Effective state-business relations (SBRs) or public-private sector dialogues have been identified as an important ingredient of economic growth at the macro-level (OECD, 2006; Te Velde, 2006). In fact, at the macro level, SBRs are important because there are both market and state failures. Using Rigorous dynamic time series analysis this paper examines the role of an effective ‘State Business Relations’ (SBR) in promoting economic performance for the case of Mauritius. The country provides a good case study as it is one of the best performers of the African continent with a very stable democracy\(^1\). Although the governing philosophy, vision and strategy of different governments in Mauritius have been different, there has always been considerate cooperation between the state and the market sector through two-way flow of relevant information and trusts (te Velde, 2007 calls this ‘good SBRs’). Such effective ‘synergy between state action and market functioning’ is very important for sustained poverty-reducing growth. Recently, this remarkable relationship was seen during the attempt to restructure the sugar sector (through EU accompanying measures), following the fall in guaranteed sugar price exported to the EU. The private sector firms, as a group, laid their foundation a long time ago in 1850, with the founding of the Chamber of Commerce and Industry (Mauritius Chamber of Commerce and Industry since 1965).

Mauritius is one of the few countries around the world where effective State-Business relationships (SBRs) have prevailed, even prior to independence. The effective ‘synergy between state action and market functioning’ can be traced back to the time even before Mauritius became independent (1968). Going back in time, one has to consider the history of Mauritius to understand the reasons behind the successful SBRs. Successful SBRs over the years can be explained by the willingness of both parties – State and Business – to cohabitate for the mutual benefit of both parties, even though the relationship between the parties have not always been very cordial. However, the two parties have always believed in

\(^1\) Mauritius, known as the African tiger, is reputed not only for its economic success but also for stability and racial harmony among its mixed population of Asians, Europeans and Africans (TIPS, 2007). The country enjoys a stable political system based on a multiparty democratic republic. Legislative power is vested in the National Assembly, which comprises 62 elected and up to 8 designated representatives. The four main current political parties in Mauritius are: The Labour Party (PTR), The Movement Mauricien Militant (MMM), the Mauritius Socialist Militant (MSM) and Parti Mauricien Xavier Duval (PMXD). In the general elections of September 2000, a coalition of the Movement Mauricien Militant (MMM) and Mouvement Socialiste Militant (MSM) won. This was the first time that Mauritius experienced a sharing of power at Prime Minister’s level between two parties in one mandate, thus demonstrating the stability of Mauritius’ democracy. In 2005, the Labor Party, the PMXD and few other small parties made a coalition and won the election.
dialogue and the sharing of ideas for effective SBRs. The essence of the considerate cooperation between the state and the market sector through a two-way flow of relevant information and trusts is the fact that Mauritius has a settler-type colonisation.

In 1810, the British captured Mauritius from the French which already had a well-established economic base. The British administration decided that they would let the French continue to stay on the island and settlers who did not want to stay under a British administrator were permitted to return to France with all their possessions. This episode of the British taking over Mauritius and cohabitating with the existing French on the island, is in fact very important if the state-business relationship is to be traced in Mauritius. It explains the first instance of accommodation between the public administration and the private administration and the co-habitation has been to the benefit of both sectors.

The second quarter of the 19th century was marked with thousands of Indian immigrants to Mauritius as labourers to work in sugar estates. In 1936, the Labour Party, made up of people from an Indian origin, was formed and persuaded the Indians/Indo-Mauritians to take politician action and campaign for better working conditions. A new constitution, which was a move towards self-rule, was set up in 1948. In 1961, the British agreed to permit additional self-government and eventual independence. In the election in 1967, the Labour Party - the Party of the Indo-Mauritians-, in coalition with the Muslim Committee of Action and the Independent Forward Bloc (a traditionalist Hindu party) defeated the Franco-Mauritian and Creole supporters’ party – the Mauritian Social Democratic Party. Mauritius became independent in 1968. Although there had been some tensions between the French (Franco-Mauritian by then) together with their supporters and the Hindu community during the few years of pre-independence and post-independence, the accommodation has been smooth enough in that the tensions did not develop into a major ethnic conflict for a very long time.

Two important aspects, on state-business relationship in Mauritius, have to be pointed out:

I. This relationship is not necessarily based on shared ideologies between these two sectors. In fact very rarely have there been debates and discussion between these two parties on ideologies. The relationship has rather been an accommodating type.

II. Although some personalities like Seewsagar Ramgoolam and Gaetan Duval (later Sir) did play important roles in bringing the private sector and the Administration closer, they did not per se influence the State-Business Relationship. This relationship has been the results of common interests of these two sectors.

The same principle continued to exist until today. While economic development is left in the hands of the private sector, the state plays a major role in being a welfare state and promoting development-led investment facilitation. In fact, over the years, this relationship has been further strengthened so much so that consultation between the public and the private sector, on issues that affect development, is an on-going process. While the public sector continues to maintain high-level dialogue with the private sector on relaxing barriers to do business, the private sector on their side plays an important role towards improving

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2 The only political party that had ideologies different from the ruling government of 1968 was the Movement Militant Mauricien (MMM), which was a leftist group under the leadership of Paul Berenger. However, when the party came into power in 1995, their administration was not based on their ideologies.
the livelihood of citizens through their activities in relation to their corporate social responsibility.

This paper attempts to quantify the contribution of the relationship between the state and the business community in the development of Mauritius. For the purpose of this study, a new SBR index is constructed to address the limitations of the indices used in existing literature. Unlike other SBR indicators, the index is output based and by definition is better than input and process based. The idea of having such an indicator is to capture the effectiveness of the umbrella organization in its demands. This index measures the percentage of the different demands of the umbrella organization, which has been addressed, in full or partially, during the budget presentation of the Chancellor. The construction of the index is based on three legitimate assumptions and they are as follows:

1. Given that is would be difficult to assess whether the informal demands of the private sector, through their organizations, have been fulfilled, it has been assumed that all the private sector demands are formally sent to the Government.

2. Given that the JEC is the apex body in the private sector and all major association are members of the JEC, it has been assumed that although the individual associations make proposals to the Government on possible policy changes, yet these proposals also appear in the JEC formal proposal documents.

3. Although the JEC meets the Ministry of Finance and other line Ministries and the Prime Minister, it has been assumed that all their proposals for policy changes are manifested in their document that is to the Ministry of Finance just before the Budget, each year.

The private sector institutions are so well organized and structured that proposals from the private sector on policy changes that do not appear in their pre-budget proposal document are insignificant. The index has been constructed based on the extent to which individual proposals have been taken into account by the Ministry of Finance in the immediate budget. Scores have been assigned based on our perception as to whether the proposal has been fully accepted, or partially accepted or not accepted at all. For each proposal fully implemented, a score of one has been assigned. For each proposal rejected, a score of zero has been assigned. And for each proposal partially included in the budget, a score of 0.5 has been assigned. Then the score for each year is the ratio of the summation of the scores obtained divided by the total number of proposals made during that year.

The economic model used in this study is an extended application of the Solow growth model. However, the focus is largely on state business relations since public-private sector dialogue could be an important determinant of economic growth at the macro-level, as postulated by Te Velde (2006). To account for the possibility of dynamic feedbacks among variables, a Vector Autoregressive (VAR) model is used in the analysis. The results show that SBRs have a positive and significant effect on output in Mauritius in the long run with an implied elasticity of 0.18. Private capital is the most important factor followed by openness and the quality of labour. The results also apply to the short run. Interestingly SBRs also appear to have an indirect effect on output in the short-run via ‘the private capital channel’. As such, SBRs can also promote further openness of the country. To complement the quantitative study with qualitative analysis and to confirm robustness of the results, this study surveys 40 large firms in various sectors to assess the extent to which firms are involved in the high level discussions. The study also surveys 8 of the 9
business associations to qualitatively assess the effectiveness of the business associations and JEC vis a vis the state in reducing obstacles with respect to license and permits, constructions and operation permits, in influencing labour regulation and also in influencing decision of the state with respect to infrastructure. Results from the surveys and interviews are indeed showing the same picture as the econometric study.

Sawkut Rojid University of Mauritius
Boopen Seetanah University of Mauritius
Ramessur Shalini University of Technology, Mauritius

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