The Park Place Economist

Volume 4 | Issue 1 Article 10

5-1996

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Abstract

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Vinod Cardoza
and
Isabelle Pun Sin

"The British stir sugar into their tea clockwise, the French stir it anti-clockwise. But we Mauritians stir it 'zig-zag'!" -- Mooniar, Mauritian tour guide.

I. INTRODUCTION

It is believed that Mauritius was known to early Arab traders, but the first visitors from Europe were the Portuguese. Mauritius was uninhabited when the Portuguese first came to the island in 1510. They used it as a stopover on the way to Goa and Malacca, but they did not settle (Craig 1992). When the Dutch came as settlers in 1598, they named the island after Prince Maurice Van Nassau. They introduced sugarcane and a herd of Javanese deer, and exterminated the dodo bird in the process. According to *The Jerusalem Post* (Bittiker 1993), "The Dutch stayed only as long as it took to cut down every ebony tree and kill off all the dodo birds on the island."

In 1715, the French came to the island and renamed it "Isle de France." They too cut down forests, and brought in slaves from Africa and Madagascar to work on the sugar plantations. Mahé de Labourdonnais (who took over as governor in 1735) rebuilt Port-Louis, the capital city, and opened the first sugar mill on the island (Craig 1992).

Following the Napoleonic Wars, the British took over Mauritius in 1810. They abolished slavery in 1833, and imported indentured laborers from India to work on the plantations (Murphy 1981). The Chinese also came to the island as as shopkeepers and businessmen. This explains the demography of the Mauritian population today: 65 percent Indian (both Hindu and Muslim), thirty percent Creole (a French-African mix, mostly Catholic), three percent Chinese, and one percent, of European descent (French and English). Today, most Mauritians speak both English and French, and Mauritius receives preferential treatment from both England and France. This is a reflection of Mauritius' colonial background.

Mauritius gained its independence from the United Kingdom on March 12, 1968. That year, it became a member of the Commonwealth (*P.C. Globe* 1992). On March 12, 1992, Mauritius became a republic within the Commonwealth (Craig 1992) .

II. PROGRESS REPORT

Mauritius has often been cited as *the* success story of the 1980s among developing countries. The country embarked on an ambitious program of industrial and commercial development in 1971, when the Export Processing Zone (EPZ) was set up (*Reuters Library Report* 1995). According to *Business America* (Craig 1992), "From 1971 to 1990, the number of enterprises in the EPZ jumped from 10 to 574; employment from 644 to 88,258; exports from MRs. (Mauritian Rupees) 4 million to MRs. 11,000 million; and exports as a percentage of total Mauritian exports from 11 to 63 percent."

Mauritius was indeed in a dire economic situation in the late 1970s and the early 1980s, but, within a generation, Mauritius has gone from "gloom" to "boom". Mauritius seemed to be heading toward disaster--some people expected the tiny island to face the same fate as the extinct dodo. One of the major

problems Mauritius was facing was acute population growth. In 1981, the population doubling time was calculated to be an alarming 40 years (Murphy 1981). *The Financial Times* (Hawkins et.al. 1994) writes: "Some thirty years ago, an eminent economist warned that Mauritius faced 'ultimate catastrophe' unless its rate of population growth was checked."

Another economic problem faced by Mauritius in the 1970s and early 1980s was that it was too dependent on the agricultural sector, mainly sugar production. In 1970, sugar cane and its by-products constituted 92 percent of exports (*South China Morning Post* 1995). In the 1970s and 1980s, Mauritius was the ninth-largest producer of sugar in the world (Gupte 1981). The economy was earning two-thirds of its foreign exchange and one-third of its gross domestic product from this primary commodity, which was already overabundant and economically suicidal considering that the world at that time was rapidly turning to sugar substitutes (Murphy 1981). For years, the Ministry of Agriculture attempted to diversify the agricultural sector but these attempts were met with limited success, a reason being that sugar is the crop that is the most resistant to the cyclones that occasionally hit the island. According to the *Euromoney Supplement* (1990), a major cyclone strikes the country about once every fifteen years.

In 1979, the economic situation in Mauritius became catastrophic: world sugar prices and rising oil prices left Mauritius with only enough foreign exchange for two weeks of imports in August of that year. It was forced to borrow a loan of $98 million from the International Monetary Fund. In return, it had to devalue the Mauritian Rupee, causing inflation in the island to rise to about 40 percent (Murphy 1981).

Mauritius was a monocrop economy that depended heavily on sugar exports. This was the cause of many of its economic problems. In 1980, because of a cyclone, sugar production was barely 475,000 tons. That year, Mauritius consumed 40,000 tons locally, and was unable to meet its quota of 500,000 tons that, under an agreement with the European Economic Community, Mauritius was expected to supply. This resulted in a loss of $160 million for Mauritius (Gupte 1981).

In 1981, Mauritius had to devalue its currency again. The current balance of payments deficit was running more than $200 million a year, and no Western commercial bank would extend it credit (Gupte 1981). Unemployment during that period was also a very serious problem for Mauritius. According to *The Washington Post_* (Murphy 1981), the unemployment rate was estimated to be around 15 percent.

To deal with these problems, the government of Mauritius had to come up with several plans to dramatically improve sugar production/productivity, as well as to boost exports. New production methods were introduced (Gupte 1981). Sugar producers started using new irrigation techniques such as drip irrigation, a process by which fields are ensured of steady, below-surface watering through special pipes that crisscross the growing area (Gupte 1981). This new type of irrigation was more efficient than the traditional method that caused uneven watering, waste of water and occasional flooding. Another innovation in the sugar industry was the use of special "ripeners" (so that the crop matures more quickly) which were sprayed in the cane fields.

A further breakthrough in the Mauritian sugar industry was the construction of a bulk sugar terminal in Port-Louis, the capital (Gupte 1981). The project was financed by sugar producers, as well as the Mauritian government under Sir Seewosagur Ramgoolam. The new bulk terminal--the largest of its kind in the Indian Ocean area--was fully automated and computerized, and had the capacity to load ships at 1,500 tons of

sugar an hour. Previously, that quantity would have taken manual labour a *month* to load (Gupte 1981).

Further, the agricultural sector experienced diversification throughout the 1980s. Mauritian sugar producers started producing "special sugars" which fetch far higher prices than regular sugar--and are growing in popularity as a result of health considerations. The production of by-products of sugar, such as bagasse (molasses), was extensively encouraged. Bragasse is used to produce electricity (Morna 1993).

However, the agricultural sector also diversified into other products, mainly horticultural commodities. In the 1980s Mauritius comodities. In the 1980s Mauritis started producing and exporting anthuriums, "partly in response to a blight in Hawaii" (Morna 1993). This has proven to be a very successful venture for the island: Mauritius is currently the second-largest exporter of the flower in the world.

In the early 1980s, Mauritius was one of the first African countries to launch classical International Monetary Fund-style policies (*Reuters Library Report* 1993). The 1980s also saw the implementation of structural adjustment programs across the Mauritian economy. One of these strategies was export-led manufacturing. This was done by the further development and expansion of the export processing zone (EPZ) sector. Indeed, the EPZ has played a significant role in the economic success of Mauritius. According to *The Financial Times* (Hawkins et.al. 1994), "For a decade or more, the Mauritian miracle has been driven by the EPZ, more specifically by the clothing and textile sector. The EPZ's share in gross domestic product (GDP) has more than doubled in the past 10 years from 5.2 percent in 1983 to 12.5 percent last year." In the *Institutional Investor* (Morna 1993), the author writes: "Growth in the EPZ sector helped to wrench Mauritius out of poverty and into its current middle income status."

The EPZ was set up in 1971 and by 1987 it had made Mauritius the third largest exporter of woollens (*Reuters Library Report* 1995). The development of the EPZ sector greatly contributed to a reduction in unemployment in the country. Even though it employs people mainly in textile and clothing factories, the EPZ also employs workers (mostly women) in factories that produce other products such as clocks, watches, carnival masks and spectacle frames. The rapid development of the EPZ was the result of two influences--low labour costs and preferential access to the European Community (EC) through the terms of the Lomé Convention. Further, the government strongly--and successfully--encouraged investment in the EPZ. Entrepreneurs were entitled to duty-free inputs, free repatriation of both capital and dividends and more liberal labour laws than those applying in other sectors in Mauritius. The result was a growth in value-added at 17 percent between 1971 and 1975. Manufactured products which were almost non-existent before the EPZ (set up in 1971) accounted for nearly a quarter of total export earnings by 1977 (*Institutional Investor* 1989).

The Mauritian economy has often been compared to a three-legged stool: textiles, sugar, and tourism. But the government has introduced a fourth pillar--financial and business services (Morna 1993). Tourism, the third pillar, plays a significant part in generating foreign exchange. This may be attributed to the fact that Mauritius is blessed with 160 kilometers of white sandy beaches, and is surrounded by an aquamarine clear ocean.

III. SOCIO-ECONOMIC INDICATORS

Mauritius has made remarkable economic progress over the years. It has often been cited as the first "African Tiger," or even the "Hong Kong of the Indian Ocean." According

to *The Financial Post* (Ramparee-Bloomberg 1994), the author wrote, "The economic boom in the island of one million inhabitants has led the World Bank to call it a 'model economy' for developing countries." The tiny Indian Ocean island has, in fact, successfully emerged from its severe economic problems in the 1970s and early 1980s, from a low income country to an upper-middle income country. The GDP has been growing annually at an average rate of 6.8 percent since the early 1980s. In 1987, economic growth reached a record high of more than seven percent (*Reuters Library Report* 1993). GDP per capita has increased from about $340 in 1972 to about $3,000 in 1993 (*Reuters Library Report* 1995).

The inflation rate has also been reduced from 42 percent in the early 1980s to 5 percent in 1992. Over the same period, unemployment has fallen from 20 to 2.7 percent, and the budget deficit from 14 to 2.45 percent of GDP (Craig 1992). In 1970, savings and investment were both approximately one tenth of GDP. In 1992, savings and investment both increased to about one quarter of GDP. This co-movement is consistent with observations that suggest that savings and investment are positively related, and indicates that the country is able to fund most of its gross domestic investment (GDI) from domestic savings.

"The tiny Indian Ocean island has, in fact, successfully emerged from its severe economic problems."

In 1992, the Mauritian central government revenue as a percentage of total current revenue was about 87 percent from tax sources and 13 percent from non-tax sources. Out of the 87 percent of total revenue obtained from tax sources, the largest component was international trade and transactions, which made up 40.3 percent (*World Development Report* 1994). This revenue probably consisted mainly of tariffs, which is not unusual for less developed countries (LDCs).

In absolute figures, Mauritius' total external debt has increased from $467 million in 1980 to $1,049 million in 1982. However, total external debt for the same years when calculated as a percentage of gross national product (GNP) actually fell from 41 percent to 35 percent. This decrease is attributed to Mauritius' excellent economic performance, which enabled the country to repay all of its debts with the International Monetary Fund (IMF) since 1977 (*Institutional Investor* 1991).

Mauritius is successfully undergoing its development process as it has moved from primary to secondary production. There has been a significant shift in the composition of Mauritius' exports between 1970 and 1992, mainly a drop in primary commodities accompanied by a simultaneous rise in exports of manufactured goods. The share of secondary (value-added) goods as a percentage of total exports has increased significantly (from 2 percent to 65 percent), whereas the share of primary goods as a percentage of total exports has greatly declined (from 98 percent to 31 percent). It should also be noted that the Mauritian textile industry has developed to the extent that it accounted for 54 percent of exports in 1992, up from 1 percent in 1970 (*World Development Report* 1994). This is a clear indicator that Mauritius is presently in the second phase of industrialization. Another positive economic indicator is that Mauritius has become self-sufficient in food production over the past two decades, because food, as a percentage of total imports, has fallen from 36 percent in 1970, to only 13 percent in 1992. Imports of machinery and transport equipment

have increased significantly, and fuel imports and other manufactures (probably consumption goods) have increased slightly (*World Development Report* 1994). This is consistent with the country's industrialization process.

The average annual growth rate of Mauritian exports has increased by 5.9 percent, while imports have increased on average by only 2.9 percent during the period 1980-1992, from the period 1970-1980 (*World Development Report* 1994). This is a positive indicator in terms of Mauritius' balance of trade.

The tourism industry has grown in popularity over the years. According to the *Institutional Investor* (Morna 1993), "Tourism brings in over MRs. 3 billion in export earnings each year, and is the island's third largest earner of foreign exchange (after sugars and textiles). In 1992, the sector grew by 10 percent, well above the global average of 3 percent, with some 330,000 tourists coming to Mauritius."

Another important part of the Mauritian economy is the offshore sector which started less than a decade ago, but which is rapidly gaining importance. Offshore banking has been introduced since 1989, but it is only in 1992 that Mauritius followed a full range of offshore business activities (De Aenlle 1993). Several banks have already established offshore facilities: Barclays Bank, Bank of Baroda, Banque Nationale de Paris Intercontinentale (BNPI), and the Hong Kong and Shanghai Banking Corporation (Morna 1993). Finance Minister Sithanen is confident that the offshore sector will become highly successful in the near future, for he believes Mauritius has many selling points: a strong and diverse economic base, political stability, a multilingual population, a location in a time zone west of Asia and east of Europe and Africa, and a "good professional infrastructure that can oil the machinery" (De Aenlle 1993).

Social indicators as well as economic ones also show that Mauritius is better off. Population control has been implemented with great success, although overpopulation is still a problem in this island which has an area of only 720 square miles (approximately the size of Rhode Island). While the population doubling time was estimated to be only 40 years in the early 1980s, the *World Development Report* (1994) reports that figure to be about 63.64 years in 1994. This has been achieved due to strict population control. As GDP has risen over the years, so has the standard of living, and, associated with this has been an improvement in life expectancy (at birth) over time. In 1972, life expectancy was 62.9 years; this had increased to 70.0 years in 1992.

According to *The Christian Science Monitor* (Fitzgerald 1985), the vehicle for achieving the population reduction was direct and simple. About twenty years ago, billboards were posted throughout the island with a visual message aimed at the illiterate field workers. They depicted a Mauritius so crowded that people were falling into the sea. Apparently, the point hit home.

According to Nunkoowar Deerpalsing, the commissioner of Social Security in the Ministry of Social Security and National Solidarity, "Progress on the economic and social sides has been so impressive during a relatively short period that Mauritius is now often quoted as a model for its successful implementation of structural adjustment policies" (Chiledi 1994).

IV. ANALYSES & RECOMMENDATIONS

"Mauritius is an island of no hassles, no hiccups, no nasty animals and no threatening crime, as well as no dodo." -- David Wickers, *Sunday Times*

As discussed above, the vast majority of Mauritius' key indicators--social, political, and economic--suggest that the country is following a development strategy that works

for it, and works very well indeed. This should not be surprising, considering that Mauritius adopted classic IMF-style policies. Mauritius today, then, is atypical of developing countries, many of which are plagued with problems arising from misconceived or mismanaged economic recovery programs.

"There is a clear understanding of the 'rules of the game.' Politicians and coalitions may come and go, but business goes on as usual." -- *Institutional Investor* 1989

Mauritius is fortunate in that in the decades after its independence, the country's history of shifting political alliances and volatile coalitions has not degenerated into political instability. Stability has undoubtedly been a major contributing factor in the country's development process. The reason for is seems to be the broad consensus that exists between the parties over the island's future. According to a Western diplomat, quoted in *Institutional Investor* (1989), "Even if the Jugnauth administration were to fall tomorrow, economic policy would remain the same." This characteristic of Mauritius is clearly an advantage in terms of attracting domestic and foreign investment.

"[Mauritius' economic policy of the early to mid 1980's is] modern socialism--realizing that you can't redistribute if you don't produce." -- Nando Bodha, PM's Press Attache

With a population of just over one million, Mauritius is fortunate to have been sufficiently small for wide-ranging reforms to take speedy effect. Throughout the reform process, the emphasis has remained on economic progress coupled with social justice--the best possible combination of developmental objectives. Consequently, Mauritian wealth is evenly spread throughout the island--for example, housing construction is actively being pursued in remote villages as well as on the outskirts of the comfortable central towns such as Quatre Bornes and Curepipe.

"[Mauritius has] reached a level of unemployment that is so low it's become a constraint. The problem is that Mauritians have become lazy." -- Expatriate Banker

As we see it then, Mauritius' most urgent economic "problem" today is a *labor shortage* in contrast with most developing countries which have to deal with the far more serious problem of unemployment. Families earnings have increased about ten-fold in twenty years, "without [their] quite knowing why--they're earning enough to enjoy themselves". According to *Euromoney Supplement* (3 September 1990), this "enjoyment is especially manifest" on Monday's: at the EPZ in Port Louis, the rate of absenteeism often is as high as 30 percent. Full employment has shifted power away from management and towards workers. In this environment, the potential for inflation is a genuine concern for the government.

"The mundane emphasis of producing merely to create jobs for people should now be transformed into a challenge of being Africa's first tiger, rather than the cub that sleeps at four." -- Mauritian Industrial Strategy Paper 1991

One way to encourage the labor force to grow is to further encourage women to work (Morna 1993). Importing labor and expertise is another option, although this is not favored because "this solution does not work in the case of a small island like Mauritius which is finely balanced ethnically," according to Rundheersing Bheenik, Director General in the Ministry of Economic Planning and Development The general consensus is that importing labor simply delays inevitable adjustment. Bheenik explains this rationale: "Labor shortages are sending out a signal to economic operators that the whole way of doing things has to change.... The name of the game is productivity and higher value-added."

The Mauritian economy, in fact, is already moving "upmarket" in every sphere. Machinization is rapidly replacing labor in agriculture, and measures to increase yeilds, convert byproducts into electricity, diversify

the types of sugars sold, as well as move into low-volume, high-value products like horticulture are evident (*Institutional Investor* 1991). Inflation will be subdued as mechanization takes over and agricultural laborers abandon their plantations for factory work (*Euromoney Supplement* 1990).

As the Mauritian economy moves "upmarket"into capital-and-skills intensive activities, however, it will increasingly come into competition with the developed/industrialized countries and other NICs. Further, the markets and products into which it is moving seems destined to become increasingly competitive anyway. The island's initial competitive advantage was based on low-cost, well-educated labor, but, with further development, this can no guarantee market share (*Institutional Investor* 1989).

"[Mauritius has] a natural competitive edge in textile manufacturing and should realize the inevitability of that.... It would be more realistic for Mauritius to try and displace Italy as a luxury garment manufacturer, rather than the Asian Tigers as an electronic components supplier." -- Expatriate Banker

An extremely relevant question, under these circumstances, then, is the one posed by Danielle Wong, manager of the Mauritius Export Processing Zone (MEPZA): "[Should Mauritius] diversify within existing sectors or move into new sectors and new markets?" There appear to be many contradictory opinions. For example, many Mauritians are convinced that there is a future for software manufacturing despite the lack of experience and manpower on the island. Others feel that the Far East should be targeted as a potential market. Still others feel that not enough market research is being done in Europe. The opening up of eastern Europe--a potentially cheap manufacturing base close to the European Union (EU)--is of concern to Mauritian manufacturers.

"The challenge today is even more formidable than before, because [Mauritius] is still a Third World country, but we're now being asked to deliver the goods of a developed nation." -- Finance Ministry spokesman

Mauritian plans to tap the vast African market are marred by questions over the continent's ability to pay for the goods. Also, Mauritians have realized that it is difficult to reconcile a strategy of producing higher value-added goods for export to the US, the EU and the Far East, with one of selling the lower quality items which, inevitably, would be the only ones which the African market could absorb (*Euromoney Supplement* 1990).

"If we harness our human resources, train the adequate manpower and fight our way in the international markets, I am confident Mauritius can become a newly industrialized country (NIC) with a sound, stable economy." -- Anerood Jugnauth, PM

Mauritians correctly attribute their many achievements to a combination of good fortune, natural advantages, and their own efforts. The natural advantages include the beauty of the island, its climate, and its competitive advantages in sugar production and tourism. Mauritius' good fortune, ironically, includes investment, skills and technology transfer from Hong Kong and the Far East, due to the uncertainty surrounding Hong Kong's future (*Euromoney Supplement* 1990). Also, the Lomé convention agreements, whereby Mauritius has a sugar quota of over 500,000 tons at a preferential price (approximately three times the world trading price) in the EU market, and preferential entry for its textiles in the European market, where they are not subject to a quota (*Institutional Investor* 1989).

The so-called "Sugar Protocol" guarantees Mauritius willing buyers at set rates which, recently, have averaged three times the world price. Mauritius exports approximately 75 percent of its sugar to the EU, and only about 11 percent of its crop at prevailing world prices. Thus, it makes sense for the country to preserve and protect its agriculture. Mauritius

has found that the guaranteed prices have decreased in real terms, because there has been no rise in sugar prices for some years. However, according to prime minister Jugnauth, Mauritius will fight for the protocol to be maintained, together with its partners in the EU and the African, Caribbean, and Pacific (ACP) countries.

"The natural advantages include the beauty of the island, its climate, and its competitive advantages in sugar production and tourism."

A final possible solution to Mauritius' labor shortage is for its manufacturers to engage in foreign direct investment (FDI) in neighboring Madagascar. In fact, a significant part of the second phase of economic development, which Mauritius is in presently, envisages "a future in which Madagascar becomes to Mauritius what southern China became to Hong Kong throughout the 1980s--a low cost offshore manufacturing base with adequate communications which shares a common language" (*Euromoney Supplement* 1990). At present, Madagascar has practically no industry, and severe unemployment problems. According to Maurice de Latour, a Mauritian garment manufacturer, "[Mauritians] can recruit top quality labor, and the [Madagascar] workforce is much more disciplined than in Mauritius because they're afraid of losing their job" (*Euromoney Supplement* 1990). Although beyond the scope of this paper, Mauritius' Madagascar-strategy has positive implications for Madagascar's economic development in a manner directly analogous with Hong Kong's spillover effect on the southern Chinese province of Guangdong.

A significant problem faced by Mauritius is in the area of manpower development. Mauritians are well-educated and the literacy rate is over 90 percent, but, as a banker quoted in *Institutional Investor* (Morna 1993) says, "It is no longer relevant to talk about the literacy rate. Mauritians can read all right, but they can't operate high technology machinery." While this may be slightly exaggerated, strategies like the Industrial Training Strategy (ITS) and institutions like the Industrial Vocational Training Board (IVTB) have been instituted and empowered by the government to combat the shortage of technical know-how (*Institutional Investor* 1989), which, if left uncorrected, will prove to be a liability as the economy moves from labor-intensive to capital-intensive production.

Another concern for Mauritius is the need to protect its environment, which was badly neglected during the early 1980s in Mauritius' relentless pursuit of industrial advancement. Rectifying this is problem is important for the country as it relies very heavily on just 32 miles of good sandy beaches for tourism revenue, which accounts for around one-third of the island's earnings (*Euromoney Supplement* 1990). In keeping with the goal of environmental protection, the government also has had to consider whether plans for the future of the local tourism industry should be based on an upmarket ("jetset") clientele with deluxe leisure hotels or on mass tourism, with its large numbers of low-spending tourists. According to Francoise Maurice, President of the Association Internationale des Docteurs en Economie du Tourisme, "the concentration of hotels on the coasts has grown into a menace to ecology and has caused the pollution of the immediate environment" ("Mauritius" 1992). Acknowledging the problem, the tourism ministry plans to impose parameters for hotel construction, and to protect the country from "the dangerous effects of the decline into mass tourism, opting for a far greater selective marketing strategy" ("Mauritius" 1992).

V. CONCLUSION

Mauritius' successful development strategy places it in a unique position among African nations--the 38-mile long, 29-mile wide island offers facilities and opportunities today that will not be available elsewhere in Africa (with the partial exception of South Africa) for many years to come. Except for Mauritius, there is no offshore banking center on the continent. And, at the risk of sounding like an advertisement; no country is better placed, better prepared, or better suited than Mauritius to interface between the Asian Tigers and Sub-Saharan Africa. Our prognosis for the future of the country is excellent--if it continues to exhibit political stability, democratic institutions, an emphasis on both human and physical infrastructure, a free market philosophy and an outward oriented growth strategy.

Mauritian planning for prosperity in the next century entails planning/executing the fundamental change from labor-intensive to capital-intensive industry, from an agricultural to an industrial economy. These are the essential stages of economic development, of progress from being a "developing country" to becoming a NIC. Our research indicates that that transition is well underway in Mauritius--with supply-side, growth-oriented and market-determined strategies.

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