Doing Business in MAURITIUS

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Display of resilience against tough odds

The remote island state continues to reinvent itself, writes **John Reed**

In its 44 years as an independent nation, Mauritius has managed to build a credible, globally connected middle-income economy on an unpromisingly craggy, poorly endowed, geographically remote bit of land.

When reflecting on the more attractive aspects of their national character, Mauritians like to use words like "resourceful" and "resilient". The country has indeed displayed an ability to reinvent itself as required, performing some of its meanest feats when faced with the toughest odds.

The island initially made its way as a provisioning station for passing ships. The Dutch, when first colonising Mauritius in the 17th century, quickly stripped the island of ebony, one of its few marketable resources. The human incursion killed off the dodo, the flightless, defenceless bird that still figures on the country's coat of arms.

When Dutch ships began calling at the Cape instead, Mauritius – now in French hands – tied its fortunes to sugar, harvested first by African and Malagasy slaves then, after slavery was banned, by indentured labourers shipped from India.

In the 1960s, as British-ruled Mauritius was moving toward independence, two separate reports commissioned on the economy delivered dismal prognoses for the viability of a densely populated island regularly ravaged by cyclones and distant from world markets. One of them concluded that the island had "too many eggs in one basket" – sugar.

But Mauritius proved them wrong. The government and landowning families, in a symbiosis of Singaporean-style planning and sugar-baron capitalism, diversified into one industry after another, starting with textiles from the 1970s, then long-haul tourism from the 1980s.

Over the past decade, the country has branched out further. Mauritius has parlayed double taxation agreements with about three dozen countries – most notably India but many African countries, too – into an offshore companies sector that now generates about 5 per cent of gross domestic product.

Port Louis: the capital of Mauritius, which has diversified into one industry after another, proving gloomy predictions wrong Dreamstime

Multinationals, hedge funds and other foreign investors are using the island as a low-tax, financially sophisticated platform for doing business in stickier times. Cyber City, the high-rise office park development near the capital Port Louis where some of these businesses cluster, offers visible evidence that Mauritius has made itself attractive to foreign investors.

More recently, some of the island's cane fields have been ploughed up to make way for shopping malls and high-end villa developments for rich foreigners.

When pitching to foreign investors, Mauritius touts its secure place at or near the top of African league tables on criteria ranging from the ease of doing business to the quality of its democracy and per capita GDP.

Mauritians of Indian, Creole, Chinese and European descent live in greater harmony than most of their African neighbours, mostly because no group can claim status as indigenous inhabitants of the island, which was unpopulated when settlers came.

Taken together, the country's basket of industries has enabled it to weather the banking meltdown in 2008, and now the crisis in Europe, which accounts for about two-thirds of the country's foreign investment and tourist arrivals. GDP growth has averaged about 4 per cent during the crisis, although it is expected to slow by at least half a point this year.

"We are extremely exposed to Europe; notwithstanding that, we are predicting growth of about 3.5 per cent this year," says Xavier-Luc Duval, the finance minister. "It must mean we are doing something right."

But the government's

Continued on Page 2

Inside this issue

Mission to find new markets

The economy

Businesses have been over-reliant on Europe, writes **John Reed**

Looking at the proverbial glass of water that is the Mauritian economy, some in the country – notably those in or near government – say it is comfortably half-full. Despite its reliance on trade and investment with Europe, the island has managed to tough out the financial crisis, reporting an average growth in gross domestic product of about 4 per cent – a figure that would make most European countries envious.

The corporate sector, dominated by a few family-controlled conglomerates on which many more small and mid-size companies rely – is, as in times past, reacting to adversity by reinventing itself. In the sugar sector, producers have raised their game by exporting refined rather than raw product. Textile companies have cut costs and outsourced more work to low-cost countries.

Hotel groups are pursuing new markets such as China, India and Russia to make up for the Europeans forgoing trips. Sugar estates are turning some of their agricultural land into shopping malls or residential developments for foreigners willing to spend $500,000 or more on a Mauritian pièd-a-terre.

The government forecasts GDP growth of 3.5 per cent this year – a drop from 3.9 per cent in 2011. It describes this as a respectable showing, considering that Mauritius sends about half its exports to Europe and gets two-thirds of its tourists and foreign direct investment from there.

"You could have expected much worse with such exposure," says Xavier-Luc Duval, the finance minister. According to government estimates, the real estate sector will be the biggest driver of growth this year, followed by financial intermediation, manufacturing and trade.

But many Mauritians express disquiet about slowing growth, which they worry will soon increase unemployment, which is already at 8 per cent. The weakening of the rupee has helped support exports, but hurt ordinary Mauritians' household budgets in an island country that imports most food and other basic goods.

The "glass-half-empty" school points out that the government has intervened three times to prop up struggling companies, but many are still losing money and could fail if the crisis in Europe proves long and hard.

Some say the government's response to a slowing world economy and the growing competition from elsewhere has been haphazard and inadequate in the face a serious global crisis and deep-rooted homegrown problems.

"There is no master plan, there is no development plan," says Kee Chong Li, a spokesman for finance in the opposition. "This is a country of fix it as you go."

When Lehman Brothers collapsed in 2008, precipitating the global banking crisis, the government announced a first set of stimulus measures by year's end.

Dubbed the "Mauritius Approach", the programme saw the government guarantee low-interest bank loans for struggling companies. They in turn were asked to put up 20 per cent fresh capital of their own and to forgo declaring dividends or cutting jobs.

About 19 companies – primarily textile producers – benefited from the aid, and about 8,000 jobs were saved, according to Raj Makoond, director of the Joint Economic Council, which oversees the programme.

"We were able to carry forward the lessons of the Lehman crisis in public-private mode," he says. "Had some of the large companies gone under, the ripple effect would have been bad."

The government intervened again to support struggling companies with the Economic Restructuring and Competitiveness Programme, another stimulus plan.

Last year, it doubled the size of the National Resilience Fund, which assists companies in financial distress because of the crisis, to $200m.

Market prices: the depreciating rupee has helped exports but hurt ordinary Mauritians' household budgets Alamy

While the stimulus is keeping many companies afloat, the economy is still under pressure from weak overseas demand. Many think that the government's 3.5 per cent growth target will have to be cut.

"On the economic front, it will be tough," says Rama Sithanen, a former finance minister who runs International Financial Services, a consultancy that helps offshore companies. "Most experts suggest we are in for the long haul in terms of contraction of the economy in Europe."

> Many Mauritians express disquiet about slowing growth, which they worry will soon feed through to higher unemployment

While the word "austerity" is not one used often in a local context, some analysts think the country needs to cut costs and improve performance in public-sector institutions such as education and pensions.

"We must improve productivity and competitiveness," says Rundheersing Bheenick, governor of the Bank of Mauritius.

The country's demographic profile, which used to be pyramid – with more young people at the bottom than old ones at the top – now "looks like a tower block", he says. Its underfunded state pension system could in future break the budget if left unreformed, he says.

Mr Li says Mauritius needs to overhaul its education system, which he claims focuses too much on rote learning and is not producing graduates with the right skills.

Mauritian political parties are for now shunning spending cuts, which they see as toxic.

The country's media, too, are more focused on political horse-trading and scandals than deeper public policy challenges.

But some Mauritians say this must change.

"When there is sustained recovery, there will be heightened competition for markets that will have shrunk," says Mr Bheenick. "To face up to that competition, you must be strong."

Banking on a good location and the law

Financial services

Paul Adams considers the success of a sector that links investors worldwide

Twenty years after liberalising its small and insular banking system, Mauritius has developed an international financial services industry with a low-tax offshore sector that links investors worldwide to markets in Asia and is shifting its focus to sub-Saharan Africa.

By 2011, the financial services sector made up 15 per cent of gross domestic product, with global business accounting for 5 per cent. It employs 15,000 people.

Although there are 20 licensed banks, the sector is dominated by two local institutions: Mauritius Commercial Bank (MCB) with 45 per cent of the market and State Bank of Mauritius with 25 per cent.

"Two-thirds of our balance sheet is from local activity. The big international banks are primarily here for the offshore sector," says Pierre Guy Noël, chief executive of MCB.

"Balance sheets here are strong. We never got into the rat race of chasing business. We stuck to basic banking principles and margins are good."

The finance sector, along with ICT, pays in corporate tax nearly a quarter of the government's direct receipts, says Nikhil Treebohun, chief executive of Global Finance Mauritius, which represents the banks, institutional investors, stockbrokers, law firms, accountants and the 160 management companies that service the 25,000 international companies registered in the country.

Mauritius' success has been achieved through good fortune, good management and astute trade diplomacy.

Added to the island's convenient location between the European and Indian time zones, multilingual population, political stability and a reliable legal framework with access to a court of appeal in the UK, the government has provided sound financial regulation.

On the "white list" of OECD and Financial Action Task Force countries, it has also negotiated double tax avoidance agreements with 36 countries and 19 investment protection and promotion agreements.

Its membership of the African Union and the Southern African Development Community provide preferential access to markets in Africa, Europe and the US.

Mauritius has become the main channel for investment in India. From 2000 to 2011, it accounted for 42 per cent ($54bn) of India's foreign direct investment. This had its origins in a 1983 treaty designed to attract Indian investment to Mauritius.

As both economies opened up, the tax planners got to work and the money started to flow in the opposite direction, bringing a reaction from an Indian government under pressure at home to deal with alleged tax evasion and money laundering and accusations in the local press of secrecy and non-cooperation by Mauritius.

The Indian government's new code to boost tax collection includes general anti-avoidance rules (GAAR) to curb "round-tripping", in which Indian companies take money out of the country and reinvest it there via Mauritius to reduce their tax bill, and "treaty abuse".

Mauritius has protested that the GAAR threatens to override India's bilateral agreement and that the Indian reaction has created uncertainty and singled out the country unfairly.

Sridhar Nagarajan, chief executive of Standard Chartered Bank (Mauritius), says: "There is not a single case of round-tripping that has been proved. You have to track it at the point of exit, not the point of entry. Mauritius is very stringent."

"There is already a MOU [memorandum of understanding] between Sebi, India's regulator, and the Financial Services Commission in Mauritius. If there is treaty abuse, we have to define it and prevent it," says Mr Treehoohun, who cites a recent study by the Commonwealth Secretariat which found that Mauritius was one of the most highly regulated international financial centres in the developing world, scoring well ahead of its main rivals Singapore and Cyprus.

> Membership of the African Union and SADC provides preferential access to markets in Africa, Europe and the US

"It's not in our interests to have shady business here. India is the source of 70 per cent of our global financial business."

Others see this dispute as the signal for Mauritius to reduce its dependence on India in finance, a process already begun by some of the local conglomerates.

CIEL Investment partnered with I&M Bank from Kenya to form Bank One in Mauritius, and has shares in the Kibo private equity funds, targeting investment in east Africa. Afrasia Bank, owned by the island's largest group GML, has investments in South Africa and Zimbabwe.

The government, also wary of over-reliance on trade with the eurozone, has recently appointed Azad Dhomun, as its roving ambassador to sub-Saharan Africa to speed bilateral trade deals on the continent and in particular bring African banks to Mauritius. Only South Africa's Standard Bank and Investec are present, both primarily in the offshore sector.

"My role is to help Mauritius develop as a financial hub, there's huge potential," says Mr Dhomun, who has run banks in several African countries as well as Mauritius.

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Economy displays resilience against some tough odds

Continued from Page 1

confidence contrasts with a growing sense of unease among many Mauritians who fear the country's prized economic niche and social harmony may be under threat. There is a sense that, for once, the country may not be adapting quickly enough to changing circumstances.

"Mauritius is beginning to run out of luck" says Kee Chong Li, an MP and opposition spokesman for finance.

Tourist arrivals are flattening out this year, just as a glut of new rooms built in more optimistic times becomes available. Mauritius has been slower to fill tourist beds vacated by European tourists with freer-spending Chinese ones, as its regional neighbours Maldives and Seychelles have done. Many top-end hotels are discounting rooms, threatening the island's status as an exclusive destination too.

The international business sector also faces a challenge. India, with its own GDP growth slowing, wants to renegotiate the two countries' three-decade-old tax treaty as part of a broader push to reclaim lost revenues.

Navin Ramgoolam's government has had to intervene with three stimulus programmes since 2008, most recently by doubling resources for a National Resilience Fund, set up to help faltering industries.

Even the island's rich, historically expansive Franco-Mauritians are expressing unease. Constant diversification is probably the name of the game," says Gilbert Espitalier-Noël, chief executive of ENL property, part of a family conglomerate with investments in hotels and real estate. "But it's tough – tougher than I've seen in my 25 years."

Unemployment is about 8 per cent, but the number belies double-digit joblessness among young people. Unless Mauritius can accelerate growth, businesspeople and policy makers fear the number will rise and with it social unrest.

Some Mauritians worry that structural competitive factors are holding the country back and think that the government should undertake deep reforms in areas such as social spending and education.

"The social transfer budget in the country risks becoming insupportable for the future taxpayer," says Rundheersing Bheenick, governor of the Bank of Mauritius.

> There is a sense that, for once, the country may not be adapting quickly enough

While social spending cuts are for now politically taboo, there are signs that the private sector is changing in response to tougher times.

The sugar industry, still an economic mainstay, is branching out into ethanol and moving up the value chain by exporting refined rather than raw sugar. Textile companies are exporting their knowhow to lower-wage locations in countries such as Madagascar, India and Bangladesh.

In tourism, hoteliers are joining forces with Air Mauritius, the lossmaking national airline, to lure a critical mass of Chinese tour groups that might fill new flights to the island.

The offshore companies sector, meanwhile, is making up for lost business in India with new investments from companies targeting Africa. After a fashion, a new Mauritius is emerging.

"No crisis lasts forever," says Mr Bheenick. "After this crisis we have to emerge fighting fit."

Cash cow begins to look vulnerable

Tourism

John Reed reports on a sector that needs to diversify

Beached: arrivals are tailing off, even as numerous hotel rooms become available Dreamstime

A skipper on the water taxi that ferries tourists to Le Suffren, a quayside hotel in Port Louis, the capital, likes to greet Chinese with a cheery *Ni hao*! in Mandarin.

To cater to Chinese tastes, another hotel group, Veranda Leisure & Hospitality, recently began offering dim sum and *congee* (rice porridge) on its breakfast menu, green tea instead of fruit cocktail as a welcoming drink.

For years, Mauritius has positioned itself as an upmarket destination catering primarily to Europeans, who still account for about two-thirds of tourists. But with many west European countries in recession, arrivals are tailing off, even as numerous hotel rooms become available.

The tourist industry, once seen as a reliable cash cow, looks as vulnerable as sugar or textiles in years past – too reliant on one market niche and slow off the mark in exploiting new ones.

"Our tourist industry is extremely eurocentric and, given what's happening in Europe, we are suffering big-time," says Gilbert Espitalier-Noël, director of ENL, a family conglomerate with interests in Veranda and in Beachcomber, the largest hotel group.

So after seeing regional neighbours such as the Maldives attract visitors from China, Mauritius is belatedly trying to do the same.

In 2006, before the financial crisis, the country set itself a target of doubling annual tourist numbers to 2m by 2015.

That target now looks unrealistic, and some analysts say the country's hotel construction spree was ill-advised. Last year, it hosted just under 965,000 tourists, a 3 per cent growth rate on 2010, but much less than the 18 per cent growth seen in Maldives or 11 per cent in Seychelles.

In the first half of this year, arrivals were flat at just over 467,000. Visitors from Europe dropped by 6 per cent in the same period.

"With diversification progressing at a snail's pace, Mauritius remains highly vulnerable with Europe sliding back into recession," a recent report on the tourism industry published by Port Louis-based Axys Stockbroking concludes.

The murder last year of an Irish woman on her honeymoonk, for which two hotel workers were tried and later acquitted, cannot have contributed to the country's image as a holiday spot.

Mauritius' share of the Indian Ocean tourism market plunged from a dominant 41 per cent to 33 per cent in 2009-11, roughly the same share as Maldives, the brokerage says.

Occupancy at some three- to five-star hotels has been dropping this year, hotel companies say. This has prompted a round of discounting that hoteliers warn could endanger the country's reputation as an exclusive place to visit.

> Mauritius' share of the Indian Ocean market plunged from 41% to 33% in 2009-11

"The Mauritian destination is caught in a dangerous descending spiral," Herbert Couacaud, Beachcomber's chief executive, recently warned colleagues in an internal newsletter. "It is paying the price for a fire sale that has transformed the country into a discount destination with a loss of identity, leading even tour operators to look for other destinations to guarantee their growth."

Tourist companies are working to reverse this, redirecting their promotion budgets to new markets such as China, or expanding industry segments such as golf tourism.

While China is the biggest prize, the industry is also setting its sights on other markets, including Russia and India.

Wedding parties held by wealthy Indians, who have been known to book entire hotels or flights for a weekend, are seen as the biggest windfall.

Many hoteliers complain that a shortage of flights, including those offered by the lossmaking national carrier Air Mauritius, is hampering the industry.

They are pressing for more connections to China in particular, saying that Air Mauritius needs to add more flights, or the government needs to open air access further

"There's not enough seat availability compared to the hotel capacity," says Francois Eynaud, chief executive of Veranda and president of the Association of Hoteliers and Restaurateurs.

However, Air Mauritius and some government officials dispute this, saying that adding more flights for which there is not enough demand will not help.

The airline has vowed to work with the industry to attract more tourists from China.

That is beginning to happen. This month, the airline joined Mauritian hoteliers on a trip to China aimed at ensuring enough commitments from tour operators to fill more flights.

Ill health of national carrier causes concern

Aviation policy

Viable air links are crucial for an island economy, writes **John Reed**

The executive suite at Air Mauritius' Port Louis headquarters features a glamorous and evocative but woefully outdated route map that takes up an entire wall.

Bold red lines emanate like spider legs from the island nation, marking the path to far-flung destinations in Africa, Asia, Europe and Australia.

However, the national carrier no longer flies to many of them. The airline, which reported a net loss of €29m last year, has cut several routes including Sydney, Melbourne, Manchester, Brussels and Rome. It is also due to stop flying to Frankfurt and Geneva.

Donald Payen, the airline's executive vice-president, is philosophical about the retrenchment. "In those days, the success of an airline was determined by the places it flew to," he comments.

Air Mauritius is cutting some unprofitable routes and adding flights elsewhere in an effort to cut its losses and hold its own against tough competition. But in a such a remote country, the airline is seen as a strategic asset, and its decisions on routes a matter of national importance.

Some business people think the government has bungled air policy by coddling Air Mauritius and not allowing enough competing airlines to offer flights. They say the country's hope of building a service-oriented economy open to the world is in peril because of the ill health of the national airline.

"Air access is as important as electricity and water and telecoms, because it's crucial to the new economic model we want," says Raj Makoond, director of the Joint Economic Council, which represents the private sector. "This is a major policy that has not been addressed."

Hotel companies have been the most vocal in bashing the airline. They say that a shortage of affordable flights has created a mismatch between availability of rooms and tourists options to reach the country.

"We are all hostages to the health of Air Mauritius," says Robert de Spéville, commercial director of Beachcomber, the biggest hotel group.

"Nobody wants to open air access, because it could lead to the carrier's complete downfall."

Donald Payen at Air Mauritius is pragmatic about retrenchment

The airline itself sees things differently. "We have to look at the facts," says Mr Payen. "The government has been very liberal in its air access policy since 2006."

Six years ago, the government set a goal of doubling the number of tourists to 2m by 2015. The country then signed bilateral air access agreements with a number of countries.

But the financial crisis in Europe saw tourist arrivals slow, creating a vicious circle of slowing demand and fewer flights. Some airlines, including Virgin Atlantic, Singapore Airlines and Qantas, cut flights to the country – suggesting, says Mr Payen, that "they don't see an interest in flying here".

The number of seats on airlines flying into the island has remained at 3.6m in both 2011 and this year, he says, with Air Mauritius offering half of the seats. Third-party observers offer arguments on both sides.

The Maldives, which has no national airline but a tourism industry with growth fast outpacing that of Mauritius, has pursued an open air policy, which "appears to have played its part in ferrying tourists to the atoll", Axys Stockbroking concluded in a recent analysis of the Mauritian tourist industry.

However, it added: "There is some truth in the unprofitability of the Mauritian route." Airlines have claimed that the Maldives are more profitable because they are closer to northern hemisphere countries, and so cheaper to fly to.

Air Mauritius has enlisted Seabury APG, industry consultants, in an effort to turn itself round. The airline has come up with a seven-step plan, including a review of its route network.

In Europe, the airline now only flies to London and Paris, but wants to use the cities as hubs that funnel passengers to and from other cities. Air France is a code-share partner; in East Asia, Malaysia Airlines is a partner, with Kuala Lumpur as a hub.

"Today's challenging industry climate is causing airlines to redefine the way they conduct business," Andre Viljoen, the airline's chief executive, wrote in a rather gloomy letter to passengers in the most recent edition of Islander, the in-flight magazine.

The turnround plan also includes cost-cutting. So the airline may have to sell its headquarters building, Mr Payen says, along with a helicopter service and a small hotel it owns on Rodrigues, Mauritius' smaller sister island.

Cutting a flag carrier down to size can be a humbling business – and in Mauritius it is proving a controversial one.

Stream of rich immigrants may lead to social tensions

Real estate

John Reed on a scheme to build luxury dwellings

Justin Pearson-Taylor, a Briton who spent his career climbing the corporate ladder in South Africa, first came to Mauritius with his wife Kim on their honeymoon in 1996.

Three years ago, the couple upped sticks with their two children and emigrated from Johannesburg to the island, where they paid about $1.7m for a luxury resort home on a former sugar estate in the south of the country.

Mr Pearson-Taylor had just taken redundancy from the platinum mining company he worked for, which was restructuring; his wife liked the frangipani flower on the logo of the development, called Villas Valriche.

"We got a bit fed up with South Africa and the way it was going with crime," he says. "You feel safe here – there's a high moral comfort, and they are genuinely nice people."

Mauritius is trying to attract more rich foreigners such as these to high-end developments costing $500,000 or more under its Integrated Resort Scheme, or IRS.

Government planners and the country's plantation owners devised the scheme before the financial crisis, another leg in their effort to diversify away from sugar and other traditional industries.

In making its case to wealthy would-be immigrants, Mauritius is promoting itself primarily as a tax haven. Foreigners who buy an IRS property and live on the island at least half the year are eligible for residence permits and a flat 15 per cent rate on income and corporate taxes.

"Our sales pitch is not about living in a second home," says Murray Adair, chief executive of the Indian Ocean Real Eastate Company, that is building Azuri, an IRS project in the north-east of the island. "Our pitch is about finding people who want a new place to live."

The largest number of buyers for the development, he says, come from France. The day after Socialist President François Hollande was elected in May, the company got "a ton of calls" from potential buyers worried about higher tax.

The second-largest group are South Africans. "One country's adversity is our opportunity," he says, in the company's Port Louis office, where he shows a visitor images of a green peninsula – for now empty – fronting a blue lagoon where the development will stand.

In Mauritius, the real estate sector, like tourism and some other industries, made a series of buoyantly optimistic one-way bets before the financial crisis. It is having to tighten its belt and draw up new business plans.

Villas Valriche sold several of its villas, which cost $1m to $3m, the year the project launched in 2007, but saw orders dry up from 2008.

"We had to redesign and rephase the project," says Gilbert Espitalier-Noël, chief executive of ENL Property, the family controlled group behind it.

> Developments planned before the crisis have not left the drawing board

The company says it has sold 120 units so far – more than the 90 needed to break even, but well below the 300 it had hoped to sell by 2013. To draw in buyers, it also lopped about 15 per cent off the units' price.

The development sits on a windy hillside, which tenants traverse on golf carts to get to an adjoining hotel/spa, golf course, and beach club. Houses come equipped with sweeping views of rolling hills and crashing surf, and amenities such as outdoor kitchens and infinity pools.

On a recent morning, the place as very quiet: most early investors put their villas in a rental pool, which stands at about 30 per cent occupancy, a company official explained.

The Azuri development is positioned cheaper than competitors such as Villas Valriche. "You will get two of ours for one of theirs," says Mr Adair.

Rather than a gated golf estate, he says, Azuri will be a "working community" of town houses and penthouses akin to Celebration, Florida, the planned town near Walt Disney World in Florida. The group's apartments start at $500,000 and go up to about $830,000 and the company says it has received deposits for 170 of the 279 units it aims to build.

A few developments planned before the crisis have not yet left the drawing board, including Banyan Tree Corniche Bay, a development of luxury "eco-residences" designed by Sir Norman Foster's Foster + Partners.

While the influx of rich foreigners has been smaller than developers had hoped, Mauritians are watching it with mixed emotions. Some worry that the influx of white South Africans in particular – with their turbulent recent history of racial conflict – could upset community relations on the island, one of the most densely populated countries in the world.

"If we go too far and there is a feeling that beaches will be reserved for foreigners, it will be a big problem," says Jean-Claude de l'Estrac, secretary-general of the Indian Ocean Commission and former foreign minister.

"There are tensions," acknowledges Mr Pearson-Taylor. However, he says he has not experienced any problems personally.

"It's a nice place for an outdoor lifestyle," he says. "It's a nice place to bring up kids."

Sugar cane is central to sustainable energy plans

Environment

Paul Adams looks at a holistic plan that ranges from power generation to harvesting algae

Conservation in Mauritius got off to a bad start when the first influx of humans rapidly wiped out the unsuspecting dodo.

The island's habitat has done better since, thanks to an economy built on sugar cane. This tall grass, covering a third of the land area, has kept much of the volcanic island's green skin intact and, with the right technology, could help to make the next generation more self-sufficient with green energy.

Yet pressure for development from more than 1m inhabitants, unless carefully planned, threatens the natural beauty that draws a mass of wealthy visitors to the island in search of a little bit of ocean paradise.

A sustainable island project, known as Maurice Ile Durable (MID), is taking shape, but requires decisive action, says Khalil Elahee, an associate professor of engineering at the University of Mauritius who is on the project's strategy committee at the prime minister's office.

The project has already funded small solar-heated water and fluorescent lamp schemes, but Mr Elahee sees the role of sugar cane as essential to the success of this holistic plan, that ranges from power generation to harvesting algae from the sea, reforestation and wind power.

"We can re-engineer the cane industry to produce energy from biomass, produce bioplastics, export biofuel and bio-fertilisers. In turn, we can go some way towards food security by intercropping in the cane fields. It will reduce imports and it's in harmony with tourism, the idea of a green island," says Mr Elahee.

The island's transport and most of its power stations rely on fuel imported from India or South Africa but the cane industry already supplies 20 per cent of the nation's electricity from the sugar mills' waste that is burnt to produce steam-generated power.

"With gasification of the biomass, cane could provide all of the island's energy. It would take 10 years of research to reach a commercial application, similar to what they're doing in the US. But we have to stop talking and start doing it, with the right industrial partner," says Mr Elahee.

Local energy consultants agree that cane energy is beneficial. It is low-cost, frees the country from import dependency and can avert the real threat of blackouts from the existing fossil-fuelled infrastructure.

Mott McDonald, the British consultancy, is working on a feasibility study but Mr Elahee warns that the decline of sugar cultivation threatens the plan. "The area of land cultivated for sugar cane has been reducing at an alarming rate for the past decade. If cane production falls below a certain level, it will no longer be economic for it to produce energy."

The big sugar estates that mill the cane from the smallholders also warn that the economy is at risk from declining sugar production, as planters are ageing and young people flow to the towns and better-paid jobs.

"We need well planned agriculture. When the people move out of sugar cane, they cease organised agriculture. Where there's sugar cane, there's irrigation, there's a system," says Jacques d'Unienville, who runs Omnicane, a leading sugar, power and ethanol producer. "To persuade the small planters to keep producing, we have a new movement. The industry provides management services, helps planters to form co-operatives and join the Fairtrade scheme.

"Sugar cane is one of the most efficient carbon converters. It takes sunlight and converts it into green by-products. Mauritius is the pioneer. In 1957, it was the first country to produce electricity from *bagasse* [sugar biomass]," says Mr d'Unienville.

Cane crop: this staple has kept much of the island's green skin intact Reuters

Mauritius was also the first country to replace petrol and diesel with ethanol, during the second world war when there was an oil embargo. The war was an interesting lesson. No oil meant no food could be imported. "In the sugar cane fields, we were growing our own food."

Mauritius belongs to the International Sugar Cane Bio-mass Utilisation Consortium, but the local industry sees Mr Elahee's plans for green energy as ambitious. "It works in a test tube but it would take 20 years of research to develop gasification to that level," says Mr d'Unienville.

Far from the white beaches and green ocean views that draw in the tourists, Solid Waste Recycling is bringing more green technology to the island. From his bare office near St Martin, Patrick Maurel, the company's chief executive, watches trucks unload on a stinking pile of municipal rubbish. "Mauritius produces 400,000 tonnes of rubbish a year. We hope to be allocated half of that, which we will turn into 40,000 tonnes of enriched compost. We see this as a component of the sustainable island project," he says.

"This compost improves farmers' yield, helps water retention and rebalances the PH ratio of the soil. After years of chemical fertiliser being used on the sugar fields, our soil has become so acidic that it needs alkaline additives. These are also running out. They are even putting cement in the soil on some farms. It's a clean system and our aim is to move towards a zero-waste system. That would be a first," says Mr Maurel.

Democracy thrives amid the intrigues

Politics

John Reed looks at the cliques and plotting that characterise the top

For a small country that presents itself to the world as a stable democracy and safe haven from the volatile African mainland, Mauritius has a surprisingly turbulent and intrigue-ridden political scene.

All three of the main parties describe themselves as leftwing – two of them as "militantly" so. In practice, all three skew toward the centre, and have at various times governed in coalition with each another.

Their differences tend to have less to do with policy than with personalities, electoral calculus and jockeying for power.

The latest chapter of this opened soon after Prime Minister Navin Ramgoolam's Labour party won the 2010 election and formed a coalition with the Militant Socialist Movement (or MSM), headed by Pravind Jugnauth, who became finance minister and deputy prime minister.

The pairing was short lived. Mr Jugnauth's party left the coalition barely a year later after a scandal around MedPoint, a hospital the government was acquiring, which ensnared several politicians and civil servants.

In March of this year, Sir Anerood Jugnauth – his father and the holder of the country's mostly ceremonial presidency – quit too.

Sir Anerood is credited with the Mauritian "economic miracle" when he was prime minister in the 1980s and 1990s and again in 2000-2003.

The ex-president has now set his sights on re-creating the alliance his party had with the Mauritian Militant Movement (MMM) party, headed by ex-prime minister Paul Bérenger, and wresting power from Mr Ramgoolam.

In a country where ethnic Indians form a majority and mixed-race Creoles are the second-largest group, Mr Bérenger, as a white Franco-Mauritian, could not govern the country without a coalition partner.

That is why he needs Mr Jugnauth's MSM, which started life by breaking off from the MMM.

While the two parties were initially confident they could oust the prime minister, Labour has held on to its small majority, and succeeded in attracting three opposition MPs to join its ranks.

"It's mostly sound and light," one long-time foreign observer of Mauritian politics says. "Bottom line, Mauritius is pretty stable."

Political plotting is not confined to opposition ranks. Mr Ramgoolam has sought to divide his opponents and tempt Mr Bérenger's MMM with the prospect of constitutional and electoral reform.

The proposals include moving from a Westminster-style system to a more presidential one, and amendment of the "best loser system", which strengthens the representation of minority groups in parliament.

Both reforms could, if agreed, favour Mr Bérenger's party and his position personally. The MMM tends to win nearly half the votes but fall short of an outright majority.

A stronger presidency would give Mr Bérenger and Mr Jugnauth senior two powerful posts to divide between them if they were to win power.

However, thus far, the politicians have failed to reach consensus on the detail of any such reform. Amid all this, the opposition has continued to criticise the government for what it claims is pervasive corruption and cronyism in the ruling camp.

> Party differences tend to have less to do with policy than with personalities, electoral calculus and jockeying for power

"Since 2005, much has been corrupted, and everything stacked with *petits copains* – the boys and girls," says Mr Bérenger. "If it carries on for another one, two or three years, everything will have been corrupted."

Another opposition spokesman criticises what he claims are politically motivated appointments both in important ministries and at institutions of national economic importance, such as Air Mauritius and Mauritius Telecom, which he says are hampering the economy.

Outside parliament, Mauritians have watched their politicians' power plays with mixed emotions.

Some worry that the squabbling parties are failing to groom a new cadre of leaders who can guide the country through what are likely to be difficult times for the economy.

"It's all about Ramgoolam, Jugnauth and Bérenger, says Deepa Bhookhun, a journalist with L'Express, a Mauritian newspaper. "Bérenger is 67, Ramgoolam is 65 and Jugnauth is 82.

"After them, we don't know what will happen."

End of EU agreement forces a change of direction

Sugar

Paul Adams considers the fortunes of what was once a mainstay of the economy

As the sugar industry changes, so does Mauritius.

The sugar barons whose forerunners based the island's economy on the commodity now refer to the cane industry, because refined sugar is just one byproduct.

Cane's other products supply electricity to the national grid, fertilise the soil, add bubbles to drinks and put fuel in vehicles' tanks.

The tall, sturdy plant still carpets one-third of the island, most of whose population are descended from people who came because of sugar, but farmers are ageing and young Mauritians are looking beyond the cane fields for a better life.

Jacques d'Unienville, chief executive of Omnicane, the island's biggest sugar company, says: "The old industry exported raw sugar and molasses to Europe. But when the EU cut the fixed price by 36 per cent, we had to cut costs and go for value-added production. Now we refine all the sugar here and are diversifying."

Omnicane operates a combined sugar mill, refinery, ethanol distillery and independent power plant.

"We're now a high-technology energy producer. *Bagasse*, the fibre produced when cane is crushed in the mill, is burnt in the *bagasse*- and coal-fired power plant," says Mr d'Unienville.

Apart from the refined product, sugar goes to a distillery to produce bioethanol and food-grade carbon, for the soft drinks industry. Other by-products are *vinasse*, a fluid that produces bio-fertiliser and an additive to cement made by re-burning ash from the thermal process.

Until the 1970s, sugar dominated the economy in terms of exports, employment, land use and share of gross domestic product. It now accounts for about 5 per cent of employment but provides 16 per cent of net exports.

The old system was based on the EU's Sugar Protocol, a fixed price and volume deal with Mauritius adopted after Britain joined the Common Market in 1975. In 2009, the protocol was dismantled and replaced by an agreement that still allows Mauritius to export sugar duty-free to the EU, but does not guarantee price and quantity.

> Farmers are ageing and young Mauritians are looking beyond the cane fields for a better life

Before the EU changed the deal, sugar was already in decline. Reforms helped the economy to diversify, bringing competition for land use from other industries, while the average age of the smallholder farmers increased. There are five factories on the island, down from 19 at the industry's peak.

Mauritius is now a relatively small producer, with 450,000 tonnes a year, in a world market of 150m tonnes a year, but it is still the biggest exporter of sugar to Europe and derives at least 17 per cent of its electricity from *bagasse*, according to industry figures.

"By-products are more and more important for this industry. We are regrouping and modernising," says Patrick Arifat, the chief executive of Alteo, recently formed from a merger of the locally owned Deep River Beau Champ and FUEL sugar estates.

Mr Arifat says: "We have five factories, two already have refineries, one will close next year. We've had to adapt, but we believe sugar in Mauritius still has advantages and can thrive. There's a good climate, small distances to an efficient port, good sea routes to Europe and good logistics."

Ominicane is taking its diversification offshore and believes its expansion is contributing to the island's finance industry, which is also doing more business abroad.

"We've finished our programme in Mauritius, but we are ready to export this model to the rest of Africa," says Mr d'Unienville. The company has begun a sugar-energy project at Kwale in Kenya and is part of an international consortium conducting research into biomass utilisation.

The industry is organised into the Mauritius Sugar Syndicate, which has negotiated a deal with Germany's Südzucker, the EU's biggest sugar group, to distribute 70 per cent of its output (refined white) internationally. Its special sugars, the remainder, are marketed to various buyers.

Jean Noel Humbert, the syndicate's chief executive, sees two main challenges.

The first is land abandonment, the result of an ageing farming population, high land prices and economic diversification.

Second, the European Commission has proposed reforms to the Common Agricultural Policy (CAP) that would cut sugar quotas in Europe by 2015. This could lead to severe competition and price volatility.

"Mauritius has proposed that the quotas be extended to 2020 to give us time to adjust to these changes," says Mr Humbert.

ICT In search of better connections

A small group of global outsourcing operators in the cluster of gleaming tower blocks known as Ebene Cyber City is the driving force for the island's newest area of growth – information and communications technology.

Earmarked by the government as "the fifth pillar of the economy", ICT is the third biggest contributor to gross domestic product, making up 6.7 per cent in 2011.

"Mauritius has long been seen as a safe place for tourists, now we are working towards making it a secure IT destination," says Tassarajen Pillay Chedumbrum, the minister in charge of the sector.

"Our main competitors are in north Africa, which already serves the French-speaking market, but we believe that our stable environment will work to our advantage," he says.

The recent addition of two subsea fibre optic cables (Lower Indian Ocean Networks 1 and 2) to the South African Far East (SAFE) cable has provided the capacity to turn Mauritius into a digital information hub, says Mr Pillay Chedumbrum.

"To improve staff skills, we have set up an ICT Academy through a public-private partnership that will involve leading companies such as Hewlett-Packard, Microsoft and Oracle. It will be industry-driven. Anyone who graduates from the academy will get a job."

The government says Mauritius is the lowest-cost ICT base in the French-speaking world, citing a recent survey. However, operators and local corporate users are critical of the country's infrastructure, especially the cost and slowness of internet connection. They also regard the dominant role of Mauritius Telecom, the state-owned operator that has a partnership with France's Orange, as an obstacle to development.

"There is a big debate on infrastructure, especially telecoms connectivity," says Vidia Mooneegan, the local managing director of US-based Ceridian Global Workforce. "It has got better, but it still isn't

'We are working towards making island a secure IT destination,' says Tassarajen Pillay Chedumbrum

sufficient. Mauritius needs more competition, especially on internet providers. The national rate of internet penetration is poor – roughly 25 to 30 per cent. That needs to be trebled in the next three years. In a remote country, internet connection is vital," he says.

Ceridian Global began developing software in Mauritius for the group's UK office, but moved into payroll, tax, medical claims and human resources outsourcing when the SAFE cable landed. Other global business process operators on the island include Accenture, Orange, Business Solutions and TNT.

"Mauritius produces IT graduates of a quality comparable anywhere in the developed world," says Mr Mooneegan. Ceridian has a strategic partnership in training with India's NIIT, but he also believes that Mauritius' ICT Academy is raising local skill levels.

Mr Mooneegan sees strong growth potential in sub-Saharan Africa.

"Africa has talent in this sector, and at a lower cost than here. And some of them speak European languages such as German and Portuguese, as well as French or English. "Mauritius could be a secondary location for some of these countries' operators, using the multicultural model that made Silicon Valley so creative.

"We can bring qualified people here, there is no problem obtaining work permits and a lot of bright people want to move to Mauritius, not only from Africa but also from Europe."

Paul Adams

Consolidation leaves sector stronger

Textiles

Predictions of the death of the industry were wrong, says **Paul Adams**

A factory sprawls across the edge of the industrial zone, where Mauritius' textile industry has been having to adapt to hard times. Inside, a few dozen operators on roller skates cover the 40,000 square feet of high-tech plant owned by CMT Spinning Mills, the largest local manufacturer on the island.

Maurice Vigier de Latour, whose company, MVL Marketing, works closely with CMT Spinning Mills says: "Back in the 1990s, the ministry of industry predicted the end of the textiles industry once the Multi Fibre Agreement (MFA) had expired.

"Now CMT makes 4m T-shirts a month. It's a world leader."

Local production did plunge in 2005, when the MFA ended, but it forced a consolidation from which the sector has emerged smaller but more diverse. Textiles remain the biggest employer, with more than 46,000 workers, and make up the second biggest component of gross domestic product, with 7 per cent, and account for half the country's exports.

Most producers are locally owned. Ten big companies account for roughly 90 per cent of production and, crucially, most of these are vertically integrated, producing fabric and yarn as well as garments.

"If it had not been for that, we probably would not be here today," says Harold Mayer of CIEL Textiles, which exports clothes to such retailers as Marks and Spencer, Celio, and Zara in Europe, Levi Strauss in the US and Woolworths in South Africa. CIEL has become an international group, employing 17,000 staff worldwide, with production spread between Mauritius, Madagascar and Asia.

"Facilities in Mauritius are modern and close to world class. We supply the middle to upper end of the market," says Mr Mayer. "CIEL primarily makes three categories of garments: men's shirts, woven tops [mainly for women], and knitted clothes.

"We are able to compete in all these because we have mixed sources of production. CIEL was one of the first Mauritian companies to set up a plant in Madagascar, where labour costs are considerably lower but which still enjoys duty-free access to Europe, the US and South Africa – unlike east Asian competitors," he adds.

Loom expert: production of woven goods has been outsourced to plants in Madagascar Reuters

Mr Mayer cites competitive freight costs to Europe as a big advantage. "Speed is vital if you're doing 'fast fashion', which most big retailers now demand."

The company has three local spinning mills but Mr Mayer believes the industry could not have succeeded without low-cost operations in Madagascar. "We can produce a T-shirt competitively in Mauritius, because there is not much labour, but to make a pullover or sweater, we need to do it in Madagascar," he says.

There has been a levelling out of costs. China is not as cheap as it was. It still supplies 40 per cent of the US and EU markets, but currency and labour factors mean Chinese prices have risen. "Because of our vertical integration, we compete with various suppliers. For some products, the competition could be in Turkey or Tunisia, for others in China."

CIEL has also invested in Asia and 65 per cent of the group's production is outside Mauritius – Madagascar, India and Bangladesh.

The company's factories in India supply upmarket brands to the local market, but the industry still considers Europe as its most important market. "Sixty-five per cent of CIEL's sales are to Europe, primarily to the UK and France," says Mr Mayer. "The US is also important, especially for shirts."

The US African Growth and Opportunity Act, a trade agreement, has been vital for access to the US market as is membership of the Southern African Development Community for duty-free access to South Africa, a new and valuable market.

Mr de Latour says high costs are a risk for the sector and that it will have to move upmarket if it is to survive. How did a small island in the middle of the Indian Ocean with no cotton and no sheep create such a successful industry?

Top is its skill at innovating. It also has an excellent reputation for quality and reliability.

"Social compliance is also important," notes Mr de Latour. "Foreign inspectors come and check rigorously the conditions of our workforce. Finally, the ability to react fast has become vital. A 'fast fashion' supplier has only two to four weeks to complete a repeat order."

However, the island's distance from its export markets, its relatively high labour and electricity costs, the strength of the rupee and changing logistics all pose a threat.

"There have been no direct shipping lines to main markets in the west since the financial crisis in 2008. We're relying on air transport to reach them in time. This is more costly, so Mauritian garments will have to aim for higher value," says Mr de Latour.

Protest to Parliament: islanders have been unable to return since the UK gave the US the right to use Diego Garcia for military purposes 48 years ago. For Mauritians who claim sovereignty over the islands, the affair is an open wound AP

An emotive piece of unsettled colonial business

Chagos dispute

A claim concerning the displaced islanders' right to resettle is awaiting judgment, says **John Reed**

Louis Olivier Bancoult has only hazy memories of Peros Banhos, a sleepy coral atoll in the Chagos islands, where he was born 48 years ago. He left as a four-year-old, when his mother took him and his sister, who had been injured in an accident, on a four-day, 800-mile journey by boat south-west to Mauritius to seek medical help.

When his sister passed away, the family tried to go home. However, they were told they could not return because part of the land had been given to the US to build a military base.

Today Diego Garcia – the largest of the islands – is the US's biggest strategic asset in the Indian Ocean, a staging post in a restive region running from east Africa to the Middle East.

The Americans carved a runway out of the island's coral and dredged the lagoon to a depth of more than 12 metres to serve as a turning basin for aircraft carriers and submarines.

The UK excised the islands from Mauritius and Seychelles in the waning days of colonial rule, giving the US the right to use Diego Garcia for military purposes for 50 years.

According to *Next Year in Diego Garcia*… an account of the dispute by Jean Claude de l'Estrac, secretary-general of the Indian Ocean Commission and a former foreign minister, Britain received a £5m rebate on surcharges owed to the US for the purchase of Polaris missiles as part of the deal.

Britain cleared the archipelago of its inhabitants by 1973, and still claims the rest of the islands – now called the British Indian Ocean Territory (BIOT) – as its own. But for Mauritius, which claims sovereignty over the islands, the affair is an open wound. For some, it is as hurtful and emotive a piece of unsettled colonial business as Gibraltar is for Spain or the Falkland Islands are for Argentina.

"It's one of the worst colonial crimes," Paul Bérenger, leader of the opposition MMM party and a former prime minister, says of the eviction of the archipelago's original residents.

Navin Ramgoolam, the current prime minister, raised the issue with David Cameron, his British counterpart, during a visit in June. He told Mauritian media that he had discussed the matter again with UK lawyers on another visit to Britain last month.

The issue has not made big waves lately in British public opinion. That could change. A high-profile case brought for the Chagossians seeking damages and the right to resettle is awaiting judgment by the European Court of Human Rights.

Few close to the issue, even the Chagossians themselves, expect the Americans to leave Diego Garcia soon. Britain's agreement with the US – activists call it a lease; Britain an "exchange of notes" – will roll over for another 20 years unless either side objects, which seems unlikely.

Nick Leake, British high commissioner in Port Louis, the capital, notes that "the issue of sovereignty is a separate issue to the resettlement of Chagossians, and the two shouldn't be confused. We are keen to have constructive dialogue with Mauritius on issues of continuing interest."

British officials have expressed regret over the Chagossians' plight in recent years, but have never formally apologised.

Mauritius' claim of sovereignty has been weakened by the fact that it accepted £3m as payment from Britain when the BIOT was created to resettle inhabitants and compensate landowners. The Chagossians themselves were given some financial compensation twice in the 1970s and 1980s from the UK, dispensed by the Mauritian government.

However, the islanders' push for broader justice – up to and including a right to return – has been strengthened by the persistence of the activists, changing attitudes toward decolonisation and human rights, and the declassification of official documents that cast Britain in an unflattering light.

At the time of the deportations, one Whitehall official said the islands had "no indigenous population except seagulls". One of his colleagues added that "unfortunately, along with the birds go some few Tarzans or Men Fridays whose origins are obscure".

Britain continues to hold that the islands' inhabitants were workers under contract to plantation owners in Mauritius, who returned every three or four years. Activists such as Mr Bancoult and historians, including Mr de l'Estrac, dispute this, asserting that many islanders can trace back their ancestry several generations.

"The UK and the US were very worried about these people being described as belongers in any sense," says Pooja Bissoonauthsing, a legal analyst involved in the Chagossians' cause. "In order to prevent the UN from looking into this, they say 'these people were contract labourers'."

The late Robin Cook, when foreign secretary under Tony Blair, commissioned a study on whether the islands might be made viable for resettlement, and considered options such as Maldives-type tourist developments.

It reached pessimistic conclusions. Britain continues to question how many of the Chagossians and their descendants, perhaps 4,000 in number and now scattered among Mauritius, Seychelles and the UK, would actually want to return.

Mr Bancoult, who has visited his homeland only briefly three times on trips organised by the British, is adamant that he does. He accepts that Diego Garcia will continue as a military base, but asks why the Chagossians cannot go back to live or work there alongside the Filipino and other civilians who serve the US military. "It's my birthright," he says. "All displaced people want to go back."

Society is evolving faster than the political system

The community

Mauritians want a non-racial identity, says **Paul Adams**

There is little sign in the busy streets, offices and bars of Port Louis that the racial barriers of Mauritius' colonial past persist.

The Asians, Africans and Europeans who populate this small island appear to blend harmoniously both at work and socially.

Last month's Eid festival marking the end of Muslim fasting was celebrated with a national holiday for Hindus, Christians and Muslims alike.

The predominantly Hindu government, perhaps fearful of the communal violence that erupted at the time of independence and flared up again in 1999 when a popular reggae singer died in police custody, seeks to promote national unity by emphasising communal diversity.

The problems facing Mauritius appear moderate, even compared with many parts of the developed world.

Yet society is evolving faster than the political system and many Mauritians believe it is time to stop differentiating between the four main communities and embrace a non-racial national identity.

"We don't yet have real citizenship in this country," says a retired newspaper editor and social commentator.

"We are still defined not so much by race as by our religion. Everyone is expected to behave in a certain way, according to where their forefathers came from."

Jean-Maire Richard, a public relations executive who acts as a representative for the Creole community, who are partly descended from Africans brought as slaves from Madagascar or Mozambique, says: "We're heirs of the plantation culture. This has led to 'pigmentocracy' or determination by the colour of skin".

The Creoles make up roughly 30 per cent of the population and are regarded as the poorest community; Hindus and Muslims from the Indian subcontinent make up two-thirds and dominate the government and the rest are mainly the Franco-Mauritian community that owned the old sugar plantations and still controls much of the private sector, and Chinese Mauritians.

Mr Richard says: "The founders of independence wanted a multi-ethnic democracy. Since then, all but one prime minister has been Hindu and all but one of those has been from a single caste – the Vaishya."

When Mauritius gained independence, he says, the Creoles opposed it and there was an exodus to various parts of the Commonwealth. Many had been in the civil service and the Hindus stepped into their place. Now 98 per cent of government posts are filled by Mauritians of Asian descent.

"The Creole community is forged from the multiple identities of this country and we want that acknowledged. We think diversity makes unity. Creoles and some of the smaller minorities feel a bit oppressed by the stereotyping, re-engineered by Hindus since independence."

This stereotyping is occasionally reflected in the print media, with predictable consequences.

There was uproar when a journalist of Indian origin recently published an article denouncing Creoles as lazy, uneducated and poorly led and he was suspended by his newspaper.

> The type-cast political system has been challenged by a youth and trade union movement

The country's type-cast political system has also been challenged in the courts by a youth and trade union movement, called Rezistans ek Alternativ (RA). After going to the Supreme Court, RA appealed to the UK's Privy Council to force the government to abolish the Best Loser System, which allows eight MPs to be nominated to parliament.

"The best loser system was set up at independence to protect minorities. The politicians know this has to change, but they are trapped in the old system. We are challenging the classification of candidates as belonging to a particular community," says Ashok Subron, RA's leader.

The government's electoral reform bill is likely to bring about this abolition sooner than the courts.

Mr Subron also sees the economy as an important driver of social change.

"Inequality in Mauritius is growing and that is a risk to cohesion. We are the product of our history," he says.

"We have a multiple, indivisible identity. We shouldn't be forced to choose one identity. But when people talk of these racial groups, it sounds as though Mauritius is segregated. It's not. I think people have overcome these invisible barriers."

The modern economy is also weakening the stereotypes, Mr Subron believes. "When you look at the new industries, and the people who work in hotels and call centres, there's no discrimination, it's a mix. These workplaces are breaking down the barriers that existed in the plantations and the 'Facebook generation' doesn't care about all that."

Jean-Claude de l'Estrac, who runs the Indian Ocean Commission representing the region's island states, says that society in Mauritius is more robust than the main political parties realise.

He says: "Each group knows how far to go in getting the best deal possible, but none crosses the invisible but forbidden line.

"It's a small place. Although everyone is attached to the culture from which they descend, we live together and talk over the walls."

Harmonious blend: little sign of racial barriers Reuters