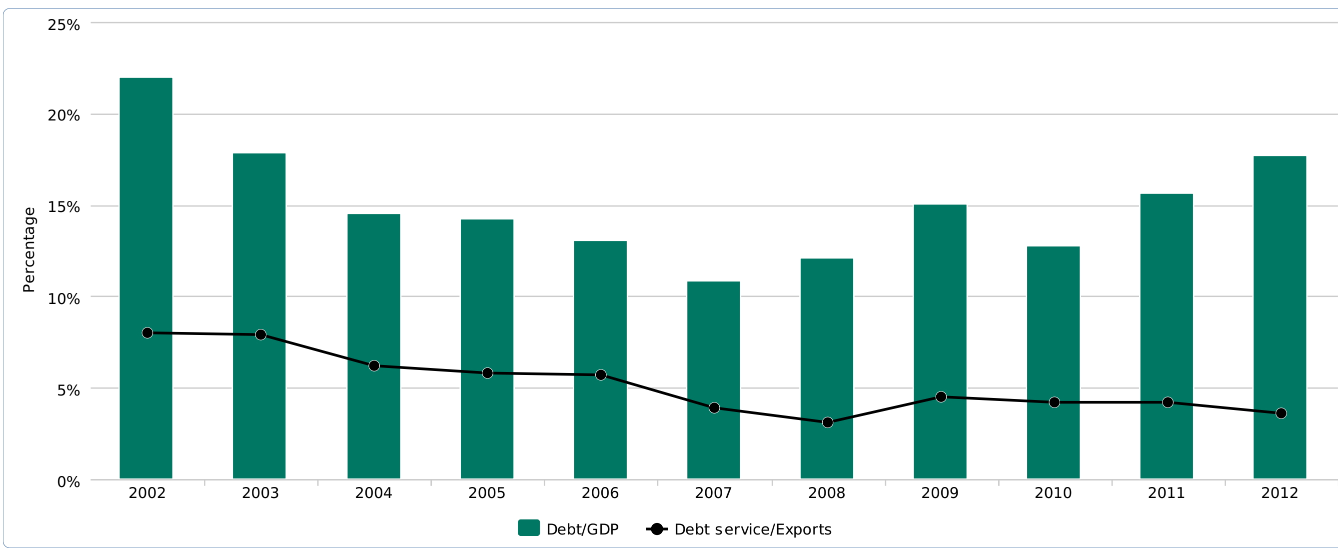
Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

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Structural Issues

Private Sector Development

Mauritius remains one of the highest ranked business-friendly nations in the world with efficient and transparent regulations.

The 2011 World Bank *Doing Business* report put Mauritius in 20th place out of 183 countries, down three from 2010. Mauritius took the top position in sub-Saharan Africa, ahead of South Africa and Botswana, showing it as a strong reformer. The country ranks particularly strongly for starting a business, protecting investors, and paying taxes but needs improvement in getting credit, closing a business, and registering property. The World Economic Forum ranked Mauritius 55th among 139 countries in its 2010-11 global competitiveness index. In Africa, only Tunisia and South Africa finished higher. It does particularly well in financial market development and goods market efficiency.

It is the highest-ranked African country under Freedom House's 2010 economic freedom index at 12th out of 179 countries. Competitive tax rates and relatively flexible labour regulations promote innovative private-sector growth. Its open trade regime and relatively well protected property rights boost entrepreneurial activity. The state plays less of a role in the economy, minimizing the drag on business activity. In addition, corruption, the bane of many other countries in Africa, is relatively low in Mauritius while public financial management is generally sound.

Its ranking in the Transparency International corruption index for 2010 is 39 out of 178 countries globally, with only Botswana ahead among African nations.

Apart from infrastructure development, the government is giving priority to small- and medium-sized enterprises (SMEs), the key creator of employment throughout the financial and economic crisis. Mauritius is also increasing support to export industries, especially textiles and clothing, which have been under severe stress in the crisis. To improve competiveness and the business environment, the government is streamlining and modernising licensing systems while developing an impact assessment framework for all new regulations to ensure that public interest is protected in a business friendly manner.

Financial services represent a significant 12% of Mauritius' GDP. Banks are healthy, profitable, well-capitalised, resilient, and ready to move to Basel III requirements. The overall capital adequacy ratio of banks in 2010 was around 16% on average under Basel II, which was higher than the minimum required. This suggests that reforms undertaken by the Basel Committee on Banking Supervision (BCBS), which involves new global regulatory standards under the Basel III framework may not be difficult to meet. With continued enhancement of its regulatory and supervisory framework, the country enjoys financial stability and has gained international praise for its policies, especially the exchange rate policy.

In 2010, the monetary authorities sharpened and streamlined their supervision of banks and other financial institutions, moving towards greater risk-based financial sector supervision. The authorities issued new guidelines to ensure that banks follow international best practices, while strengthening monitoring. The CAMEL rating assessment of capital adequacy, asset quality, management, earnings, and liquidity, has been more dynamic and broad-based while plans have been finalised to make the ratings public from 2011.

The Stock Exchange of Mauritius capitalisation increased by 17.9% between 2009 and 2010. Annual turnover rose by 12.5% over the same period. The price-earnings ratio gained 2.5% while the Stock Exchange of Mauritius Total Return Index (SEMTRI), in rupee terms, increased by 22%. In dollar terms the rise was 21% from 2009 to 2010. The official market index (SEMDEX) and the SEM-7 rose by 18.5% and 3.5%, respectively. Both indices had their troughs in May 2010 at the peak of the international fears over the European debt crisis. The Development and Enterprise Market Index (DEMEX) increased by 8.7%. The DEMEX Total Return Index (DEMTRI) rose 11.2% from 2009 to 2010.

Other Recent Developments

The justice system is being modernised with an e-judiciary project supported by the Investment Climate Facility (ICF). The Board of Investment is to host an e-business platform to act as a National Repository of all Business Licenses and provide information to the public. The government is also implementing the e-Government project. Technical support is being provided by the African Development Bank and the World Bank to link the Mauritius National Identity Card Project with the e-Government work.

The country also plans to set up a Sovereign Wealth Fund, using the resources of the National Pension

Fund with excess central bank reserves in 2011, to enhance returns on foreign exchange reserves and relieve pressure on treasury rupee instruments.

The Mauritius government is trying to improve the labour market through structural policies and increased public infrastructure development. The unemployment rate rose from 7.3% in 2009 to 7.5% in 2010. The average age of the unemployed is about 29 years and most have not reached the Certificate of Primary Education level and do not possess the Cambridge School Certificate. It is also high among women, at 12% against only 4.8% for men. The government has set up a support unit for those who have lost their jobs and a National Employment Policy aims to implement innovative practices to promote employment creation and social dialogue.

As part of a ten-year infrastructure plan, in 2010 the government increased public sector investment to MUR 24 billion, of which some MUR 11 billion was government investment. An important element of this venture is the emphasis on eco-friendly infrastructure. Given the major traffic congestion in cities, particularly Port Louis, 11 new road projects, such as road and bridge widening, were started with many more planned. Other infrastructure projects include a Bus Rapid Transit (BRT) system, the modernisation and expansion of the main airport, the expansion of the Mauritius Container Terminal berth and raising the capacity of the Fort Victoria generation plant to ensure reliable power supply.

In information technology, Mauritius is placing the priority on creating human resource and infrastructure capacity. There have been some successes. By 2009, 99% of the population had mobile phone coverage. The number of mobile phone subscribers went up by 5.2% to reach 1.1 million the same year. The number of mobile phones per 100 inhabitants increased by 4.7 percentage points to reach 85% in 2009 when the number of Internet subscribers reached 286 000, a 43% increase over 2008. The number of Internet subscribers per 100 inhabitants stood at 22% in 2009 compared to 16% in 2008.

Mauritius (72nd) ranked second among African countries after Seychelles (66th) in the International Telecommunication Union's Information and Communication Technology Development Index of 159 countries. This reflected improvements in access, use and skills.

In 2009, energy production per capita was 2021 kilowatt hours (kWh) while per capita energy consumption was 1836 kWh for all tariffs. For domestic tariffs, energy consumption per capita stood at 533 kWh.

Mauritius is heavily dependent on fossil fuels. More than 80% of the total primary energy requirement is met by imported fuel, liquefied petroleum gas and coal. The remaining comes from local renewable sources: bagasse sugarcane waste, hydroelectricity, wood, and wind.

There were 2 066 kilometers of roads in 2009. The vehicle fleet has been growing at an average annual rate of about 6% however. By the end of June 2010, there were 374 547 registered vehicles, an increase of 8 000 from the end of 2009. Traffic congestion is a serious problem in Mauritius and is estimated to cost the economy about 1.3% of GDP each year. From January to June 2010 there were 11 227 reported road accidents with 11% involving casualties. The number of road accidents increased by 10% over the same period of 2009 with casualty accidents rising 1.5%.

Mauritius has been taking a number of measures to protect the environment and this is starting to get international recognition.

Its 2010 Environmental Performance Index (EPI) ranking improved to 6th position from 58th in 2008, due primarily to high scores in the ecosystem vitality category. Mauritius has put a new emphasis on the use of energy, pollution, carbon emissions, renewable energy sources, energy self sufficiency and efficiency, energy audits, climate change, global warming, flooding and soil erosion. There has been international support for the Mauritius Durable Island (MID) initiative. There has been a shift to solar energy and actions to promote "green" construction.

A new Disaster Management Unit will carry out plans seeking to minimise the impact of natural disasters. A new environment ministry Climate Change Unit is to develop a climate change adaptation and mitigation plan as well as a framework to guide private and public organisations on conducting environmental auditing of their activities.

The water supply has become an increasingly important issue. In fact, the government has made it clear that sustaining a Green Mauritius requires a reliable and adequate water supply, while catering to increased demand from new industry and projects. The government is mobilising MUR 10 billion to be invested in the water sector over the next five years.

Emerging Economic Partnerships

Britain and France in Europe remain the main trade partners for Mauritius but its most important new allies are India, for trade and investment, and China, for trade and future investment, though they could also be regarded as traditional partners given their historical links. Other emerging partners for investment are Malaysia, United Arab Emirates and Singapore.

Russia, Brazil, Indonesia, Pakistan, Chinese Taipei, Bangladesh and Sri Lanka could become important in the future. The last two countries are targeted especially for outward investment.

The government is negotiating trade and economic agreements with India, Pakistan and Turkey. It is envisaged that these agreements would open new avenues for Mauritius firms, expand market access and increase FDI.

An accord being negotiated with India will consolidate their close relations.

India is the major import partner and a leading source of FDI. Apollo, Fortis, Dr Agarwal, JIS academy and other Indian partners are engaged in long-term investment and in niche areas. Mauritius is the number one foreign investor in India.

The relationship between Mauritius and China is also deepening. Mauritius is to be the site of one of China's economic and trade co-operation zones in Africa, the Jin Fei zone.

There is the giant Tianli Spinning Mauritius Co textile plant and other major projects which have included huge property investments. China is also a major destination for Mauritius capital. Mauritius is the tenth largest foreign investor in China.

As export destinations, the emerging nations together amount to less than 7% of total exports (with India accounting for less than 1% and China half as much. Major exports to China are woven cotton fabrics; aluminium bars, rods, electric apparatus and parts for communications. The major export to India is ferrous waste and scrap iron and steel.

The USD 820 million Jin Fei economic zone will be a major boost to the economy as the largest ever injection of foreign cash into Mauritius, which will provide a launch pad for Chinese operations in the region. According to the government, the zone will accelerate diversification and the modernisation of the economy, improving the competitiveness of manufacturing and services. Two new investors, Taiyuan Iron and Steel Company and the Shanxi Coking Coal Group, are taking a 50% and 30% stake, respectively, while the Tianli conglomerate has a 20% share. The zone is expected to generate exports worth MUR 6 billion to MUR 7 billion (USD 193-225 million) per year, accounting for more than a third of the country's export earnings in 2008. The trade zone incorporates manufacturing, logistics, distribution, commercial and hospitality components. It aims to export to a global market as well as eastern and southern Africa.

India is the largest source of imports from emerging markets, making up more than 20% on average over the past three years. The major imports are oil from petrol and bitumen mineral, cotton products, medicines and clothes.

China accounts for more than 11% of imports, with frozen fish the major item.

Malaysia and Indonesia are also important new trade partners.

India accounted for more than 25% of FDI from emerging markets in 2010, and 16% over the past three years. China sent about 6% in 2010. United Arab Emirates and Singapore are also a new source of investment. While by 2007 and 2008, over 80% of investment from India went to financial and insurance activities, since 2009 the major chunk has been going to health and social services.

China's investment goes to manufacturing, construction, and real estate activities. In 2009, 51% went to real estate activities while 49% went to construction. Estimates for 2010 indicate that 61% went to manufacturing and 34% to construction. Before that, nearly all Chinese investment went to manufacturing.

Mauritius is also an important investor in the new markets. Estimates for 2010 indicate that India received 27% of such investment.

Between 2000 and 2009, an estimated USD 46 billion from Mauritius went to India, which represents about 43% of India's cumulative inflows and made Mauritius the top source of foreign capital. The money went to services (21%), telecommunications (14%), computer software and hardware (11%), housing and real estate (11%), and construction activities (9%). Mauritius also accounted for about 38% of the investment that went to the Maldives in 2008 and 23% in 2009.

China and India are fast gaining ground on France and Britain in terms of imports and inward investment. There are differences however. Investment from the traditional partners goes mainly into services (financial, information technology and real estate) while the new economies are going for manufacturing, education and health, real estate and construction. As these are priority areas they are often replacing the older trading nations and filling gaps.

The emerging partners are also providing more assistance as credit, grants and loans on softer terms than traditional partners. The regional partners are more important as markets for Mauritian products and services with only South Africa and Reunion island active in investment, mainly in real estate.

The Prime Minister’s Office, Ministry of Finance and Economic Development and Ministry of Foreign Affairs, Regional Integration and International Trade are the main departments dealing with the emerging partners.

The Prime Minister's Office leads in bilateral relations with China, India and Singapore, while the Ministry of Foreign Affairs handles economic diplomacy to secure the necessary legal, administrative and juridical framework for agreements and treaties.

The Board of Investment, Enterprise Mauritius, the Mauritius Tourism Promotion Agency and the private sector, which acts mainly through the Mauritius Chamber of Commerce and Industry, handles their own promotions.

The government focus is developing new activities, enlarging the economic space for Mauritian entrepreneurs and making Mauritius a financial and business centre.

While emerging allies are often in competition with traditional and regional partners, the strategic challenge is keeping the right balance in terms of economic diplomacy between the new – China, India, Malaysia, Singapore and the United Arab Emirates – and the old – European Union, United States and South Africa. While the old remain the main export markets and a vital source of financial assistance and investment, the new are the main import partners and a rising source of investment and financial assistance.

The emerging partners enjoy most favored nation status, while regional partners benefit from major preferential treatment under the Indian Ocean Commission, Southern African Development Community and the Common Market for Eastern and Southern Africa. An economic partnership agreement with the European Union offers advantages to traditional partners.

With the opening up of the Mauritian economy and its integration into regional trade (more than 95% of tariff lines are zero rated) trade with the new partners will enhance choice in Mauritius. However, they also represent substantial competition for local manufacturers in the domestic and regional markets.

Special economic zones are very specialised. The Jin Fei project is designed to attract Chinese investment, the Ebène Cybercity is for Indian investment and the new Highlands City is to attract business from India, United Arab Emirates, Malaysia and Singapore.

There is no special tax exemption or tax holidays for investment from emerging partners. However, some concessions are granted for import expatriate labour for major infrastructure works such as Ebene Cybercity, the Swami Vivekananda Conference Centre, the Motorway project and others.

It is feared that external debt will increase as concessional terms from emerging markets remain a major source of assistance. However, with more projects coming under public-private participation schemes, debt with the new trade powers will remain stable in the long run.

The highest benefit from new partners will be the increasing investment to emerging sectors and the possibilities for outward investment. This will lead to more diversification of the Mauritian economy, increase technology transfer and choice for Mauritian consumers, and help position Mauritius as a financial and business hub, especially for Eastern Africa. Globally, Mauritius is looking to become an important link between Asia and Africa for trade and investment.

In the 2011 budget, an “Economic Diplomacy Initiative” aims to increase growth potential by consolidating the country’s presence in existing markets and developing new ones to increase its share in global exports and investments, while cultivating economic relationships.

Political Context

National Assembly elections were held in May 2010 and declared free and transparent by observers.

The Alliance de l'Avenir (Future Alliance) obtained 49.3% of votes and 41 seats whereas the Alliance du Coeur (Heart Alliance) won 42.3% and 18 seats. The remaining parties and independent candidates won 8.1% of the votes and two seats. Of the 62 seats elected, only ten went to women.

The Electoral Supervisory Commission chose eight additional seats in the National Assembly based on the religious and ethnic declarations of candidates not elected -- the so-called 'Best Loser system' -- to maintain a religious and ethnic balance in parliament. The Alliance de L'Avenir was allotted four additional seats, the Alliance du Coeur two and one went to the Rodrigues People's Organisation. The commission had difficulty choosing a candidate for the 8th seat, which normally has to be a Sino-Mauritian, and the seat was left vacant.

African Union observers declared that the ‘Best Loser system’ is problematic for national unity but can reinforce social cohesion. The number of candidates decreased from 634 in 2005 to 529 in 2010 while the number of female candidates declined from 61 in 2005 to 58 in 2010. The proportion of seats held by women in the National Assembly continues to increase, however, standing at 18.8% in 2010.

In November 2010, following a proposal by Prime Minister Navin Ramgoolam, supported by the opposition, the National Assembly voted to appoint Monique Ohsan-Bellepeau, a prominent member of the Creole community, as the country’s first female vice president. Analysts see her appointment as an astute move to consolidate the ethnic balance of Mauritian politics. The next general election is in 2015.

Social Context and Human Resource Development

The education and training policies strongly show Mauritius' determination to develop human resources. The 2011 budget also places great emphasis on developing the country as a hi-tech medical hub and a medical tourism destination. Health expenditure has increased by about 85% since 2005 to reach more than MUR 7.4 billion in 2010, permitting an increase in health care provision.

Mauritius' social indices have been impressive. Life expectancy in 2010 was estimated at 72 years against an average of 56 for African countries. The fertility rate was estimated at 1.8 in 2010 against an average of 4.4 for Africa.

Infant mortality rate (per 1 000 live births) and child mortality rate (per 1 000 live births) for the country in 2010 stood at 13.1 and 17, respectively against the continent's averages of 78.6 and 127.2. Maternal mortality rate (per 100 000) at the end of 2009 as 65 compared to an average of over 530 for the African continent. The percentage of adults (aged 15-49) living with HIV/AIDS stood at 1.7 against an average of 4.6 for Africa. Access to safe water was estimated at 99% of the population (against African average of 64.9) in 2008 just as access to sanitation stood at 91% of the population (against the African average of 41) during the same period. Gross primary school enrolment ratio in 2010 was 101 – and 101 for females and 100 for males. Gross secondary school enrolment ratio during the same period was 73 – and 76 for females and 70 for males – against around 35 for the African average. Latest estimates indicate that the country's gender inequality index is 0.466 with a rank of 46 out of 169 countries globally.

The 2010 Human Development Report shows that Mauritius was categorised as a country of high human development with an HDI value of 0.701 and ranked 72 out of 169 countries. Also, Mauritius ranked second in Africa, after Libya, with a score of 0.755 and a rank of 53.

Income poverty in Mauritius remains very low. Using a poverty line of USD 1.08 (based on 1993 Purchasing Power Parity [PPP] estimates) data from the 2001/02 and 2006/07 Household Budget Surveys show that the proportion of poor people in Mauritius is estimated to be below 1% in both 2001/02 and 2006/07. With a USD 2-a-day poverty line, the proportion of poor people is estimated to be less than 1.5% in 2001/02 and 2006/07. Using half median monthly household income per adult equivalent poverty lines, poverty incidence or the proportion of the poor households increased slightly from 7.7% in 2001/02 to 7.9% in 2006/07. In terms of number, poor households had been estimated to have gone up from 23 700 in 2001/02 to 26 400 in 2006/07. Also, the proportion of poor persons increased marginally from 7.8% in 2001/02 to 8.5% in 2006/07, accounted for by the higher size of poor households in 2006/07. In the same vein, the inequality (Gini) index rose from 0.371 in 2001/02 to 0.388 in 2006/07.