Economic and Commercial Diplomacy in Micro-states:
A case study of the Maldives and Mauritius

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A dissertation presented to the Faculty of Arts in the University of Malta for the degree of Master in Contemporary Diplomacy

July 2008

Declaration

I hereby declare that this dissertation is my own original work.

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31 July 2008, Kuala Lumpur, Malaysia

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Acronyms and Abbreviations

ACP	African, Caribbean and Pacific Group of States
ADB	Asian Development Bank
AOSIS	Alliance of Small Island States
AP-COIL	Asia-Pacific Compensatory Oil Finance Facility
AGOA	Africa Growth and Opportunity Act
BPoA	Barbados Programme of Action
BIT	Bilateral Investment Treaties
BOI	Board of Investment
CARICOM	Caribbean Community
CRNM	Caribbean Regional Negotiating Machinery
CBI	Caribbean Basin Initiative
CBERA	Caribbean Basin Economic Recovery Act
COMESA	Common Market for Eastern and Southern Africa
CSA	Commonwealth Sugar Agreement
CECA	Comprehensive Economic Cooperation Agreements
CCAMLR	Conservation of Antarctic Marine Living Resources
CBTPA	U.S.-Caribbean Basin Trade Partnership Act
DER	Department of External Resources
DTAT	Double Taxation Avoidance Treary
EEZ	Exclusive Economic Zone
EU	European Union
EC	European Commission
FTA	Free Trade Agreement
GSP	Generalized Preference Schemes
GATT	General Agreement on Trade and Tariff
GDP	Gross Domestic Product
HDI	Human Development Index
IPR	Intellectual Property Rights
IOR-ARC	Indian Ocean Rim Association for Regional Co-operation
IOTC	Indian Ocean Tuna Commission
IRS	Integrated Resort Schemes
ODA	Official development assistance
FISB	Foreign Investment Services Bureau
FDI	Foreign Direct Investment
IMF	International Monetary Fund
IPPA	Investment Promotion and Protection Agreement
LDC	Least Developed Country
LLDC	Landlocked Developing Country
MTPB	Maldives Tourism Promotion Board
MNCCI	Maldives National Chamber of Commerce and Industry
MATI	Maldives Association of Tourism Industry
MTPA	Mauritius Tourism Promotion Authority
MFN	Most Favoured Nation
MGD	Millenium Development Goals
MEDT	Ministry of Economic Development and Trade
MOFT	Ministry of Finance and Treasury
MFA	Ministry of Foreign Affairs
MTCA	Ministry of Tourism and Civil Aviation
MIS	Mauritius Strategy for the Further Implementation of the Programme of Action for the Sustainable Development of Small Island Developing States
NAMA	Non-Agricultural Market Access
NEPAD	New Partnership for Africa's Development
OPVI	Oil Price Vulnerability Index
OIC	Organization of the Islamic Conference

PTA	Preferential Trading Agreement
RATE	Regional Agricultural Trade Expansion Support Program
SPS	Sanitary and Phytosanitary Measures
SDT	Special and Differential Treatment
SPSA	Special Preferential Sugar Agreement
SIDS	Small Island Developing States
SP	Sugar Protocol
SAARC	South Asian Association for Regional Cooperation
SADC	Southern African Development Community
SAPTA	SAARC Preferential Trading Arrangements
SAFTA	South Asian Free Trade Area
SWIOFC	South West Indian Ocean Fisheries Commission
SNPA	Substantial New Programme of Action
TBT	Technical Barriers to Trade
TIFA	Trade and Investment Framework Agreement
UNEP	United Nations Environment Programme
UNDP	United Nations Development Programme
UNCTAD	United Nations Conference of Trade and Development
WTO	World Trade Organization

INTRODUCTION

Most small and microstates are characterized by, inter alia, acute resource constraints; diseconomies of scale; geophysical constraints; vulnerability to natural disasters; susceptibility to external shocks; pressing socioeconomic capacity constraints; narrow economic base and concentration of exports on a narrow range of commodities and markets; dependence on foreign resources; and small domestic markets.

As the level of capacity required to gainfully engage in the complex world of international economic diplomacy is burdensome for small countries, a large number of microstates are still adequately equipped to defend and promote their interests in international negotiations. Inadequate institutional and legislative frameworks coupled with acute capacity constraints to meet the depth and breadth of issues discussed at these international fora, prevent several micro and small states from gainfully utilizing the tools of economic and commercial diplomacy at international fora such as WTO.

As economic diplomacy is being recognized as a crucial element for the development of small and vulnerable countries, microstates are taking concrete steps to acquire the capacity and the resources to increase their participation and voice their concerns at various international fora. They are attempting to find innovative and cost-effective means to address these challenges. Considerable headway has been made already by some countries in adopting practices used by advanced economies. These practices are emerging as the tools for microstates to proactively engage in an international environment, driven increasingly by economics.

This paper attempts to examine the concepts, issues and responses of micro-states in their pursuit of economic and comercial diplomacy using case studies on the two Indian Ocean island states of the Maldives and Mauritius. The paper is dividied into three major parts. In the first part attempts have been made to answer the following quesitons. What is economic diplomacy? What is commercial diplomacy? What are the scopes of the subjects? What are the key issues they are faced with and how have they responded to such issues? Part two and three are case studies which discuss the pursuit of economic and commercial diplomacy by Maldives and Mauritius, respectivley. In these two parts the institutional frameworks, key issues and the responses the two countries have used to manage the challenges they have faced in their pursuit of economic diplomacy are examined.

1. CHAPTER 1 - ECONOMIC AND COMMERCIAL DIPLOMACY FROM THE PERSPECTIVE OF MICRO-STATES

1.1. DEFINITIONS AND KEY CONCEPTS

Diplomacy

Diplomacy is usually described as the primary instrument of foreign policy through which a country/sovereign state maintains its external relations with foreign governments and publics. Diplomacy in its traditional sense is referred to as "the conduct of relations between states and other entities with standing in world politics by official agents and by peaceful means" (Bull 1995, p.156). More recently it is defined as "the conduct of relations between sovereign states through the medium of officials based at home or abroad" and "the principal means by which states communicate with each other, enabling them to have regular and complex relations" (Berridge and James, 2003, p.69-70). The definition of diplomacy adopted for the purposes of this study is that provided by Berridge and James.

Economic Diplomacy

Economic diplomacy is a relatively new term that is often used in a nebulous manner. The term 'economic diplomacy' as described by Bayne and Woolcock, 2007 is "broad and elastic" enough to accommodate a scope and content that is much broader than diplomacy in its traditional sense. Bayne and Woolcock define the scope of economic diplomacy to include the following.

a. *Scope*: International and Domestic economic issues – this includes the "rules for economic relations between states" that has been pursued since the World War II. And owing to the increased globalization and the resultant interdependence among state during the 1990s obliges "economic diplomacy to go deep into domestic decision making" as well. This covers "policies relating to production, movement or exchange of goods, services, instruments (including official development assistance), money information and their regulation" (Bayne and Woolcock (eds) 2007, p. 4)

b. *Players*: State and non-state actors – As all government agencies that have economic mandates operate internationally and are players in economic diplomacy though they do not describe them as such. Further, non-state actors such as NGOs that are engaged in economic activities internationally are also players in economic diplomacy (Bayne and Woolcock (eds) 2007, p. 3-4) .

Berridge and James (2003, p.91) state that "economic diplomacy is concerned with economic policy questions, including the work of delegations to conferences sponsored by bodies such as the WTO" and include "diplomacy which employs economic resources, either as rewards or sanctions, in pursuit of a particular foreign policy objective" also as a part of the definition.

Rana (2007, p.201) defines economic diplomacy as "the process through which countries tackle the outside world, to maximize their national gain in all the fields of activity including trade, investment and other forms of economically beneficial exchanges, where they enjoy comparative advantage.; it has bilateral, regional and multilateral dimensions, each of which is important".

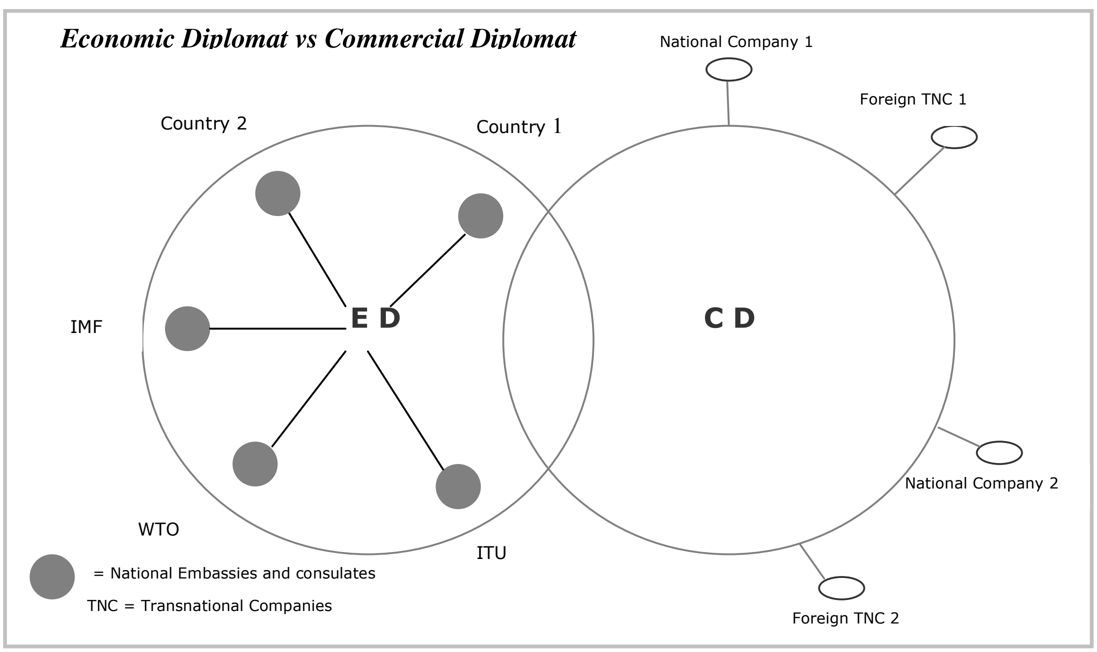
Commercial Diplomacy

Commercial Diplomacy has been defined as a service provided usually by "staff members of a diplomatic mission or trade promotion organization (TPO)/ investment promotion agency (IPA)" to the business community with the aim of developing "socially beneficial international business ventures" Commercial diplomacy entails "(i) activities relating to trade policy making such as multilateral trade negotiations, trade consultations, dispute settlement etc (ii) business support services" (Kostecki and Naray, 2007, p.1).

Berridge and James (2003, p.42) define commercial diplomacy as “the work of diplomatic missions in support of the home country’s business and finance sectors” and states that commercial diplomacy is “distinct from although related to economic diplomacy”. They include “promotion of inward and outward investment, as well as trade” to be within the scope of commercial diplomacy.

What is the difference between economic and commercial diplomacy?

Based on Berridge and James (2001) definition, Saner and Yiu, (2003) provide the following figure to draw the distinction between the two concepts. It is clear from this that both concepts are closely interrelated and hence there is an overlap. Saner and Yiu’s chart below, however, fails to take into consideration that Economic diplomacy is a wide term in which commercial diplomacy is subsumed.



Source: Saner and Yiu, 2003, p.14

‘Economic diplomacy’ and commercial diplomacy’ are relatively new terms that have evolved to reflect the needs and interests of states arising from the rapid changes in international arena, particularly in the environment of the accelerated globalization and the inadequacy increasingly felt by states to suit their new and complex foreign policy interests, driven increasingly by economics, within the framework of the traditional domain of diplomacy. The instruments and issues involved in the external and domestic front; and actors involved directly and indirectly in the pursuit of national interests of states have become more complex. As a result the exclusive role of MFA as the "gatekeeper – the only link between domestic and external environments" has been challenged, as noted by Manojlovic and Thornheim (2007, p.12).

Micro-states: a Definition

It has been over 40 years since Benedict (1967) questioned the viability of micro-states as independent states. Since then, various aspects of the micro-states have been examined by many international organizations and academicians. Micro-states have on several instances proved the naysayer wrong in their performance in many areas of socioeconomic developments. This is particularly compelling in the case of the two case studies covered in this paper. James Meade, a Nobel Price winning economist who in 1961 concluded Mauritius to be "doomed to economic and social failure" (Subramanian and Roy, 2001, p.4) has proved to be a blatant misjudgment when Mauritius, 40 years after the predictions, became a success story often quoted in the context of the African continent both in terms of its socioeconomic development and governance[1]. 35 years after UNDP experts concluded that tourism would not succeed in the Maldives quoting lack of "facilities and infrastructure" (Niyaz, 1998, p.14) the country has built a reputation as one of the most coveted up-market tourist destinations in the world. Although not considered within the definition of micro-states for the purposes of this

[1] According to analysis by academics from Kennedy School of Government at Harvard University presented in the inaugural report of the '*Ibrahim Index of African Governance'*, Mauritius is the best run country in sub-Saharan Africa.

study, several micro-states such as Luxembourg, Monaco, Liberia, Bahrain has successfully carved out niches for themselves (Peterson, 2006, p.741).

1.2. MICRO-STATES AND ECONOMIC AND COMMERCIAL DIPLOMACY

1.2.1. CHARACTERISTICS OF MICROSTATES

A 1997 Commonwealth paper has been quoted often, in attempts to define a micro-state. The Commonwealth's definition categorizes countries with a population of less than 1.5million people as 'small states', and makes no distinction among them based on their resource endowments. However, as argued by Mohamed (2003, p.1) there is often a need to make a distinction among these states. The Commonwealth's definition of 'small states' include countries such as Brunei or Qatar which are characterized by a more advanced level of economic development and hence "foreign policy interests pursued by them are characteristically more wide ranging" than the other smaller micro-states included in the category of small states.

As this study is aimed at providing an analysis of the issues of economic diplomacy of micro-states by presenting two country case studies on the Maldives and Mauritius in chapters 2 and 3 respectively, the definition of 'microstates' used in chapter 1 has also been narrowed to include the smaller and the more vulnerable among the Small Island Developing States (SIDS) and other microstates. This has been done in order to (a) avoid comparisons between countries that have huge resource endowments such a Qatar and Brunei with countries such as Maldives which has no natural resources (b) make the analysis more relevant to the context of the case studies presented in chapters 2 and 3. The UN SIDS list which has a total of 38 countries is also characterized by huge differences among the states. The list includes states such as Singapore on the one end and Timor-Lesté on the other end - portraying huge differences in their sizes of economy and stage of development.

While it is beyond the scope of this study to engage in complex definitional and other developmental issues of micro-states, it is also imperative to consider, albeit briefly, some of the key characteristics of microstates. As identified by Commonwealth (1997) and Mohamed (2003, p.3-4), microstates are characterized by limited small populations; shortages of natural resources; limited domestic capacities and weak institutional structures coupled with insufficient domestic demand; micro or small sized business entities, vulnerability to natural hazards and external shocks.

1.2.2. FOREIGN POLICY IN MICRO-STATES

There is very little literature on processes and procedures used by microstates in their decision making process both on the domestic and external front. This is largely due to the capacity constraints and other characteristics noted above. As such, as observed by Diggines (1985, pp.197-198), it is believed that as in other similar decision making processes, foreign policy making is both centralized and personalized – based on the personal belief and knowledge of the head of government or state. This is largely a result of institutional weaknesses within the government and in particular, due to acute capacity constraints and lack of political importance of foreign policy decision making, in these countries (Mohamed, 2003, p.10).

What drives foreign policy in micro-states?

The foreign policies of micro-states are driven to a large extent by the characteristics of microstates described above. As a result, the foreign policies of these states, in addition to being characterized by an element of centralized and personalized nature of the leader as pointed out by Diggines (1985), are driven by (a) openness and small size; (b) remoteness and insularity; (c) proneness to natural disasters; (d) environmental vulnerability, particularly to external shocks; and (e) other domestic and external factors that the country deems to be important national interests.

Mohamed 2003 identified the following issues as the major concerns of microstates in their foreign policy.

1. 'Vulnerability of small states[2]' has been noted as the most important foreign policy issue for micro-states.
2. Environmental change i.e. global warming and the resultant climate change and its impacts on micro-states.
3. Issues concerning official development assistance (ODA).
4. Economic issues such as FDI and export promotion.

While foreign policies of most states are shaped largely by the above mentioned issues; the importance attached to the issues vary from state to state depending on their political culture and institutional arrangements; historical context and the relationship with the former colonial power and; the domestic and international socioeconomic and geopolitical considerations at the time of the decision.

[2] While microstates are faced with 'vulnerability' from many different fronts, the argument was presented by Mohamed mainly from the standpoint of (a) sovereignty of microstates – quoting security threats to such states - giving examples of US invasion of Grenada in 1983 and the coup attempt in the Maldives in 1988 (b) economic vulnerability on account of issues such as the erosion of trade preferences. Mohamed, 2003, Clingendael, p 12

1.2.3. SOME PRECONDITIONS FOR ECONOMIC DIPLOMACY - HOW WELL ARE MICROSTATES PREPARED?

Rana (2007, p.202-205) states the following as the ingredients of successful economic diplomacy. This section examines these conditions in the context of micro-states.

Ingredients of economic diplomacy	*Key issues for Micro-states*
1. Public-private partnership - a healthy and effective public-private partnership that comprise of government agencies representing key economic sectors, associations of industry and chambers of commerce, financial sector, academic institutions, thinks tanks etc.	○ Lack of effective public-private partnerships ○ Absence of capable associations of industry, chambers of commerce and academic institutions, and in cases where they exist lack of capacity
2. Integration and harmonization of foreign affairs and external economic management	○ Lack of integration of trade and foreign affairs[3] ○ Lack of feasible mechanisms for joint trade negotiation[4]
3. Priority on inward export promotion and inward FDI	○ Lack of institutional arrangements and mechanisms for export promotion and attraction of inward FDI
4. Regulatory framework to create an enabling environment	○ lack of understanding and appreciation, capacity constraints and foot-dragging vis-à-vis regulatory developments
5. Improving the role of Foreign ministry and missions in economic diplomacy	○ Presence of turf wars and lack of 'whole of government' mindset (Rana, 2007, p.203)
6. Improving the effectiveness of the activities in the area of economic diplomacy	○ Lack of effectiveness and potency of activities and programmes in economic diplomacy

[3] Several small states in the Caribbean (Barbados, Dominica, Grenada, St. Lucia) and South Pacific (Fiji, Marshall Islands, Samoa, Solomon Islands, Vanuatu) have combined foreign affairs and trade while several other small countries continue to maintain two different ministries for trade and foreign affairs. In the case of the two countries Maldives and Mauritius covered in this study, the former maintains two different ministries while the latter have the two mandates together under one ministry. Rana (2007) reports that countries that do not harmonize foreign affairs and trade spend a great deal of effort on turf disputes.

[4] The 15 Caribbean Community (CARICOM), established the Caribbean Regional Negotiating Machinery (CRNM) in 1997 to develop, coordinate and execute an overall negotiating strategy for various external negotiations in which the Region was involved. Caribbean Regional Negotiating Machinery (CRNM). [online] Available from: http://www.crnm.org/about.htm [Accessed 02 May 2008]

1.2.4. MICRO-STATES: INITIATIVES IN ECONOMIC DIPLOMACY

In a world driven by the complex world of international trading system, against a backdrop of eroding preferential market accesses, micro-states are finding it increasingly difficult to maintain the competitiveness of their limited export products and are consequently facing serious potential economic problems.

In addition to the general conferences and programmes such as Rio Principles and Agenda 21 that cover general developmental needs and issues, the following initiatives are important from the perspective of small states.

Alliance of Small Island States (AOSIS), founded in 1990 among small-island and low-lying coastal states has been primarily focused on environmental issues by raising their concerns at various international fora. However, the organization has also served as an important forum for its 43 members to raise concerns on their developmental issues.

Barbados Programme of Action (BPoA) was one of the special initiatives for the SIDS (SIDS Net, 1994). It provides the guiding principle for the developmental activities of the states and the international community in their need to address developmental concerns of island economies. Further, it sets out principles and specific actions required at the national, regional and international levels to support sustainable development in SIDS. Tourism, a main industry for many of the SIDS, and energy resources, were major considerations of the BPoA. The BPoA also stressed on the importance of planning, to ensure sustainable development of the tourism industry with attention to issues such land-use planning, environmental impact etc.

The Monterrey Consensus, 2002 called on addressing issues such as trade, debt, FDI, technical cooperation and ODA. The conference also called for emphasis on trade liberalization in a manner that would benefit developing countries by promoting growth, generating employment and increasing foreign exchange earnings (Monterrey Consensus, 2002).

Another international initiative aimed at the development of SIDS is the Mauritius Strategy for the Further Implementation of the Programme of Action for the Sustainable Development of Small Island Developing States (MIS). Of particular interest from a stand point of economic diplomacy are the sections on the energy and tourism resources (SIDS Net, 2005). The MIS notes ‘energy dependence’ to be a major source of economic vulnerability to SIDS and notes that owing to their geographical locations, many SIDS are particularly suited to commercially feasible options of alternative energy supply, such as wind, solar, geothermal, biomass, hydro and ocean energy. MIS also called for SIDS and their international partners work together to promote greater dissemination and application of appropriate energy technology to SIDS.

In contrast to BPoA[5], MIS gave more emphasis on trade. MIS also recognized the importance of tourism to economic growth of SIDS and noting the vulnerability of the industry called to develop the industry in a sustainable manner. Further, it also called on the need to make appropriate linkages to other sectors, to retain resources within the country, and called in particular to “create synergistic linkages between tourism and the agricultural sector by promoting island foods and beverages supply chains, rural hospitality and agro –tourism”.

[5] Trade was not included among the 14 priority areas of Barbados Programme of Action 1994

Aid-for-Trade initiative has been proposed as a measure to assist developing countries to benefit from liberalized trade and increased market access through their integration into the multilateral trading system by enhancing exports of goods and services (WTO, 2008). The initiative is aimed at assisting developing countries to use trade as an instrument for growth and poverty alleviation thereby enabling them to play an active role in the global trading system. WTO provides assistance to developing countries under the Aid for Trade programme in projects that have been identified by the recipient countries as trade related developmental priorities.

Between 2002 and 2005, donors[6] committed USD 21 billion annually on the aid categories associated with the above (OECD / WTO, 2007, p.9). It is pertinent to note that the main recipients of assistance under the Aid for Trade initiative are large populous countries[7] among the developing nations. This issues has been raised by the small states in their call to make 'small, vulnerable, preference dependent economies major beneficiaries' of the Aid-for-Trade initiatives and to make it 'more accessible, sustainable and be geared at redressing supply-side constraints, as well as strengthening trade and production-related infrastructure (Commonwealth Secretariat).

1.2.5. WTO AND MICROSTATES

An important concession given to the developing countries under the GATT 1947 was that it allowed developing countries to deviate from the principles of the agreement in order to help them promote their economic development (GATT, 1947). In addition, the Tokyo Round

[6] Mainly Japan, the United States, the International Development Association (IDA) and the European Commission

[7] Top ten recipients are Vietnam, India, Indonesia, China, Pakistan, Bangladesh, Egypt, Ethiopia, Sri Lanka and Serbia.

allowed special and differential treatment to developing countries in almost all the areas of trade. Developing countries were also allowed longer time periods for implementation.

With the formation of WTO the issue of trade liberalization was given increased attention. The Uruguay Round proposed to confine special treatment to Least Developed Countries (LDCs) by eventually merging other developing countries with the industrialized countries and distinctions were also made in the time period given to LDCs and other developing countries.

As a result of the pressing issues that small states have faced in the area of trade, particularly with regard to the loss of their export earnings[8] on account of trade liberalization, they have increasingly argued for recognition of small and vulnerable states as a special case in trade related matters (UN, 2004). Small states have raised and argued for the issue at various international fora. The discussions surrounding MIS for instance, included extensive and detailed proposals on trade related matters although the demand for a 'special treatment' in with regard to trade was dropped in the final MIS (Von Tigerstrom, 2005).

The Doha Declaration attempted to address the Special and Differential Treatment (SDT) of developing countries particularly with regard to the implementation issues. However, of particular interest in this regard is that in spite of wide recognition of the huge differences[9] between them, the developing countries as a group are subjected to the same rules.
The 'Enabling Clause' of WTO which recognized LDCs is one means through which the differences among developing countries are at the moment recognized. In a number of SDT

[8] The CARICOM Region's, banana export earnings, for instance, fell from US$ 193 million in 1992 to US$ 152 million in 1995 and reached a low of US$97 million in 2000, CARICOM Press release 99/2002 (16 August 2002)
[9] Singapore, South Korea and Brazil, for instance, are treated in the same manner as Saint Lucia, Ghana and the Maldives.

provisions under this, LDCs are accorded additional protections, flexibility and assistance that is not available to other developing countries.

The case for special 'special and differential treatment' and 'less than full reciprocity' of vulnerable and small economies stem from the fact that as economies of scale cannot be realized in SIDS economies, and the cost of production are much higher compared to other countries making it difficult for products from such countries to compete in a free trade environment. This leaves SIDS faced with "great absolute disadvantages that exporting at world prices is either impossible or generates factor incomes that are too low to subsist"(Von Tigerstrom, 2005).

WTO: Some Major Challenges Microstates

Capacity Constraints	*Some measures to remedy the issues*
1.Limited ability to participate effectively in WTO, and in dispute settlement proceedings hamper implementation of their obligations under WTO agreements 2.Severe limitations of human and financial resources 3.Small administrations and lack of experience and training in handling trade issues 4.Constraints on account of tariff reduction and resultant difficulties with macroeconomic management 5.Remoteness makes it costly to send staff to Geneva or other centres. 6.Severe capacity constraints in capitals with regard to formulating and administering trade policy. 7.Difficulties in WTO accession negotiations - both in terms of financial costs and liberalisation commitments. Further, heavy dependence on trade taxes and on trade preferences adds to the difficulty (Briguglio, 2003). 8.The costs of adopting the Intellectual Property Rights (IPR) standards under TRIPS in terms of financial transfers	1. Provide flexibility and other means to address difficulties with implementing obligations. 2. Provide flexibility on time-frames and notification requirements 3. Develop capacity and facilitate participation through provision of financial and technical assistance 4. Developing human resources and institutional capacity; formulation of policies and the development of infrastructure required to address issues such as sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT) 5. Organizing micro and small states into groups to enhance their collective bargaining power. CARICOM for instance, have pooled their negotiation resources and have formulated common policy stances and achieved increased bargaining power (Andriamananjara and Schiff,1998).

to developed countries through royalties and license fees are high; and advantages from IPRs is severely limited due to lack of resources and the critical mass (Briguglio, 2003)	

1.2.6. MICROSTATES AND OTHER TRADE RELATED ARRANGEMENTS

With regard to trade preferences to regions and groupings of small states, the two most important initiatives were the EU-ACP agreement (Lomé Conventions) and the Caribbean Basin Initiative (CBI) of the US Government.

The Lomé Conventions provided preferential market access to EU for ACP member countries while the CBI provided waivers from GATT 1947 on market access to US for the small countries in the Caribbean.

The CBI is an initiative of the US Government launched in 1983 under the Caribbean Basin Economic Recovery Act (CBERA). The initiative is aimed at facilitating economic development and export diversification in the 19 beneficiary countries[10]. CBI, expanded in 2000 through the U.S.-Caribbean Basin Trade Partnership Act (CBTPA), provides beneficiaries with duty-free access to the U.S. market for most goods. CBTPA which came into effect in October 2000 is to continue until end of September 2008 or until such time free trade agreements come into effect between the US and beneficiary countries.

[10] Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Netherlands Antilles,Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago

The Generalized Preference Schemes (GSP) authorized by the WTO's enabling clause is another initiative that has helped micro and vulnerable economies. GSP was designed to facilitate market access in OECD countries for developing countries. Micro and vulnerable states were exempted from GSP tightening schemes that would have restricted preferences from industrialized countries for them. GSP also provides the potential for preferences to be given to developing countries based on their specific needs as WTO does not require identical treatment to be given to all developing countries, provided that the particular preference is based on their particular needs.

The US GSP programme provides preferential duty-free entry for more than 130 designated countries and territories covering a product range of over 4,600. The programme, initially authorized under the Trade Act of 1974 for a 10-year period has been renewed periodically since then and most recently in 2006 (United States Trade Representative, 2007).

Africa Growth and Opportunity Act (AGOA) initiated in 2000 is one of the most important duty-free[11] market access opportunities available to sub-Saharan African countries, many of which are small and vulnerable states. The Act provides market access for almost all goods from AGOA-eligible countries. In 2007 the total US imports from the AGOA region including GSP was USD51.1 billion – a six-fold increase from 2001. However, as the bulk of these accounted for petroleum exports and, non-oil related[12] imports amounted to only USD3.4billion (US Trade Representative, 2007).

[11] Over 98% of US imports from AGOA eligible countries in 2007 entered the US duty free

[12] Apparels, footwear, fruits, vegetables, seafood, essential oils etc.

1.2.7. FOREIGN DIRECT INVESTMENT: WHAT ARE THE OPPORTUNITIES FOR MICROSTATES?

World Investment Report indicates that World FDI inflows have been on the increase after hitting a low in 2003. According to the report World FDI inflows in 2005 totaled USD916 billion with developing countries taking a share of USD 334 billion. The outward FDI flow from developing states totaled USD117 billion. It is pertinent to mention that the report identified several microstates such as Malta, Trinidad and Tobago, Bahrain, Cyprus and Dominican Republic as front runners among countries with high FDI potential (UNCTAD, 2006).

FDI plays an important role in the development of microstates. Read (2007) notes FDI as an "important additional source of investment capital and a potentially critical contributor to growth and development" and lists four types of FDI – (i) resource-seeking FDI (ii) efficiency-seeking FDI (iii) market-seeking FDI (iii) strategic asset-seeking FDI, based on original research of Behrman (1972). Out of these, small and vulnerable island states are most likely to attract market-seeking FDI.

1.2.7.1. WHAT ATTRACTS FDI?

The following as some of the key determinants of host country characteristics that attract FDI.

Economic conditions	Markets	Size; income levels; urbanization; stability and growth prospects; access to regional markets; distribution and demand patterns.
	Resources	Natural resources; location.
	Competitiveness[13]	Labour availability, cost, skills, trainability; managerial technical skills; access to inputs; physical infrastructure; supplier base;

[13] Although small countries are inherently disadvantaged in terms of competitiveness, a few small countries have demonstrated that achieving competitiveness is not beyond their reach. The Global Competitiveness Report 2007-2008, World Economic Forum, ranks Singapore as the 7th most competitive economy in the world. Mauritius, covered in chapter 3 of this study, is ranked at a respectable level of 60 – Africa's second most competitive economy after South Africa. [online] Available from: http://www.gcr.weforum.org/ [Accessed 02 May 2008]

		technology support.
Host country policies	Macro policies	Management of crucial macro variables; ease of remittance; access to foreign exchange
	Private sector	Promotion of private ownership; clear and stable policies; easy entry/exit policies; efficient financial markets; other support
	Trade and industry	Trade strategy; regional integration and access to markets; ownership controls; competition policies; support for SMEs
	FDI policies	Ease of entry; ownership, incentives; access to inputs; transparent and stable policies
MNE strategies	Risk perception	Perceptions of country risk, based on political factors, macro management, labour markets, policy stability.
	Location, sourcing, integration transfer	Company strategies on location, sourcing of products/inputs, integration of affiliates, strategic alliances, training, technology

Source: Lall, (1997)

It is evident that microstates, with the exception of only a few[14], would not be competitive if evaluated on this matrix. This makes the intensive application of "ingredients of successful economic diplomacy" (Rana 2007, p.202) all the more imperative for the microstates.

Studies have indicated that countries that have managed to attract sizable FDI inflow have been able to achieve it through instituting at least basic reform measures. Instituting these reforms requires "significant reform efforts" by the governments and ad hoc measures to address concerns cannot replace institutionalized reform efforts (Sader, 2000, p.xviii).

1.2.7.2. PROMOTIONAL TECHNIQUES – ARE THEY BEYOND THE REACH OF MICROSTATES?

It has also been established that "there is a strong positive correlation between investment promotion and inflow of foreign investment". The following provides a summary of promotional techniques countries use for (a) image building (b) investment generating (c) investment service activities.

[14] A few exceptions are those identified as front runners among countries with high FDI potential by the UNCTAD's World Investment Report 2007, mentioned above.

Area of Work	Type of activity
Image building activities	1. Advertising in media
	2. Participating in investment exhibitions
	3. Advertising in industry / sector specific media
	4. Conducting general/sector-specific investment missions from Mauritius to host country
	5. Conducting general/sector-specific investment missions from host country to Mauritius
Direct Investment Generating Activities	6. Conducting general investment seminars on investment
	7. Engaging in direct mail or telemarketing campaigns
	8. conducting industry or sector specific information seminars
	9. engaging in firm-specific research followed by presentations
Investment Service Techniques	10. Providing investment counselling services
	11. Facilitating the process of applications and permits from Mauritius for inward investors

Source: Wells and Wint, 2000, p.10

Based on research on some developing countries[15] 2,3,4 and 5 were techniques used for image building while 6,8 and 9 were techniques used for investment generating activities.

Even with the capacity and resource constraints that micro-states face, most of the above promotional activities are doable given their resources are used in a carefully planned result oriented manner. Some small countries such as the Maldives have recently included some of the activities above as part of commercial diplomacy work of their bilateral missions located in their major trade partners of the country. The Maldives' tourism campaign 'the sunny side of life' has also been an effective tool as an image building technique. Another small state, Qatar, although much larger in terms of its resource endowments, have created images for itself in a number of areas through successful initiatives such as Aljazeera network, Qatar Masters, Qatar Airways etc (Peterson, 2006, p.746-748).

[15] Costa Rica, Jamaica, Indonesia, Malaysia, Thailand

1.2.8. SERVICES SECTOR: A SUCCESS STORY FOR A NUMBER OF SMALL STATES

Tourism is the biggest and the most dominant economic sector in a number of small states. As most micro-states and SIDS face a dearth of natural resources, their tangible export items are very limited, resulting in a merchandise trade account that is characterized by inherent deficits.

In a number of small island states such as Bahamas, the Dominican Republic and Maldives, tourism receipts represent up to 90 percent of their services receipts while in countries like the Antigua and Barbuda, tourism contributes directly and indirectly with over 75 percent of the GDP. In these countries and a large number of other small states, tourism provides a crucial means to buoy government finance and Balance of payment.

Tourism also provides many linkages with other economic sectors, some states such as the Maldives has successfully integrated tourism into national development plans to contribute to the growth of all tourism-related activities such as fisheries, small scale agriculture, transportation, services etc. Several other small states such as Antigua and Barbuda, Aruba, Barbados, Saint Lucia, the Bahamas, Saint Kitts and Nevis and Seychelles have also made tourism important mainstays of their economy and integrated the sector to the overall national development objectives (UNEP Commission on Sustainable Development, 1996).

Although tourism is expected to experience a healthy growth rate for a number of small states, they are also facing a number of critical issues with regard to the sustainability of their tourism sector, amidst various external and internal threats such as environmental degradation, sea level rise etc. UNEP1996 identified, among others, the following as the major issues small states face with regard to the development of their tourism industry.

a. Risks of over-reliance on tourism
b. Social and cultural impacts
c. Environmental impacts
d. Land resources and terrestrial biological diversity
e. Waste management
f. Coastal area degradation
g. Freshwater resources
h. Climate change and sea-level rise

Number of small countries are taking measures to successfully address these concerns. Maldives, Seychelles, Mauritius, the Bahamas and Cook Islands and a number of other islands have, for instance, taken measures to address beach erosion by curtailing sand mining.

Maldives, Mauritius and Seychelles in the Indian Ocean have opted for planned growth of up-market tourism. In fact Mauritius and Seychelles have banned charter flight operations with the aim of achieving a slower rate of growth of visitors, with emphasis on higher-spending visitors on scheduled flights which would be less damaging to their environments. Controlled up-market tourism helped the Indian ocean tourism destinations' with their drive to safeguard biodiversity. A number of tourist resorts in the Indian Ocean are actively developing eco-tourism as a means to attract environmentally conscious high-paying tourists. Maldives, as a means to reduce the negative social impacts of tourism, has consistently followed a plan of developing tourism on uninhabited islands. Further, some of the small states such as the

Maldives[16] and Malta have played pivotal roles in the debate on climate change and sea-level rise.

1.2.9. ECONOMIC VULNERABILITY - OIL AND FOOD CRISIS

As has been discussed above, most of the small states are characterized by inherent features that seriously hamper their potential for growth. Small size, in particular, poses acute economic disadvantages to these states which include, among others, the following (Briguglio, 2003, p.2).

a. Limited natural resource endowments and high import content.
b. Limitations on import substitution possibilities owing to the small domestic markets
c. High dependence on export markets and on economic conditions in the rest of the world.
d. Dependence on a narrow range of exports.
e. Limited ability to influence domestic prices, and prices of their exports and imports.
f. Severe limitations to achieve economies of scale.
g. Lack of domestic competition and tendency towards oligopolistic and monopolistic behaviour of the limited number of business enterprises.
h. Capacity constraints on public administration with small manpower and lack of trained and experienced staff.

Crude oil prices in the world market have increased at a staggering rate over the past decade - from USD18 a barrel in early 1998 to over USD145 in early June 2008. This has not only created a devastating impact of the world economy in general but has led to serious concerns

[16] The Male' Declaration, which was agreed upon Small States' Conference on Sea Level Rise in Male' in 1989 was the beginning of much of the climate change diplomacy that has been done by small states since the establishment of the Alliance of Small Island States (AOSIS)

about the fiscal sustainability and macroeconomic viability of the more vulnerable small states.

According to UNDP, ‘oil prices are threatening the prospects of millions of the region’s poor and forcing them further into poverty’. The UNDP’s Oil Price Vulnerability Index (OPVI) which ranks countries in terms of their economic strength and performance, and their vulnerability to fluctuations in global oil prices have ranked some of the micro and small states among the most vulnerable. Maldives, Vanuatu, Cambodia, Solomon Islands, Srilanka, Samoa, Fiji were ranked the most vulnerable (UNDP, 2007).

As a result of the inherent economic weaknesses of most of these vulnerable states, there is little or no means with which these states could face the challenges. In the case of the Maldives the country has been (a) lobbying with its traditional bilateral development partners from the oil-rich Arab states to get assistance to ease the situation (b) working on arrangements such as hedging against the rising prices to mitigate the effects of surging oil prices on the financing of imports.

The accelerating food prices have caused yet another major difficulty for small states. According to World Bank overall global food prices have increased by 83 percent over the three years leading up to February 2008 (World Bank, 2008). The responses available to most vulnerable developing countries, particularly the micro-states, are limited. The World Bank recommends providing food security via targeted safety nets through programmes such as “targeted cash transfers to vulnerable groups” and lowering domestic food prices by “reducing tariffs and other taxes on key staples”(World Bank, 2008). While both appear to be difficult choices from the perspective of microstates, given their resource constraints, the latter would be harder as tariffs and other taxes account for a substantial part of Government finances for a number of small states.

2. CHAPTER 2 - MALDIVES: A CASE STUDY OF ECONOMIC AND COMMERCIAL DIPLOMACY

2.1. THE DEVELOPMENTAL CONTEXT

The Maldives, a nation comprising of 1,190 small coral islands, out of which 195 islands are inhabited by locals, lies 350 km south of India. The country has an area of 90,000 sq km and an Exclusive Economic Zone (EEZ) of over 850,000 sq km. The islands, which have been inhabited for over 2000 years has a population of 350,000 people.

As the country lies at a strategically important location in the midst of trade routes through the Indian Ocean, the Maldives went under foreign influence on several occasions. After the 16th Century, European colonial powers including the Portuguese, Dutch, French and the British, exercised varying levels of control over the archipelago. Maldives became a British protectorate in the 19th century and remained so until independence in 1965.

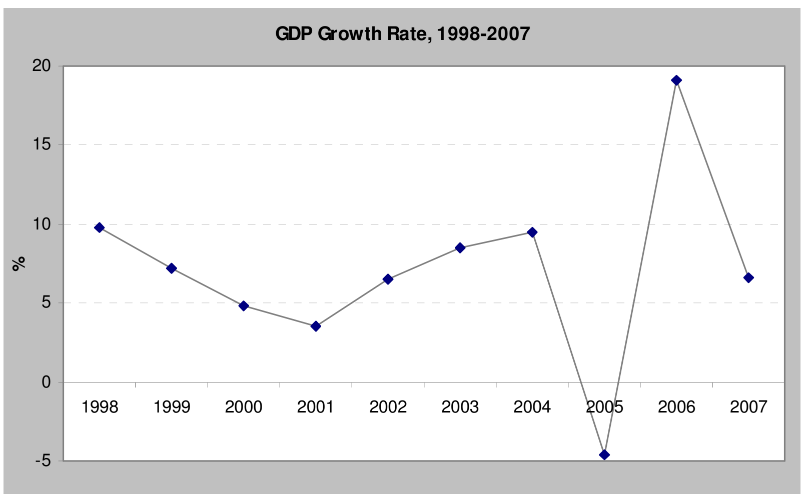
At the time of independence the Maldives was one of the poorest countries in the world. Exports of dried fish and coconuts to neighboring countries provided the only means of foreign exchange earnings. The 1970s brought added miseries to the country in the form of a ban of Maldive fish by Sri Lanka and the 1975 closure of the British RAF base on the southern most atoll of Maldives.

However, the 1970s also saw the introduction of the tourism industry - against advice from a team of UNDP's experts that concluded that tourism would not succeed in the country "due to the lack of facilities and infrastructure"(Niyaz, 1998). This ushered in a new era of tourism led growth which continued, albeit periods of minor slowdowns, throughout the last three decades.

The Maldives' per capita income of USD 3,600 - the highest in the South Asian region and the country's Human Development Index (HDI) value of 0.741 (medium) are generally high compared to most Small Island Developing States (SIDs).

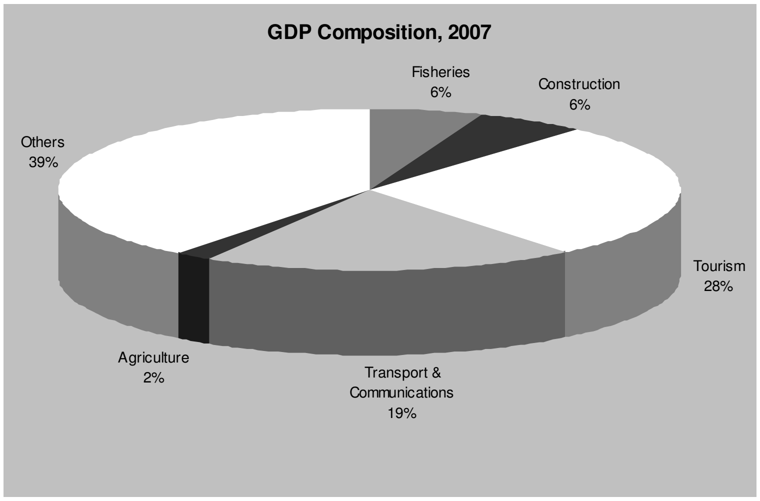
The developmental problems and constraints that the Maldives faces are typical to many SIDs. The country in addition to being acutely challenged by its own challenging geography is faced with a number of problems such as small domestic market size; a fragile extremely narrow resource base; acute shortage of manpower; inter-island transportation; and exorbitantly high unit costs of service delivery and economic and social infrastructure.

Recent Economic Developments



Source: Maldives Monetary Authority

The Maldives has an open economy with a narrow tangible export base and as a result is a heavily import oriented economy. Over the last decade average annual economic growth has been over 7 percent, with the exception of 2005.



Source: Ministry of Planning and National Development, Maldives

In terms of the key economic sectors, tourism industry has been the dominant sector contributing to nearly a third of the GDP, followed by transport and communications contributing a fifth.

2.2. STRUCTURE AND INSTITUTIONAL SETUP OF ECONOMIC AND COMMERCIAL DIPLOMACY

Unlike most other countries under the British influence, the Maldives was not administered directly by the British. As a result, the country did not inherit the typical post-colonial institutions that were a part of the government machineries of a number of other newly independent countries. Consequently, throughout the last 40 years the Maldives has experimented with the creation, reform and fine-tuning of its organizations.

Today, several agencies operating primarily within the government are engaged in the conduct of the areas relating to the country's commercial and economic diplomacy. It is pertinent to note that although some attempts have been made towards the creation and development of para-statal commercial agencies based on models that operate as public-private partnerships in several other countries, such institutions have not been able to grow to a level visible outside the country.

1. Ministry of Foreign Affairs (MFA)

With the exception of one department, the Department of External Resources (DER), all the departments of the MFA worked primarily in the areas of traditional domains of MFAs, until recently.

For the reasons described in section 2.3.1 below, commercial and economic diplomacy, although at times pursued, on an ad hoc basis depending on the country's needs, has never been proactively pursued by MFA in a structured manner until the mid 2000s.

a. The Department of External Resources (DER)

The Department of External Resources (DER), an agency established in under MFA in the late 1980s, is primarily engaged in coordinating matters relating to various types of foreign aid from bilateral and multilateral sources.

The Department, in addition to coordinating structured bilateral and multilateral assistance, plays a crucial role in seeking and mobilizing external assistance in the form of loans, grants, in-kind assistance for development projects and programmes conducted by various government agencies in the country.

b. Missions and honorary consular representations

The Maldives has bilateral and multilateral missions and consular representations in the following countries.

Bilateral Missions	Honorary consular representations
1. *Sri Lanka, Colombo* 2. *United Kingdom, London* 3. *India, New Delhi* 4. *United States of America, Washington DC* 5. *Japan, Tokyo* 6. *China, Beijing* 7. *Singapore* 8. *Saudi Arabia, Riyadh* **Multilateral missions** 9. *Permanent Mission to The United Nations* 10. *Permanent Mission To The United Nations Office In Geneva*	1. Australia, Melbourne 2. Austria, Vienna 3. Bangladesh, Dhaka 4. Bulgaria, Sofia 5. Egypt, Cairo 6. France, Paris 7. Germany, Homburg 8. *Greece,* Piraeus 9. Hong Kong, SAR 10. India, Mumbai 11. *India, Kolkata* 12. Japan, Tokyo 13. Lebanon, Beirut 14. Monaco 15. Nepal, Kathmandu 16. Pakistan, Karachi 17. Philippines, Manila 18. Russian Federation Moscow 19. Saudi Arabia, Jeddah 20. Thailand, Bangkok, 21. Turkey, Istambul

From the mid 2000s the bilateral missions in countries with which Maldives have substantial economic relations, have been assigned work in economic areas. Missions in Colombo, Kuala Lumpur, London, New Delhi and Singapore under take promotional activities in trade and tourism.

2. **Ministry of Tourism and Civil Aviation (MTCA)**

MTCA's functions, among others, includes planning, coordination and development of tourism sector; introducing service and operating standards, regulations and laws; collection, compilation and reporting or statistics and research in tourism; and promotion and marketing of tourism overseas (MTCA, 2008).

a. **The Maldives Tourism Promotion Board (MTPB)**

MTPB, established in 1998 under MTCA, is primarily engaged in organizing and undertaking promotional activities for the country's tourism industry. In addition to its head office in the capital Male, the Board has a branch office in Frankfurt, Germany and has a network of agents in the main tourist generating markets of UK, Germany, France, Austria, China and Hong Kong. (MTPB, 2008).

3. **Ministry of Economic Development and Trade (MEDT)**

The government's main agency entrusted with the formulation of the country's trade policy is MEDT. The ministry is also the focal point of the Government of Maldives to WTO. In addition, the Ministry is also the registrar and regulator of companies in the country. Further, MEDT through its investment promotion arm, the Foreign Investment Services Bureau (FISB) engages in the promotion, licensing and regulation of foreign investments in the country.

a. **Foreign Investment Services Bureau (FISB)**

FISB is established under MEDT with primary responsibilities in promoting, licensing and regulating the foreign investments in the country. The agency works on a simple process through which prospective investors can get their operations under way within less than two weeks. In undertaking its work the agency is engaged in the following activities (FISB, 2008).

- General and targeted marketing and promotional activities of the Maldives as an investment destination
- Investment generating activities such as leading specific project based marketing missions
- Investment counseling services such as providing information on the Maldives and potential areas of investment to prospective investors.

4. Ministry of Finance and Treasury (MOFT)

MOFT is designated by the government of Maldives as the local focal point for several international development organizations and donor agencies such as the World Bank. As such, the ministry has a specialized agency, the External Resources Management Section (ERMS) which has responsibilities in the area of economic diplomacy that include, among others, its work as the focal point for international financial institutions and mobilizing and management of foreign aid in terms of loans and grants. (MOFT, 2008).

5. Maldives National Chamber of Commerce and Industry (MNCCI)

MNCCI established in 1994[17], is an umbrella body for businesses of all types and sizes in the country (MNCCI, 2008). The organization primarily works on protecting the interests and rights of the business community and voicing their concerns with the government and other stakeholders. Although the organization has become active during the recent years in terms of activities for its members, the organization has not been able to work effectively as a partner representing the private sector or in establishing a healthy public-private partnership. This is largely attributable to the differences in the scale and nature of businesses of its members and their capacity constraints.

[17] The organization's predecessor, the Maldives Traders Association (MTA) established in 1979 became MNCCI in 1994.

6. Maldives Association of Tourism Industry (MATI)

MATI is a non-profit organization representing the country's tourism industry. Although the organization was envisaged as a body to coordinate and work with the government and other national and international organizations on tourism and related projects in the country, the organization's role has largely been seen as a lobby group to safeguard the interests of owners of tourism establishments and the organization has often been criticized by the local media as a lobby group for the country's powerful resort owners.

Individual members of the organization undertake promotional activities for their resorts and hotels through activities such as international advertising and participation at international tourism events. However, the organization has not been active in the promotion of the country's tourism interest internationally. This is largely attributable to (a) the lack of a unified approach and cooperation among individual members and (b) weak public private partnership in the tourism industry.

As economic diplomacy is still at a very nascent stage in the country, there are serious problems in the area with regard to poor coordination and cooperation between concerned agencies involved. This is largely because of a general lack of understanding and priority on economic diplomacy and existence of turf wars among the concerned ministries such as MFA, MEDT, MOFT and MTCA and agencies under them. For instance, Government of Maldives maintains separate offices in Singapore in connection with the work of the High Commission, Maldives Government Trade Centre (MGTC), Maldives National Shipping Ltd (MNSL) and State Trading Organization (STO)/ Maldives National Oil Company (MNOC) when a simple integration and harmonization process could save the valuable resources and improve efficiency.

2.3. STRUCTURE AND NATURE OF ECONOMIC AND COMMERCIAL DIPLOMACY

2.3.1. MALDIVES FOREIGN POLICY

In terms of the diplomatic engagement, including that of economic and commercial diplomacy, the Maldives' efforts were centred on engagements on issues concerning the country's tourism sector, aid and its environmental vulnerability, until recent years. As such, Maldives engagement with the international community can largely be defined as one that was in tourism and environmental diplomacy. The country's foreign service, under one of the longest serving foreign ministers in Asia, was largely taking a passive approach and appear to have been content with the limited engagement it had with its traditional bilateral and multilateral donors and development partners which, albeit ad hoc engagements in other areas, placed heavy focus on "links with donor institutions and countries (MFA, 2008).

The current phase of proactive engagement with the international community for Maldives began following the death in 2003 of a prisoner in police custody, that lead to the worst rioting in the country's recorded history. In the aftermath of the event, the Maldives faced serious criticisms on its record on human rights, press freedom and other civil liberties from organizations such as the Amnesty International (2003), Reporters sans frontiers (2003), and the US State Department (2005).

Following the negative image of the country, the government committed itself to a comprehensive and ambitious reform programme which involved a major overhaul of the legislative, administrative and political framework that was in place.

As part of the reform process, emphasis was placed on proactive engagement with the international community, particularly on issues related to human rights, democracy, transparency and good governance. In addition to participating and ratifying several important international treaties and conventions[18] in areas of human rights and civil liberties; and governannce and democracy[19], the number of missions abroad were increased from 3[20] at the end of 2003 to 11 by June 2008. Further, the scope of engagement which previously concentrated mainly around "links with donor institutions and countries" was widened to include economic issues such as the following.

- Development - covers various economic and commercial issues such as LDC Graduation, WTO issues, tsunami recovery etc.
- Environmental issues – covers bilateral and multilateral environmental diplomacy, engagement with the international development partners on protection, mitigations and adaptation with regard to environmental issues.

2.3.2. ENGAGEMENT IN BILATERAL TRADE INITIATIVES

The Maldives' only bilateral trade agreement is with India, signed in March 1981. The country does not have any Comprehensive Economic Cooperation Agreements (CECA) at the moment. The agreement with India is a simple arrangement that stipulates that both parties would provide each other no less favourable treatment than extended to any trading partner. The agreement primarily provides a framework for India's supply of various commodities to the Maldives.

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[18] International Covenant on Civil and Political Rights, the UN Convention against Torture, the Optional Protocol to the UN Convention against Torture, the International Covenant on Economic, Social and Cultural Rights, the Optional Protocol to the International Covenant on Civil and Political Rights, and the Optional Protocol to the Convention on the Elimination of all forms of Discrimination Against Women were all acceded to under the "Agenda for Reform, Democracy and Human Rights" initiated in 2003.

[19] In 2005, Maldives began active participation with the movement of New and Restored Democracies and work is underway to accede to the UN Convention against Corruption. Government of Maldives.

[20] At the end of 2003 Maldives had bilateral missions in Sri Lanka and UK and a permanent mission to the UN in New York. By June 2008, the number had increased to include missions in US, India, Malaysia, Japan, Singapore, China, Saudi and permanent missions to UN office in Geneva. At the time of writing this paper Government was in the process of establishing bilateral missions in Pakistan and Bangladesh as well taking the total number to 13

Following a visit to Maldives by the Indian Minister of State for Commerce, the trade agreement with India has been agreed to be revised in 2008. According to MEDT, the new agreement will aim to streamline existing provisions and focus on increasing Indian investment in Maldives. The Indo-Maldives Joint Commission for Economic and Technical Cooperation was to begin discussion in the latter half of 2008.

Maldives is also working on establishing Bilateral Investment Treaties (BITs) with Malaysia - the country's fourth largest trade partner.

2.3.3. ENGAGEMENT IN MULTILATERAL TRADE ORGANIZATIONS AND INITIATIVES

WTO Participation - membership, commitments and capacity constraints

The Maldives became an original member of the WTO in May 1995. While the Maldives provides at least MFN treatment to all WTO Members and is eligible for "special and differential treatment" it has not been involved in any disputes under the WTO or GATT.

As the Maldives is faced with severe capacity constraints in handling WTO issues, the country has relied on the resources and expertise of various government agencies in the past. Although the Ministry of Economic Development and Trade is the main focal point to WTO, several other government agencies provide important trade related policy inputs as identified below.

Area	*Agency Responsible*
Budget – expenditure and revenue measures excluding tariffs	Ministry of Finance and Treasury
Planning and economic statistics	○ Ministry of Planning and National

	Development ○ Ministry of Tourism ○ Ministry of Fisheries, Agriculture and Marine Resources.
Tariffs, customs procedures and rules of origin	Maldives Customs
Regulating and overseeing performance of State-owned enterprises	Public Enterprises Monitoring and Evaluation Board (PEMEB) under the Ministry of Finance

In addition to the deficiencies in the institutional arrangements in dealing with trade matters, the Maldives also has severe inadequacies in its legislative and regulatory framework with pieces of legislation in several important areas such as intellectual property and copyright being non-existent. Although some of the required legislations are being introduced to address the needs of the multilateral trading system, there has been calls[21] for accelerated pace of trade related legislative measures in order for the country to enhance the confidence of traders and investors and to ensure the predictability of the foreign trade.

Owing largely to the acute resource and capacity constraints, and poor understanding of WTO issues, the Maldives has only made few notifications to the WTO. However, there have been few initiatives on the part of the Government to build capacity in these areas.

In spite of these constraints, the Maldives gives special emphasis to follow developments in WTO areas in which it maintains special interests i.e. the Committee on Trade and Development and the Sub-Committee on Least-Developed Countries.

As the Maldives has serious capacity constraints to proactively engage in the multilateral trading system, the country has taken positions with special interest groups. Along with the

[21] The Maldives' Minister of Trade and Economic Development, in a statement to the parliament in June 2008, said that that the current import duty system worsens the gap between rich and poor and called to establish a strong tax system. The Minister also emphasized on the need to bring the necessary economic reform to be implemented along with the ongoing political and legal reform.

members countries of SAARC the Maldives raised concerns that the Uruguay Round Agreements was a source of increasing inequalities between developed and developing countries. SAARC position was that the developed countries should provide market access to developing countries through the elimination of subsidies, non-tariff barriers and other protectionist measures.

Maldives' main concerns on multilateral trading system:

Area	***Concern***
export interest to developing countries	Reduction in "tariff peaks", escalation, and non-tariff barriers.
"special and differential" treatment	Providing "special and differential" treatment of developing countries based on objective criteria rather than "best endeavour" clauses
textiles and clothing	Industry has been phased out due to the expiry of the Multi-fibre Agreement in 2004
TRIPS	Providing flexibility in applying and enforcing TRIPS, especially for essential medicines
TRIMs	Extending transitional periods for TRIMs of developing countries
Agricultural tariffs	Reducing agricultural tariffs and domestic support of agriculture of developed countries
Food Security	Providing flexibility for developing countries to safeguard their food security concerns
Scope of multilateral negotiations	Extending multilateral negotiations into new areas, such as investment, competition, environment, and especially labour standards
Privileges to LDCs	Getting developed countries to make binding commitments to provide LDCs o duty-free and quota-free access exempt from anti-dumping duties, o safeguard actions, and non-tariff barriers, o harmonize rules of origin

Source: WTO Documents

SAPTA and SAFTA: Participation at regional trade initiatives

As a founding member of the South Asian Association for Regional Cooperation (SAARC)[22], The Maldives is a member of the SAARC's Preferential Trading Arrangements (SAPTA) which was signed in April 1993. SAPTA was formed as a first step in the process of transition to a South Asian Free Trade Area (SAFTA), and subsequently to a customs union, common market, and economic union. SAFTA which was initially envisaged to be put into effect by 2001 was signed three years later in January 2004 during the Twelfth SAARC Summit in Islamabad.

The SAFTA agreement envisages to deal with, among others, trade liberalisation; rules of origin; institutional arrangements; consultations and dispute settlement procedures; and safeguard measures. While discussion among the member countries are going on regarding the Sensitive Lists of products, Rules of Origin, Technical Assistance, Compensation of Revenue Loss for Least Developed Member States, the Trade Liberalisation Programme is scheduled for completion by 2016. It is envisaged that progressive reductions in the customs duties on products from the region will be achieved during this period.

In the absence of any form of direct taxation[23] in the country, the Government of Maldives' main source of budget revenue is the import duty. As such, the country is not in a position to have any substantial reductions in its import tariff regime in the near future. As a least developed member state, Maldives, however, is to benefit from an early harvest programme for the benefit of the LDC Member States, which entails India, Pakistan and Sri Lanka reducing their customs duties to 0-5 % by 1 January 2009 for the products from LDC

[22] Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. Afghanistan became a member at the 14^{th} SAARC summit held in New Delhi, India in April 2007.
[23] The Maldives has no income taxes. Although a corporate profit tax bill is in the parliament, banks, taxed at 25percent, are the only institutions that are taxed in the country.

members. Maldives would also derive added benefit from additional measures under the special and differential treatment accorded to them under SAFTA.

2.3.4. FOREIGN INVESTMENT POLICY

Foreign Investment Services Bureau (FISB) of the Ministry of Economic Development and Trade works on promoting, licensing and registering foreign investments in the country. The country provides an open, transparent and speedy registration process. In fact the World Bank's "Doing Business Report 2007" report ranks the Maldives as the most business friendly country in South Asia[24].

Maldives provides an attractive package of incentives to investors that include, among others, lack of income tax, corporate tax or property tax; flexible labour regulations; no restrictions on profit repatriation. However, most of these arise currently as a result of lack of adequate legislative and regulatory measures on issues such as taxation and labour market. Therefore, if the Maldives is to retain its position as a 'business friendly' country its needs to develop an appropriate legislative and regulatory framework on FDI.

The statistics on FDI flows to the country are poor and those that are available do not reflect the real flow of funds into the country. According to Central Bank officials, this is largely because a large portion of the funds that flow into the country are private investments channeled to tourism developments and are not captured as foreign investments.

In terms of the sectors, anecdotal evidence suggests that most of the foreign investments have been channeled into resorts and tourism projects[25]. Telecommunications and air transport

[24] Maldives ranked at number 53 is the highest for any South Asian country. Following Maldives were Pakistan, 74, Bangladesh, 88, Sri Lanka, 89, Nepal, 100, India, 134, Bhutan, 138 and Afghanistan, 162.
[25] The 50 or so resort islands that are currently in various stages of development are estimated to attract at least USD600-700million foreign funds to the tourism industry.

represents the other main sectors. As a measure to protect local businesses, the government does not encourage FDI in areas where there is active participation by locals.

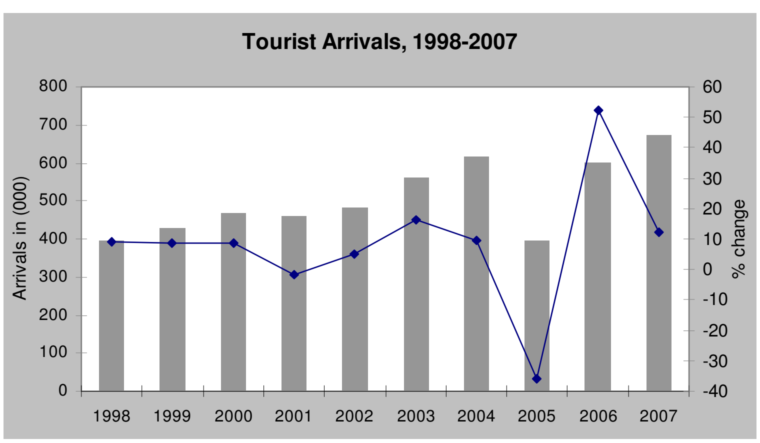
2.4. KEY ISSUES IN ECONOMIC AND COMMERCIAL DIPLOMACY

2.4.1. DEVELOPMENT OF THE TOURISM INDUSTRY

The first tourist resort in the Maldives opened in the country in 1972 with minimal facilities. During the early years the number of resort establishments were developed in an ad hoc manner as and when required without proper planning and industry standards.

Formal planning started only in the 1980's in the form of 10-year Master Plans. The First Tourism Master Plan covered the period 1982-1992, the second launched in 1994 covered the period 1996-2005, and the on-going third covers the period 2006-2010. Under the current Master Plan, tourism was expanded to the outer atolls of the archipelago. By the end of the year 2007 the country had 89 tourist resorts in operation and over 50 additional islands in various stages of developments.

Although there have been periodic downturns in the tourism industry, the country has seen robust growth throughout the last three decades with annual arrival figures reaching 650 thousand by the end of 2007 with the industry's annual occupancy rate remaining at over 83percent.



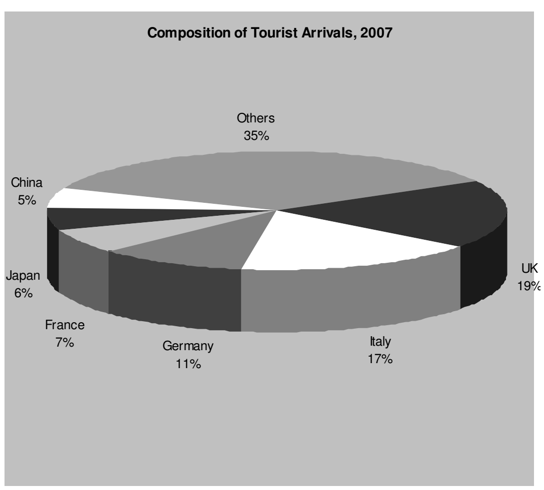
Source: Maldives Monetary Authority

According to the Central Banks estimates the annual tourism income to the country is USD 493 by the end of 2007. In contrast to this figure an ADB-funded survey, puts the total tourism earnings at USD 843 million 10 years earlier in 1997. Today, tourism directly contributes to over a third of the total government finances and over two-thirds of the country's foreign exchange earnings.

Of the total estimated employment of about 120,000, the tourism industry is estimated to employ over 50,000 out of which approximately half are expatriate employees. By law, tourist resorts are allowed to employ a maximum of 50% expatriate staff.

Markets

Since its inception the main tourist generating markets for the Maldives has been the European countries. Italians dominated the market from the 1970s until the 1990s. The late 1990s and the 2000s were marked by increased arrivals of mostly up-market tourists from the UK.



Source: Maldives Monetary Authority

Today although the industry accommodates tourists from a variety of different market segments and countries, attention is given to maintain the levels of arrivals from the traditional European markets while at the same time trying to lure the increasingly affluent upper middle class tourist from emerging markets such as China and India.

The sunny side of Life

"Maldives: The Sunny side of Life", the country's tourism marketing campaign has been cited as a successful country branding and public diplomacy exercise among the small island states.

The carefully designed and executed promotional activities using various forms of international media, has generally been very successful in promoting the country's image as a perfect holiday destination, with white sandy beaches, unpolluted crystal clear water and magnificent marine environment. These characteristics have been the elements of the Maldivian tourism product that initially favoured the establishment of the country's tourism industry.

MTPB officials reveal that for the country's tourism marketing and advertising the country has largely relied on (a) Cable TV channels in Europe (main tourist generating countries); broad sheet newspapers and selected magazines; the World Wide Web, direct mail; promotional offers; trade fairs; and word of mouth for advertising and (b) foreign tour operators; local travel agents; specialist travel agents; e-distribution (direct sales) for its distribution.

Managing Exogenous Factors - Global Warming, El Nino, Terrorism and Tsunami

According to UN System-wide Earth Watch, the 1998 El Nino phenomena resulted in coral bleaching across the whole Maldives archipelago. This left devastating impacts both economically and environmentally, particularly because of the negative publicity generated in Europe.

MTPB and the industry participants were swift to take advantage of an increase of algae growing on the reefs – an immediate after effect from the death of coral reefs. The abundant algae growth led to a massive increase of reef fish. The positive spin created from this quickly led to a rebound in the increase in arrivals.

International happenings such as the September 11 terrorist attacks on the United States, the Bali bombing of October 2002 and the Madrid train bombings of March 2004 and the threat of a potential epidemic of SARS and Avian Flu wreaked havoc on the global tourism industry is some parts of the world. However, in the case of Maldives, the affects were both mild and short lived.

However, these events had their negative implications on the Maldives tourism industry as well. The Maldives, given its small size and the acute capacity constraints, has little means, if at all, to respond to these incidents. The country has therefore relied largely on (a) increased marketing and promotional activities in the traditional tourism generating markets (b) the highly resilient nature of the country's tourism product - to witness in rebounds in the tourism industries over time.

The tsunami incident of 2004 was the worst the country's tourism industry has witnessed in its over 30 years history. Following the incident over half of the country's 89 resorts suffered serious physical damage. In the immediate aftermath of the tsunami, even though only three tourists died in the Maldives, occupancy levels went down to 20-30 percent as against the typically over 90% for the peak period of the year.

The country's initial response in the aftermath of this disaster in the tourism sector was to concentrate on the relief and rescue operations for the tourists. This was follow by an international media coverage undertaken by MTPB and industry stakeholders with support from the country's foreign missions. This campaign was designed to give reassurance to the tourists that (a) it is safe to travel to the Maldives and that the industry is up and running with most resorts unaffected (b) that visitors are very much welcome to travel to the country. The ethical messages focused on (a) negating the perception among tourists that it would be insensitive to travel for a holiday to a county that is devastated by a natural disaster (b) encourage the tourists that it is in fact a great assistance to the country as the tourism dollars would help the country to recover from the disaster quickly.

According to MTPB, the media strategy entailed the following

- Efforts targeted at tour operators from major markets, travel writers, travel publications, airlines
- Working with embassies of tourist generating markets to ensure travel advisories are lifted as appropriate and that accurate information is available about the Maldives in a timely manner
- marketing to former visitors to visit the country again
- Attendance and concerted efforts at travel trade shows such as BIT, ITB, etc.)
- Incentive programs such as free nights, meals, special gifts for tourists

2.4.2. TRADE DIPLOMACY

Trade Policy formulation and Coordination

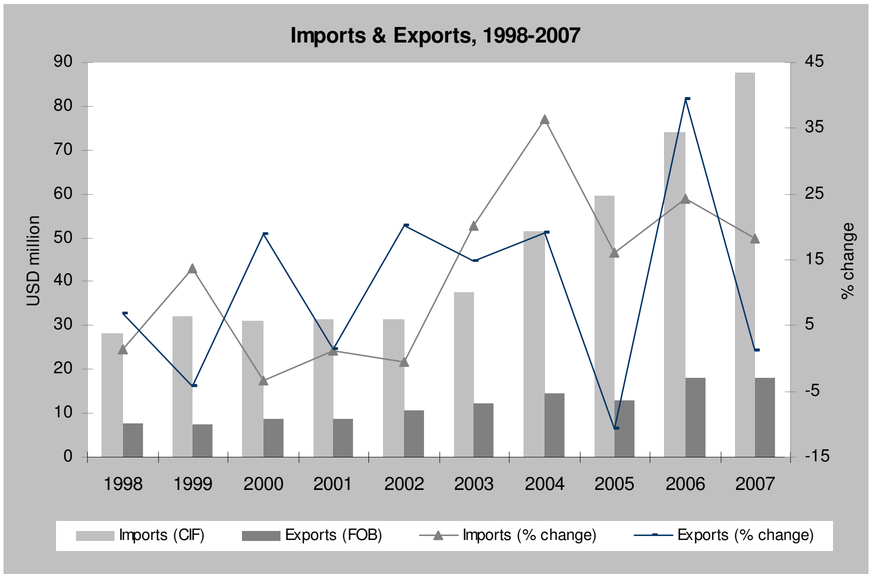
The Maldives has expressed in its national 'Vision 2020 plan of 2000', the hopes of Maldives becoming a "hub of free trade in the region". However, this was not documented either in trade policy formulation or in the national developmental plans before 2006. In fact trade policies have never been actively used by the Government as a tool for economic development. This was largely on account of the country's small merchandise base and the lack of institutional and human resource capacity on the part of the government to actively follow and engage in the complex rules and regulations of the international trading system.

The ad hoc and minimal efforts in the areas of formulation of trade policies were undertaken by the cabinet and the president, with little consultation with the private sector. This is also largely on account of capacity constraints with existing organizations such as MNCCI and MATI; conflicting views among the stakeholders; and the non-existence of NGOs in trade and industry policy matters. In the year 2002 in order to improve the country's trade policy coordination and formulation a "National WTO Committee" was established. However, the Maldives has not participated actively in any multilateral trade negotiations.

In May 2008, the government in its efforts to enhance the participation at the WTO accredited the Maldives' ambassador to the UN office in Geneva to the WTO. The country is currently in the process of establishing a permanent presence at the WTO office in Geneva.

Trade performance, partners and key issues

The Maldives has an extremely open economy with a narrow export base which primarily consists of fish and fish products. As a result the country is highly dependent on imports both for local consumption and developmental needs.



Source: Maldives Monetary Authority

In terms of the direction of trade, the Maldives' main import partners are Asian countries with Singapore, UAE, India, Malaysia and Sri Lanka accounting for around two-thirds of total imports.

Maldives' exports of any significant value have been going in the recent years to Thailand, Japan, UK, Sri Lanka, France and the US.

Although garments comprised a substantial source of exports for Maldives before the expiry of Multi Fibre Agreement (MFA), fish and fish products are the country's only tangible exports today. Fisheries exports have also had very little value addition within the country until the fisheries sector was liberalized in the year 2000, ending over two decades of a state controlled monopoly of procurement and export of tuna. Before the liberalization, fish exports comprised primarily of low-value skipjack tuna which was exported primarily to Thailand in the form of frozen fish and canned tuna.

Private sector initiatives and foreign investments established since the liberalization, has helped to increase value addition and to bring some amount of diversification of products and markets. The rise in export quantities of high value species of tuna such as yellowfin and bigeye tuna to more attractive markets in Japan and Europe have helped the country maintain the value of total fish exports despite falling volumes in recent years.

The garment and apparel industry which accounted for over 30 percent of total exports by the end of 2003 has been gradually phased out by the Sri Lankan investors who were operating the garment industry in the Maldives to take advantage of the quotas offered to the country under the MFA. The year 2004 at the end of which the Multi Fibre Agreement ended, witnessed a decline in the industry's export share to a quarter of total exports. The industry completely ceased to exist in 2005 with no incentive for the Sri Lankan operators to remain in the Maldives, as the latter was far less competitive than Sri Lanka in the industry.

2.4.3. LDC GRADUATION

During the early 1970s, based on the 'typology' of developing countries, UN established a list[26] of Least Developed Countries (LDCs) which originally included 25 nations[27].

At the First UN Conference on the LDC (1981) the UN decided to adopt the Substantial New Programme of Action (SNPA) for the 1980s for the LDCs. This contained guidelines for domestic action by LDCS, and supporting measures by the international community.

At the Second UN Conference on the LDCs held in Paris (1990) the Paris Declaration and the Programme of Action for the LDCs for the 1990s was formulated. These documents called for

[26] The criteria used were a per capita gross domestic product (GDP) of $100 (in 1968 United States dollars) or less; share of manufacturing in total GDP of 10 per cent or less; adult literacy rate of 20 per cent or less.

[27] Afghanistan, Benin, Bhutan, Botswana, Burundi, Chad, Ethiopia, Guinea, Haiti, the Lao People's Democratic Republic, Lesotho, Malawi, Maldives, Mali, Nepal, Niger, Rwanda, Somalia, Sudan, Uganda, United Republic of Tanzania, Upper Volta (Burkina Faso), Samoa and the Yemen Arab Republic.

taking action to reverse the deterioration in the socio-economic situation in the LDCs and to revive their growth and development.

Although the international community, through these initiatives, was able to have profound changes in the way multilateral organizations operated, they were unable to effectuate the much needed and lasting changes required for socioeconomic development.

The Maldives is the only country to have come close to graduation from the original list created in 1971. By the 1990s a number of the socioeconomic indicators of the country such as per capita income, adult literacy rate and HDI etc reached levels comparable to a number of middle income countries.

A review conducted in 1997 concluded that that the Maldives had became eligible for graduation. As a result, the UN decided to graduate the Maldives from the LDC list - contingent upon the country's economic performance over the next three years.

Despite the unprecedented improvements in the countries socioeconomic indicators the fundamental risks to the country's continued performance remained – the narrow economic base, external vulnerabilities to the economy etc were prime concerns of the Maldives. At the request of the Maldives, the UN decided to postpone the graduation in the year 2000. This decision was taken to ensure that graduation would not hamper two decades of sustained growth, as graduation would have eroded market preferences, closed avenues for soft loans, and reduced flows donor assistance in the form of official development assistance.

The UN decided to postpone graduation until 2008, at the end of a transitional period of 3 years. However, in the aftermath of the devastating affects of the tsunami of 2004, Maldives was able to negotiate with UNCTAD, an extension to the three year transitional period to run from 2007 to 2010.

Over the recent years a lot of emphasis of the economic diplomacy the Maldives has had with its bilateral and multilateral development partners has been given on advocating for a smooth transitional arrangement from LDC status. From the year 2006 the country has begun hosting an annual Partnership Forum with bilateral donors and multilateral aid agencies with the prime objective of ensuring that adequate arrangements are in place at the time of the impending graduation.

In early June 2008, EU agreed[28] to a proposal from the Maldives to extend the LDC concessions the country currently enjoys with the EU by another 3 years. This development would ensure that the Maldives' only tangible export to EU - fish and fish products which are currently exempt from the 24 per cent import duty levied by the bloc would continue for four years after the graduation until 2014.

As an LDC the Maldives falls under the "everything but arms[29]" tax exemption arrangement of EU. However, as Maldives was to become a Middle Income Country at the start of 2011, it had planned to apply for the EU's "GSP Plus" scheme for "especially vulnerable countries with special development needs". This new scheme would have been the only alternative that would have given some tax exemptions had the country not been able to extend the current arrangement until 2014.

Another strategy the Government is pursuing to counter possible negative affects from the graduation, is the promotion of Maldives as a destination for foreign investment. Several ambitious infrastructure and development projects have been embarked upon - particularly in the country's lucrative tourism sector.

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[28] Announced by the Maldives' Minister of Economic Development and Trade in an interview to local media, Haveeru Daily.

[29]"Everything but arms" are favoured by zero rates of duty for the exports of fresh, frozen and processed tuna to the EU from LDC countries" - EC (2008)

Economic and political developments as at the time of writing this paper indicate that Maldives would face almost insurmountable challenges in the implementation of these infrastructure projects. The three main infrastructure projects[30] which were intended to bring in more than USD 200 million to the central government budget in 2008, failed to materialize. The resultant revenue shortfall of around USD 190 million and the dwindling foreign currency reserves of the central bank which had deteriorated to around 1.5 months imports by the beginning of June 2008, amidst spiraling import bills owing to the unprecedented surge in oil and food prices in the international market led to intense economic and political pressures both on the domestic and international front. This tension culminated in the resignation, in June 2008, of 3 key ministers in charge of the ministries of finance, tourism and economic development and trade.

[30] The three projects in the pipeline include the development of a transshipment port in the northern *Ihavandhippolhu* atoll, a port city at *Gulhifalhu* and an integrated infrastructure project in the island of *Hulhumalé* in the central region of the archipelago.

2.4.4. TSUNAMI RECOVERY, REDUCING VULNERABILITY TO ECONOMIC SHOCKS AND NATURAL HAZARDS

The Indian Ocean tsunami of December 2004 was the worst natural disaster ever in the recorded history of the country – over 80 people died, over 5 percent of the countries population were displaced, and the damage was estimated at around 62 percent of the country's GDP. This makes the Maldives the worst affected country in terms of the physical damage as a proportion of the country's GDP as compared with 4.5 percent for Sri Lanka and 2.6 percent for Indonesia.

The year 2005 brought a negative growth of 5.2 percent – after a period of 7.5 percent growth over the 15 year period to 2004.

The response

The tsunami incident brought in an unprecedented scale of destruction which the country was ill prepared to respond to. Despite having had the threat of the rising sea levels and the environmental damage, the country did not have in place any institutional arrangement, disaster management policy or expertise.

As the initial response, the Government created the National Disaster Management Centre (NDMC) which tapped on the expertise and resources of several Government agencies. Through this agency, a successful relief and recovery effort was undertaken. Support for this effort came from many bilateral and multilateral sources such as the UN agencies; the World Bank, IMF, ADB etc; the international federation of Red Cross and the Red Crescent. The contributions the Maldives was able to mobilize from its traditional bilateral donor countries such as Japan, India, the oil-rich Arab world, was also noteworthy.

The fiscal position of the government was also badly impacted by the tsunami incident as it hit the government finances on two fronts - spending needs rose substantially while revenues fell markedly. Fiscal position continued to deteriorate as the government expenditure[31] increased and led to a widening budget deficit against a background of rising inflation.

The key strategies that the Maldives used to mitigate the adverse macroeconomic impacts are based on (a) providing income support to affected people and maintaining adequate liquidity in the economy through cash transfers (b) restoration of livelihoods by financing the replacement of key assets and infrastructure (c) rebounding tourism activity through media and public diplomacy activities

With the timely mobilization of the required donor assistance and the swift recovery of tourism industry, the Maldives managed to mitigate the negative affects of tsunami to some extent over the medium term. However, the macroeconomic conditions over the long-term remains uncertain if the government is unable to exercise fiscal restraint while at the same time taking concrete and timely steps to (a) reduce the vulnerability of the country's economy to external shocks and natural disasters (b) mitigate the affects of adverse external developments such as the rising oil and food prices.

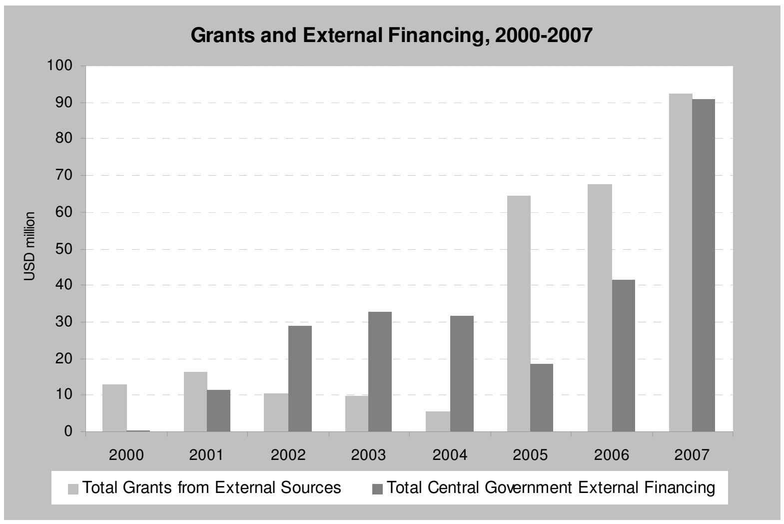
2.4.5. FOREIGN AID

As one of the countries on the UN's original list of the LDC, the Maldives is eligible to receive international donor assistance. However, largely due to capacity constraints in the

[31] The deterioration of the fiscal position of the government did not occur merely as a result of the tsunami as the government undertook substantially high non-tsunami related budgetary expenditures during the same period that led to the further deterioration of the fiscal position. These large fiscal deficits together with high external borrowings and acceleration in private sector credit, have led to a substantial current account deficit and pressures on the balance of payments.

country, the efforts to mobilize international assistance both from bilateral and multilateral sources were somewhat limited until the 1980s.

As one of the newly independent and poor Islamic countries, the Maldives received much of its external development assistance from the oil-rich Islamic countries from the Arab world such as Saudi Arabia, Kuwait and the UAE. However, the flow of this assistance was largely on an ad hoc basis and was not structured as assistance for development planning.



Source: Maldives Monetary Authority

During the 1980s the country's annual average external assistance in the form of grant aid was approximately USD 15 million. During the 90s, although the country was able to mobilize more assistance in the form of structured development assistance largely from multilateral sources such as the World Bank and the Asian Development Bank, the total grant aid received by the country declined. This is partly attributable to the country's increase in per capita income and the resultant rise in the living standards. Among the bilateral sources of donor assistance the contributions made by Japan and India and more recently China have been noteworthy.

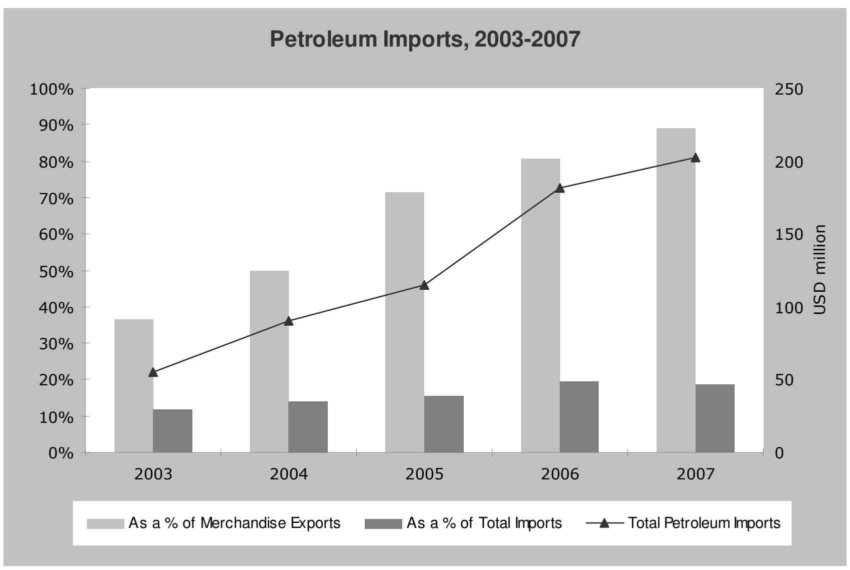
Much of the surge in grants figures in the period from 2005-2007 is on account of the December 2004 tsunami reconstruction which would be completed by the year 2010 when the

Maldives would graduate from LDC. Therefore, once the tsunami reconstruction is completed, it would be a challenging task for the country, newly graduated from LDC, to continue to receive the levels of grants comparable to the level it had received during the pre-tsunami period.

2.4.6. OIL AND FOOD PRICE CRISIS

As the Maldives has no fossil fuel resources the country depends entirely on imported petroleum to fuel its energy needs. The Government of Maldives has long-term supply contracts with Kuwait and thus receives a limited price discount to the open market spot rates or to medium-term supply contracts.

Oil prices in the international market hitting a record high of USD 147 a barrel in June this year, poses grave socioeconomic threats to the country. The country's meager foreign exchange reserve which is only adequate to finance 3.5 months of imports and the looming budget deficit exacerbates this precarious situation.



Over the last five years the country's imports of petroleum products have accounted for approximately 10-15 percent of total imports annually. The total import bill of petroleum products have jumped from USD55million in 2003 to USD203million by the end of 2007. This was largely attributable to the five fold increase of crude oil in the international market during the five years from 2003.

The state owned State Trading Organization (STO) and two private companies import and distributes the much needed fuel into the country. STO also has a subsidiary company, the Maldives National Oil Company (MNOC) an established based in Singapore, trading in oil. However, the company has had little success in the international market over the course of its decade long work in the area.

As for the local consumption, the government of Maldives was ill prepared for the oil price hikes as no developments plans in the country had factored in oil at the current market levels. In addition, despite the presence of high levels of sunlight and vast expanses of ocean which are potential sources of alternative solar and tidal energy for the country, there has been very little attempts and initiatives made at a national level to tap into these sources of power.

The Oil Price Vulnerability Index (OPVI) developed by the UNDP ranks countries in terms of their economic strength and performance, and the extent to which this growth depends upon imported oil. Based on the OPVI, the Maldives was identified as the most vulnerable country - ahead of several other heavily oil dependent SIDs with small economies, such as the Solomon Islands and Vanuatu (UNDP, 2007). With no alternatives to petroleum imports in sight over the short to medium term against a backdrop of the country's ambitious plans in the tourism, infrastructure and the fisheries sector, the situation is only poised to worsen.

The Maldives has welcomed the initiative of UNDP to setup the Asia-Pacific Compensatory Oil Finance Facility (AP-COIL) as a mechanism to enable developing countries particularly the more vulnerable SIDs, to cope with sudden downturns and resulting liquidity and BoP problems. AP-COIL also proposes to assist countries invest in alternative energies to reduce their dependence on fossil fuels.

Concern over soaring Food prices

According to the World Bank food prices have risen by an average of 83 percent in the past three years. This poses yet another major challenge to vulnerable SIDs such as the Maldives.

The Maldives which relies entirely on imported food had been receiving food aid, on a regular basis, from the Japanese government and on an ad hoc basis from the governments of India and Arab countries.

Although the recently concluded World Food Security Summit held in Rome, which was participated by over 30 heads of governments, was marked by strong calls[32] from important word leaders, no concrete proposal was agreed to and the Summit ended in a weak declaration.

The government recently highlighted to the UN the potential dangers the country faces as a result of the soaring world food crisis (MFA, 2008). The Maldives also cautioned that the increase in oil and food prices might hinder the country's achievement of the Millennium Development Goals.

The Maldives has also been actively trying to mobilize the support of its traditional bilateral donors in the oil-rich Arab world to remedy the oil and food price situation. The Maldivian foreign Minister toured several Arab countries and held bilateral discussions with his counterparts to address the Maldives' concerns over the rising prices of oil and food in the global market and sought their assistance to ease the situation.

[32] UN Secretary General Ban Ki-Moon called for food aid to vulnerable countries while FAO director-general criticized developed countries for spending US$11- 12billlion for subsidies on biofuels and diverting 100 million tonnes of cereals from human consumption.

3. CHAPTER 3 - MAURITIUS: A CASE STUDY OF ECONOMIC AND COMMERCIAL DIPLOMACY

3.1. THE DEVELOPMENTAL CONTEXT

The republic of Mauritius comprise of the islands of St. Brandon, Rodrigues and the Agalela Islands. The islands together occupy a land area of 2,040 sq km. With a population of almost 1.3 million, Mauritius has a high population density of around 620 persons per sq km.

The first permanent settlement on the islands was established by the Dutch in 1638. The French who controlled the present day Réunion seized the country in 1715 and began the development of a prosperous economy based on sugar production. The British moved to gain control of the country during the Ango-French Wars (1803-1815) and finally did so in 1810. During the British rule, Indian labourers were brought from India to work in the sugar plantations. Ethnic Indians, as a result comprise the majority of the population, followed by Creoles – of mixed, predominantly African origin, Chinese and Europeans. The Mauritius subsequently attained independence from the United Kingdom in 1968 (Taylor and Francis Group, 2003, pp. 725-726).

Mauritius shares the characteristics typical of many developing countries in the African continent such as meager natural resources, vulnerability to external shocks, monocrop economy, exposure to terms of trade shocks, a high population growth rate, skewed income distribution, limited size of the domestic markets etc. A study[33] commissioned by the British in 1961 entitled Mauritius: A Case Study in Malthusian Economics) concluded Mauritius to be doomed to economic and social failure (Sacerdoti, et al, 2005, pp.3-5). At the time of independence in 1968, Mauritius was in fact a poor country with a percapita income of only USD 350. Adding to the countries difficulties were the fact that as a small island nation, it had almost no natural resources, other than fish - abundant in its vast EEZ which the country did not have the capacity to police.

[33] James Meade, the British author of the study was a recipient of the Nobel Prize in economics

Mauritius has often been cited as an example of economic success story (UNCTAD, 2001) and a case study of development among developing countries. In the 1960s the country's exports comprised 99 percent of sugar and a large number of the labour force was engaged in limited sectors that had been given trade protection so that local production could replace imports (Morgan, 2002, p.19).

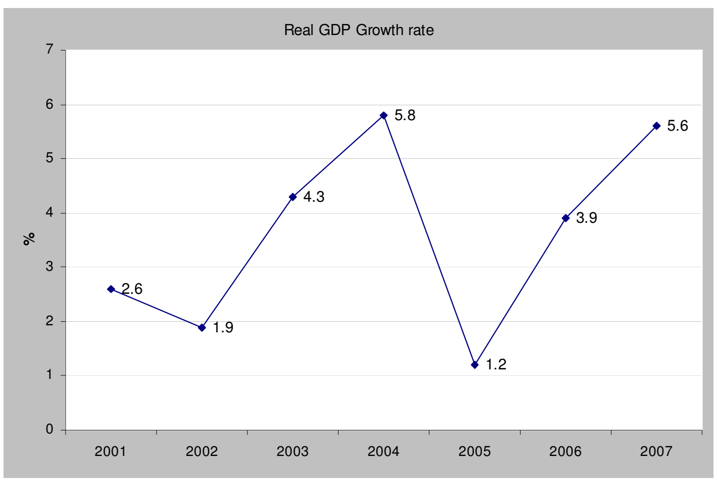
In the 1970s the country decided to replace its import substitution with export-oriented development. This was largely driven by the acute need to widen the narrow economic base and to absorb the country's increasing labour force. Mauritius opened up the country for trade, streamlined the exchange rate, and welcomed foreign investors. Relying largely on its international trade quotas, Mauritius embarked on an ambitions plan of attracting investors to the country. Concessions to create the establishment of Export Processing Zones (EPZ), administrative and financial incentives, expansion of tourism and financial industries were central to the developmental strategies used during this period.

During the last three decades Mauritius economy has grown on average at a rate of over 5 percent compared with less than half this rate for all of Africa (Sacerdoti, et al, 2005). The export earnings from manufacturing which constituted only 3 percent in 1971, overtook the sugar exports for the first time in 1986, reaching 53 percent of total export earnings. By the year 2000, the contribution of manufacturing to the total export earnings amounted to over 70 percent.

By the year 2006, the country has achieved relatively good success in terms of diversifying its economy. Currently, the country's economy is largely export driven with the main export commodities being sugar, textiles and clothing – and services exports in tourism, and financial services. This export led growth had largely transformed the country from a mono-crop economy to an upper-middle income country (GDP per capita of US$5807, in 2006) with a high Human Development Index (the highest among sub-Saharan Africa).

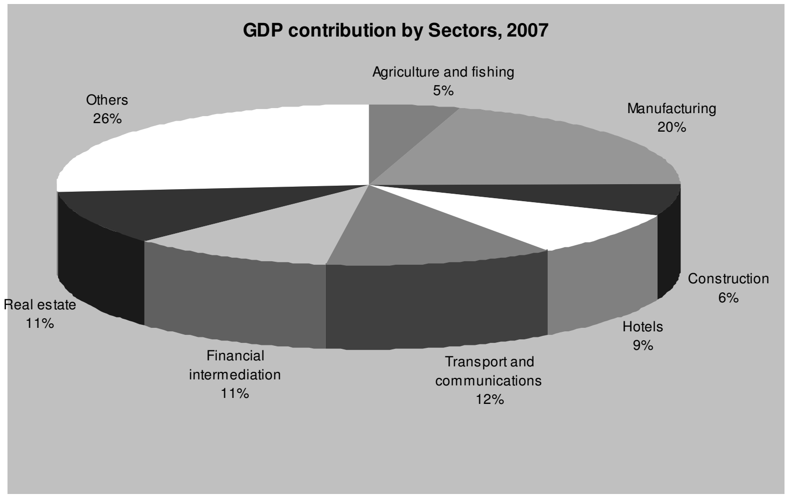
Recent Economic Developments

After over two decades of continued robust growth, the country entered a phase of lackluster performance from the year 2000 until 2006. During the past seven years the country's economy has in fact grown at an average annual rate of only 3.3 percent. This is largely attributable to the preference erosion, following multilateral liberalization of trade in textile and clothing items, and the reform of the EC sugar regime, together with soaring international oil prices.



Source: Central Statistics Office, Mauritius

However, signs of recovery emanated in the years 2006 and 2007 when the economy grew by 5.6 percent and 3.9 percent respectively. This is largely attributable to the services sector and the recovery of the textile industry.



Source: Central Statistics Office, Mauritius

The services sector, dominated by the financial services and tourism, is the most important in terms of contribution to GDP. Manufacturing dominated largely by textiles and clothing account for about a fifth of GDP while sugar remains a leading agri-industry. The fisheries sector remains relatively small with depleting resources. The Government, however, is in the process of promoting the development of seafood industry and value-added fisheries.

Despite the recovery in the last two years Mauritius remains vulnerable to external shocks, including the high oil and commodity prices, and possible further weak performance in the sugar sector (AfDB/OECD, 2008, p.431).

3.2. STRUCTURE AND INSTITUTIONAL SETUP OF ECONOMIC AND COMMERCIAL DIPLOMACY

A multitude of agencies operating as direct government agencies; autonomous and statutory bodies; and parastatal agencies operating as public-private partnerships are engaged in the conduct of the country's affairs in the gamut of economic and commercial diplomacy.

Ministry of Foreign Affairs, International Trade and Cooperation

In addition to the normal consular and diplomatic duties and responsibilities of the Ministry, it has within it the following specialized units working on matters relating to the trade and investment (MFAITC, 2008)

1. The international trade division - the division's primary area of work is in formulating the country's policies with regard to trade related matters; addressing the country's concerns at regional and multilateral trading arrangements and global trading rules and procedures at organizations and forums such as the WTO, ACP-EU, SADC, COMESA and IOC.
2. The industrial property office - The unit's primary focus is on ensuring that the obligations pertaining to the protection of industrial property rights undertaken by the country in relation to various conventions and agreements it has entered to are adhered to by various stakeholders within the country.

Missions and Honorary Consular Representations

Mauritius has missions and consular representations in the following countries.

<table>
<tr><th>Bilateral Missions</th><th>Honorary consular representations</th></tr>
<tr><td>1. Addis Ababa, Ethiopia
2. London, U.K
3. Antananarivo, Madagascar
4. Maputo, Mozambique
5. Beijing, China
6. Moscow, Russian federation
7. Berlin, Germany
8. Mumbai, India
9. Brussels, Belgium
10. New Delhi, India
11. Cairo, Egypt
12. Canberra, Australia
13. Paris, France
14. Pretoria, south Africa
15. Islamabad, Pakistan
16. Rome, Italy
17. Kuala Lumpur, Malaysia
18. Washington, U.S.A</td><td rowspan="3">1. Australia(south Australia)
2. Australia (western Australia
3. Australia (Queensland
4. Australia (Victoria)
5. Australia (Sydney and new south Wales)
6. Austria
7. Canada (Québec)
8. Canada
9. Comoros
10. Czech republic
11. Cyprus
12. Denmark
13. Finland
14. France (Marseilles)
15. France (ile de la réunion)
16. Germany
17. Luxembourg
18. Greece
19. Hong Kong
20. India (Mumbai)
21. India (Chennai)
22. India (Kolkata)
23. Indonesia
24. Israel
25. Israeli
26. Italy(Milan)
27. Italy (Rome)
28. Japan
29. Jordan
30. Kenya
31. Korea
32. Lebanon
33. Monaco
34. Netherlands
35. New Zealand
36. Norway
37. Oman
38. Pakistan (Karachi)
39. Pakistan (Lahore)
40. Poland
41. Russian federation
42. Saudi Arabia
43. Senegal
44. Seychelles
45. Singapore
46. South Africa
47. Spain
48. Sri Lanka
49. Sudan
50. Sweden
51. Trinidad
52. U.S.A (Arizona)
53. U.S.A.(Los Angeles)
54. U.S.A (San Francisco)</td></tr>
<tr><th>Multilateral missions</th></tr>
<tr><td>1. Permanent mission to the united nations, New York
2. Permanent mission to the united nations office in Geneva
3. Permanent delegation of Mauritius to UNESCO ,Paris
4. Permanent mission of Mauritius to African Union ,Adis Ababa
5. Permanent mission of Mauritius to European Union ,Brussels</td></tr>
</table>

Foreign missions of Mauritius are actively engaged in the area of economic diplomacy. The bilateral briefs to foreign diplomats include, among others, work on enhancing economic and trade ties with host countries. Mauritius has also made intensive use of honorary consulates. These have proved to be a very cost-effective method for minimal representation - not only for consular needs but also for some limited economic diplomacy and promotional activities in the target countries.

Ministry of Tourism, Leisure & External Communications (MTLEC) - The Ministry's primary responsibility is in the area of promoting the country's tourism sector. In addition to its promotional role, the Ministry is also mandated with providing the legal and operational framework to plan, monitor and regulate tourism activities in the country.

The ministry also has the following agencies operating under its auspices.

The Tourism Authority - a statutory body that works under a board which comprises of public and private sector members, functions primarily in the areas of planning and coordinating sectoral policies and supervising and regulating the operations of tourist enterprises.

Mauritius Tourism Promotion Authority (MTPA) - another statutory body established under the Ministry to engage in the promotional aspects of the tourism industry. MTPA is engaged, among others, in activities such as conducting advertising and promotional campaigns, participating in tourism fairs and organizing promotional activities in the country and overseas.

***The Board of Investment (BOI)* -** BOI, the Mauritius government's leading agency in investment promotion and attracting inward investment maintains offices in London, Paris and Mumbai and provides, among others, the following services.

- Counseling on investment and providing project specific information on opportunities in Mauritius
- Match-making with local companies to facilitate joint venture partners

- Facilitating the process of applications, permits and licenses from the concerned agencies

Similar in structure to the Tourism Authority, the BOI also has the advantages of private sector participation as board comprises of members from both private and public sector representatives. The board, chaired by a representative of the private sector, maintains the country's main investment information portal (BOI, 2008).

The Mauritius Freeport which is being developed in the country as an integrated duty-free logistics, distribution and marketing hub for the region, is also under the BOI.

Enterprise Mauritius – a partnership between the government and industry works as a supporting organization for Mauritian businesses intending to expand into regional and international markets in their business development and export promotion. The activities of the organization which are primarily concentrated in the two areas of export promotion and associated capacity building for Mauritian companies includes providing information, advice and capacity building in the areas of business assessments; technology and skills; regional and international market intelligence; marketing strategy and market access, among others (Enterprise Mauritius , 2008).

Mauritius Chamber of Commerce and Industry **-** Established in 1850, the Chamber of Commerce is the oldest non-profit private sector organization in the country. The organization was established during the time of the British administration, mainly as a channel of representation and consultation and conflict resolution among the business community.

Over the years the organization has evolved to become an organization at the forefront of promoting the business interests of the country. It also maintains strong ties with the Government and has forged strong links and affiliations with inter-governmental and private organizations internationally, in its drive to promote the commercial interests of Mauritius (MCCI, 2008).

Joint Economic Council (JEC)- The joint economic council of Mauritius is an important institution established in the early 1970s, primarily as a coordinating body for the private sector. The organization plays a crucial role in providing a forum for "sharing new ideas as well as developing shared views of problems and how best to pursue the country's economic development" (Stoler, WTO).

JEC is mainly engaged in the following activities.

- Representing and promoting private sector interests and free enterprise
- Facilitating joint consultation among private sector
- Liaising on matters relating to the developmental matters with the government and private sector
- Making representations in relation to measures affecting the private sector

In addition, the JEC also plays a crucial role in representing Mauritius in dialogue with foreign business chambers and industry associations.

3.3. STRUCTURE AND NATURE OF ECONOMIC AND COMMERCIAL DIPLOMACY

3.3.1. FOREIGN POLICY AND ECONOMIC DIPLOMACY

The Foreign policy of Mauritius has largely driven by its political heritage and dependence of western markets. However, over the recent years the country has put great emphasis on strengthening its ties with Africa and the region through its active participation in SADC, COMESA and OIC and other regional blocs (OECD/AfDB, 2002, pp 201) and pursues close economic and political ties with South Africa - its main trade partner in the region. In addition to maintaining its colonial and cultural ties, Mauritius' has pursued a foreign policy committed to democracy[34] and "pro-active, adaptable and pragmatic economic and political diplomacy with a view to achieving sustainable economic growth and development" (MFAITC, 2008). Based on the country's cultural and ethnic ties, Mauritius also maintains close ties with India and China. Mauritius has also been a strong advocate for the interests of Small Island Developing States (SIDS) at various international fora such as WTO, the Barbados Programme of Action (BPoA) and Mauritius Strategy for Implementation (MSI) 2005 (SIDS Net, 2008).

3.3.2. ENGAGEMENT IN BILATERAL TRADE INITIATIVES

WTO document WT/TPR/G/198 (19 March 2008) identifies the following as the major engagements of Mauritius in the area of trade diplomacy.

India - Mauritius has a double-taxation avoidance treaty - the Indo Mauritius Double Taxation Avoidance Treary (DTAT) signed with India in 1983. Under the DTAT Mauritius residents are exempted from Capital gains tax in India. The DTAT is discussed in greater detail in section 4.

The country is also working towards a Comprehensive Economic Partnership Agreement (CEPA) with India. Under the CEPA a preferential trading agreement was completed in 2006.

Pakistan - a Preferential Trading Agreement (PTA) was signed between Pakistan and Mauritius in mid 2007. Under this PTA the two countries have agreed on tariff concessions

[34] Analysis by academics from Kennedy School of Government at Harvard University presented in the inaugural report of the 'Ibrahim Index of African Governance', ranks Mauritius as the best run country in sub-Saharan Africa. BBC News, [online] 25 September 2007 Available from http://news.bbc.co.uk/1/hi/world/africa/7010846.stm [Accessed 18 June 2008]

covering more than 100 tariff lines and it is envisaged that this would subsequently expand following talks at the level of the Joint Working Group (JWG).

United States – In September 2006, Mauritius signed a Trade and Investment Framework Agreement (TIFA) with the United States. The objective of the treaty was to enhance exting trade relations between the two countries. The TIFA is also expected to provide an opportunity to Mauritius to work on some pressing trade issues such as moving the WTO Doha Development Round forward and on implementation issues concerning the African Growth Opportunity Act (AGOA). Mauritius and US are working on the conclusion of a Bilateral Investment Treaty (BIT).

China – Mauritius and China are expecting to enhance their long standing economic ties through an Economic and Trade Cooperation Agreement.

Brazil and Russia – Mauritius government is also exploring the possibility of concluding Comprehensive Economic and Trade Cooperation Agreement (CETCA) with the two resource rich countries of Brazil and Russia.

Regional and Multilateral Trade Initiatives

SAARC – In December 2007, Mauritius achieved observer status at the South Asian Association for Regional Cooperation (SAARC). The primary objective of this is to foster better economic collaboration with members of SAARC region.

ASEAN - With the objective of enhancing the economic collaboration with countries from the region, Mauritius has also sought observer status in the Association for South East Asian Nations (ASEAN).

OIC – Mauritius has also sought observer status with the Organization of the Islamic Conference (OIC), the association of 56 Islamic states promoting solidarity in economic, social, and political affairs among members.

3.3.3. ENGAGEMENT IN MULTILATERAL TRADE ORGANIZATIONS AND INITIATIVES

Mauritius is proactively engaged in the working towards creating better enabling environments to facilitate trade. In this regard, the role of Mauritius through the following organizations in trade issues such as tariffs and non-tariff barriers etc are are noteworthy.

1. Southern African Development Community (SADC) – SADC's Trade Protocol aims to achieve a Free Trade Area (FTA) by the year 2008 under which 85 % of trade among members countries is envisaged to be made duty free. Although the country has not been able to take full advantage of the Trade Protocol, owing to several constraints, Mauritius has also been a strong advocate of SADC FTA as a stepping stone towards regional integration in the form of a customs union.

2. Common Market for Eastern and Southern Africa (COMESA) – COMESA which came into being in 1993 is the successor to the Preferential Trade Area (PTA) for Eastern and Southern Africa in which Mauritius was a founding member. The primary objective of establishing COMESA was to work towards an FTA among its 19 members[35]. All members of COMESA, with the exception of Swaziland, offer preferential access to their markets to all member states.

3. Indian Ocean Rim Association for Regional Co-operation (IOR-ARC) – IOR-ARC launched in Mauritius in 1997, is a grouping of nineteen Indian Ocean-rim states36. The groupings' primary aim is to facilitate trade and investment in the region. Although the grouping is seriously challenged with reconciling IOR-ARC PTA with the trade regime of the existing Free Trade Areas (FTAs) and Regional Economic Communities (RECs) in the region, the forum remains live.

4. The New Partnership for Africa's Development (NEPAD) is an organization adopted in July 2001 with the objective of developing an integrated socio-economic development framework for Africa.

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[35] Brundi, Comoros. D.R Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan. Swaziland, Uganda, Zambia, Zimbabwe

[36] Australia, Bangladesh, India, Indonesia, Iran, Kenya, Madagascar, Malaysia, Mauritius, Mozambique, Oman, the Seychelles, Singapore, South Africa, Sri Lanka, Tanzania, Thailand, the United Arab Emirates, and Yemen

3.3.4. GATT TO WTO: ISSUES AND ENGAGEMENTS

As a signatory to the GATT, Mauritius was a founding member of the WTO. Mauritius has been participating proactively both in the Uruguay Round and the Doha Round under WTO.

Implementation of Uruguay Round Agreements

Mauritius has been actively following the Uruguay Round Agreements. As a measure to increase the transparency of the country's trade regime, Mauritius has been responding to its notification obligations (WTO 2007). Further the country has also been taking steps to further improve the already strong public-private discussion and partnership in formulating its trade policy.

Implementation Issues on the Uruguay Round

Area	***Action***
TRIMS related areas	○ Notification obligations - Regular notifications made ○ Public private consultative process in trade policy formulation ○ Enquiry points for sanitary and phytosanitary measures (SPS), Technical Barriers to Trade (TBT) and Trade in Services operational since 1995 ○ The removal of quantitative restrictions ○ Lowering of maximum and average tariffs ○ Abolition of the import levy and export tax on sugar ○ Removal of a large number of price controls
TRIPS related measures	○ The Protection against Unfair Practices (IPR) Act in force since 2002 ○ Effective action taken against IPR infringement.

	◦ Copyrights Act in force since 1997The Patents, Industrial Designs and Trademarks Act in force since 2002 ◦ The Layout designs (topographies) of Integrated Circuits in force since Act 2002 ◦ Geographical Indications Act in force since 2002
Industrial property	◦ Patents, Industrial Designs and Trademarks Act 2002 ◦ Unfair Practices Act ◦ Trade Remedies Bill 2008

Source: Government / WTO WT/TPR/G/198 (19 March 2008)

The Doha Development Round: Issues and Engagements

The country has been working at the WTO on ensuring that its concerns are addressed at the WTO negotiations. Mauritius concerns at the WTO are characterized by, among others, exiguity of the country's market, vulnerability to natural disasters and its geographical isolation.

Mauritius is actively working on the Work Programme for Small Economies in collaboration with its like minded groupings. Loss of market access due to the loss of preferential trading arrangements is one of the main concerns Mauritius aims to address under this work programme.

Mauritius is also working on the extension of support facilities for the small and vulnerable countries. This work is primarily aimed at enabling the vulnerable countries to fully participate and integrate into the multilateral trading system.

Issue	Work
Advocating for small and vulnerable countries	advocating for fair and rules-based multilateral trading system which would be balanced, inclusive and equitable
Aid for Trade initiative	Involved in framing the initiative
Aid for Trade Task Force (AFT)	Engaged in representing the ACP Group
Market Access	o Working with like minded groupings to ensure ways of maintaining market access o Working to Aid for Trade (AFT) to ensure that erosion of trade preferences are offset by AFT o Aid for Trade funds are able to meet the funding needs to the reform programme

Source: WTO Trade Policy Review WT/TPR/G/198, March 2008, WTO

For a small country, Mauritius has acquired substantial expertise in terms of human resource capacity over the last thirty years. This is largely because of the country's proactive engagement in various international trade fora (Bilal and Szepesi, 2007).

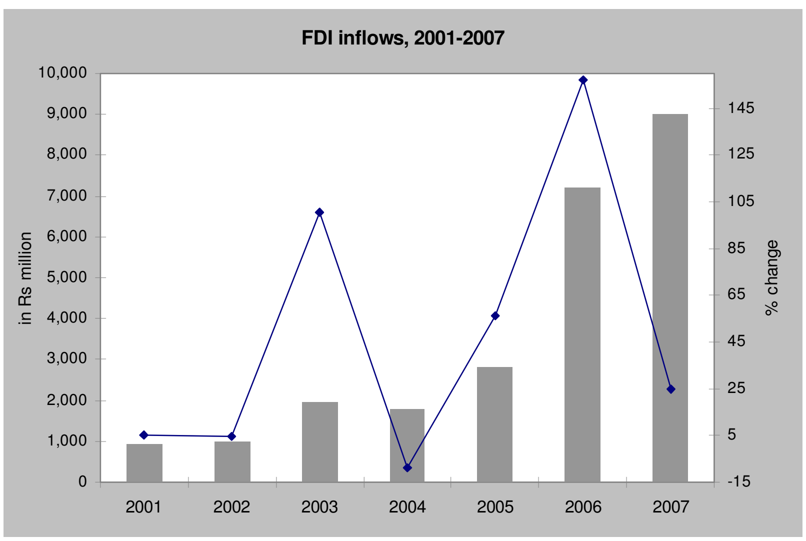
Bilal and Szepesi (2007) states the following as Mauritius' main WTO coalition groupings.

WTO coalition groupings	Nature of participation	**COMESA (20)** (number of members in coalition)	**SADC (14)** (number of members in coalition)
G90	member	19	14
ACP Group	member	18	14
Africa Group	member	19	14
LDCs	member	6	6
Friends of Multifunctionality	member	1	1
G10	member	1	1
G33	member	5	6
Like Minded Group (LMG)	(observer)	4	1
SIDS	member	1	1
SVE	member	3	1
WTO member	member	15	13

3.3.5. FOREIGN DIRECT INVESTMENT AND ECONOMIC PARTNERSHIPS: POLICIES, AND APPROACH

A stable flow of foreign investments is one factor that that has contributed to the transformation of the Mauritius from a small mono-crop economy in the early 1970s to a multi-sector middle- income economy within two decades.

The enactment of the Export Processing Zone Act in 1970 which aimed to attract small to medium investors from Asia to locate textile and garment operations in Mauritius to take advantage of the preferential market access provided by Europe and the United States, initiated the FDI inflows to the country. The other industry that substantially attracted FDI into Mauritius was the tourism industry (AfDB/OECD, 2007, p.432).



Source: Bank of Mauritius Monthly Statistical Bulletin

UNCTAD (2001) stated that the technological know how the foreign investors brought in with the investments played a more important role than the capital flow itself. The study calls Mauritius "one of the few countries to successfully deploy FDI to maximize the opportunities of preferential trade status, notwithstanding limited supply capacities and remoteness from world markets”. It also identifies a pattern of Mauritian firms making outward investments in low-cost destinations during the 1990s and taking the lead in outward investment in Africa.

Throughout much of the recent past the FDI has been flowing to Mauritius mainly from France, India, South Africa, and the U.K while outward Mauritian investments have been flowing to Mozambique, Maldives, Mauritius and Seychelles (State Department, 2007).

3.3.5.1. FOREIGN INVESTMENT POLICY

The Mauritian government has been generally facilitating and proactively promoting private sector investment and has continued to complement the private sector (Blin, 2004, p.377). The country has welcomed and proactively sought FDI by providing cross sector incentives. The 2008 version of the World Bank’s report ‘Doing business 2008’ ranks Mauritius 27th out of 178 countries on the ease of doing business. Mauritius was in fact ranked as the ‘most business friendly country’ in Africa.

In terms of attractions to foreign investors, Mauritius offers a good range of incentives such as a low tax rate, lack of foreign exchange control, a progressive and enabling legislative environment including modern copyright laws. The country has generally encouraged FDI in sectors such as manufacturing, hotel development and management, financial and business services and regional headquarters.

FDI is not encouraged in agriculture and in services such as wholesale and retail trade, engineering and construction while FDI is restricted in tourism. The Government maintains a neutral approach towards FDI in commercial banking.

Administrative delays, the poor quality of many services in Mauritius such as airfreight, telecommunications and insurance continume to be some constraints for FDI in Mauritius (UNCTAD, 2001).

3.3.5.2. TRADE, INVESTMENT AND ECONOMIC PARTNERSHIP AGREEMENTS

An important strategy that has worked for Mauritius in attracting investment has been to pursue various bilateral and multilateral trade agreements. Mauritius has signed Double Taxation Treaties (DTAs), Investment Promotion and Protection Agreements (IPPAs) and Preferential Trade Agreements (PTA) with several important trade and investment partners. Currently, the country has 32 effective DTAs, 25 IPPAs and 2 PTAs.

Mauritius' Investment and Trade Agreements and Treaties

Double Taxation Avoidance Treaties (DTAs)	Investment Promotion and Protection Agreements (IPPAs)	Preferential Trade Agreements (PTA)
1. Barbados 2. Belgium 3. Botswana 4. China 5. Croatia 6. Cyprus 7. France 8. Germany 9. India 10. Indonesia 11. Italy 12. Kuwait 13. Lesotho 14. Luxembourg 15. Madagascar 16. Malaysia 17. Mozambique 18. Namibia	1. Benin 2. Burundi 3. Cameroon 4. China 5. Comoros 6. Czech Republic 7. Ghana 8. India 9. Indonesia 10. Madagascar 11. Mauritania 12. Mozambique 13. Nepal 14. Pakistan 15. Portugal 16. Romania 17. Rwanda 18. Senegal 19. Singapore 20. South Africa 21. Swazilan 22. Sweden	1. Preferential Trade Agreement Between The Republic of Mauritius and The Islamic Republic of Pakistan 2. Interim Economic Partnership Agreement between ESA and EU

19. Nepal 20. Oman 21. Pakistan 22. Russian Federation 23. Rwanda 24. Senegal 25. Singapore 26. Sri Lanka 27. South Africa 28. Swaziland 29. Sweden 30. Thailand 31. United Kingdom 32. Zimbabwe 33. Uganda	23. Switzerland 24. Chad 25. Zimbabwe	

Source: BOI, 2008

3.3.5.3. ECONOMIC PARTNERSHIP AGREEMENT (EPA)

In 2000, 15 EU countries and the ACP group of 77 signed a new 20-year trade and economic cooperation agreement in Cotonou, Benin. The agreement, known as the Cotonou Agreement called for changes in the longstanding relationship between ACP and EU, to reflect the changing times. Under the The Cotonou Agreement, the preferences given the ACP countries under the Lomé Conventions that existed since the 1970s, was to end in 2009.

However, while the Cotonou Agreement was in effect the WTO rules which came in with the formation of the WTO in 1995 meant that the trade preferences were to be eliminated under the new trade liberalizing rules. Consequently, EU and ACP began negotiations on their reciprocal "Economic Partnership Agreements" (EPAs) and started working on concluding their respective agreements before the end of 2007 when a WTO waiver for existing EU preferences was to expire. A number of smaller ACP members were, however, reluctant to join the arrangement as (a) ACP governments would lose import tariff revenues as the arrangement was reciprocal (b) the reciprocity of preferences would mean that industries in the ACP countries would be subjected to competition from EU businesses (Langhammer and Lücke, 2000).

As the agreements were not completed on the targeted date of 2007 with the ACP countries, Mauritius together with Madagascar, Comoros, Seychelles and Zimbabwe reached an interim agreement with EU on trade in goods provisions, and on issues where agreement had been reached. Mauritius signed this agreement in December 2007. Under this arrangement Mauritius is to liberalise about 95% of its products within the next 15 years after a moratorium of five years. On return, EU is to provide duty free quota free access on all products with the exception of sugar and rice. Sugar and rice are subject to a longer transition period. This agreement also provides for more flexible rules of origin on several products including textiles and clothing.

3.3.5.4. CROSS-BORDER TRADE AND BUSINESS DEVELOPMENT MISSIONS

The Mauritius Chamber of Commerce and Industry (MCCI) has plays a vital role in organizing business and trade missions overseas. The recent years has the organization has focused on coinciding business missions with high-level political visits to specific countries, instead of missions organized at the level of trade organizations. This is being pursued as trade missions have proved to be more successful when pursued "within the wider perspective of economic diplomacy." (MCCI Chamber News, 2004).

The Mauritius Tourism Promotion Authority, in the meantime, continues to undertake promotional activities for the country's tourism industry. MTPA conducts advertising and promotional campaigns; participates in tourism fairs and organizes promotional activities at various tourism and travel related events and tourist generating markets.

3.4. KEY ISSUES IN ECONOMIC AND COMMERCIAL DIPLOMACY: BILATERAL AGREEMENTS, MULTILATERAL TREATIES AND THEIR EFFECTS ON KEY ECONOMIC SECTORS

3.4.1. INDO-MAURITIUS DOUBLE TAXATION AVOIDANCE TREATY

The Indo-Mauritius Double Taxation Avoidance Treaty (DTAT) signed in 1983 has often been quoted as an example in international trade treaties. Under the treaty no resident of Mauritius were to be taxed in India on capital gains made on the sale of shares of Indian companies by investors resident in Mauritius.

The treaty did not have any affect until 1992 when India opened the country for foreign financial investors. During the same year Mauritius also introduced an Offshore Business Activities Act which permitted foreigners to register companies in the country for overseas investment. Foreign investors wanting to invest in the Indian economy's boom quickly routed their investments through Mauritius as this exempted them from capital gains tax completely.

According to estimates "nearly 40% of the $45-50 billion Foreign Direct Investment (FDI) into India between 1991-2006 came via Mauritius". This was in addition to an estimated USD40 billion that foreign institutional investors put into India through the Mauritius route between 1993-2005. It is believed that a substantial part of this accounts for 'round-tripping' by Indians to re-route their money through Mauritian domiciled companies (Times of India, Feb 27, 2008).

As more foreign companies used the Mauritian route, the DAT has come under scrutiny in India in the recent past. According to Indian tax officials, in terms of the revenue forgone on account of the capital gains exemption for 'treating shopping' investors, the treaty had cost India approximately USD 900 million to 1 billion annually for some years. As concerns grow in India, the Indian authorities are threatening to clamp down on ‘tax havens’ which include mainly Mauritius and Seychelles as ‘treaty shopping’ investors use these destinations to channel their funds to India (The Herald, June 21, 2008).

As a measure to prevent the misuse of the DAT Indian officials have sought to incorporate some provisions to the treaty that would enable only *bona fide* business to obtain the tax exemptions. However, in the first quarter of 2008 Indian government shelved the plans of amending the DAT as the offer was rejected by Mauritius.

3.4.2. THE SUGAR SECTOR: WINDFALL GAINS FROM THE SUGAR PROTOCOL

“Sugar Diplomacy[37]” has been one of the most important aspects of Mauritian interactions with the outside world throughout its post-colonial history. Long before independence, in 1953, Mauritius had given a guarantee to the UK under the Commonwealth Sugar Agreement (CSA). The agreement ended when UK entered the then European Economic Community (EEC) and the ‘Sugar Protocol’ (SP) a part of the Lomé Conventions of 1975 was signed with the EEC. The four successive Lomé Conventions, offered not only preferential, non-reciprocal access to EU markets for most ACP exports.

Under the SP arrangement, ACP sugar-producing countries were given a special trade preference by EEC. Although most sugar producing commonwealth countries were encouraged by the UK to enter into the agreement under which the participating countries would be guaranteed access to the European market on terms similar to those that they have

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[37] The country’s former minister of Foreign Affairs, International Trade and Cooperation, Mr Madun Dulloo, speaking to diplomats on July 14th 2007, on the concerns of his country’s sugar industry stated “sugar diplomacy would be an integral and important aspect of the Mauritian foreign policy”.

enjoyed previously with the UK, many countries did not do so, as the international sugar prices were rising at the time of the Lomé Convention. (Sacerdoti, et al, 2005, pp 20-22). Mauritius, expecting that the sugar prices are unlikely to remain at the level existing then, got an increase of over 100,000 metric tons of sugar to its quota, gaining almost 40 percent of the quota for the 16 ACP countries. By doing so Mauritius opted for guaranteed quotas which were at a lower price against a backdrop of prevailing high sugar prices in the international market.

The bet Mauritius took turned out in their favour when international prices fell below that of the level guaranteed by Mauritius to the EU. Beginning from a year after the SP was signed, with the exception of a single year, the European preferential price was higher than the international sugar prices.

In July 1995 EEC's successor EU, ratified the Special Preferential Sugar Agreement (SPSA) under which EU was to import raw sugar cane from the ACP countries for a period of six years. Under this agreement the prices were set at 85 percent of the guaranteed price under SP.

Mauritius achieved a windfall gain under both the arrangements on account of the difference between the preferential prices and the international market prices for sugar. The benefit to Mauritian economy on account of this was estimated to be around USD 3.5 billion or over 6 percent of the Mauritian GDP. Eustace Davie notes that the Mauritian sugar producers obtained an estimated four billion euro subsidy between 1975 and 2005 on account of the arrangement (Enterprise Africa, 6th May 2007).

While the Cotonou agreement was in place, WTO rules started to take effect and some developing countries such as Brazil and India urged EU to comply with the WTO rules on the grounds that they were not being given a level playing field in the market. As a result EU subsequently gave a commitment to do away with the ACP preferences by 2007.

3.4.3. TEXTILE AND CLOTHING INDUSTRY

Over the recent years the textile and clothing industry has contributed to over 10percent of the GDP while at the same time providing employment for over 80,000 people.

The country's economic success in the textile and apparel industry, to a large extent, has been attributable to the preferential trading system Mauritius has enjoyed since 1970s. Under the preferences given by the EU under the Multi Fibre Agreement of 1973 and the Lomé Convention of 1975, Mauritius had preferential access to EU and US markets. During this period foreign investors, particularly from Hong Kong, encouraged by the ethnic Chinese minority of Mauritius, established factories in the country to get around the quota limits placed on them by the MFA. This enabled Mauritius to obtain easy transfer of technology and new skills. And textile operations, as a result, began successfully importing raw material and exporting finished products (RATE, 2005). However with the reform and liberalization programmes that followed the Cotonou and the WTO, the preferences were eroded at the end of 2004.

When the preferential market access ended at the end of 2004, Mauritius' textiles industry was badly hit, losing over 25,000 jobs within less than a year. Several textile companies either closed down or moved to countries such as Madagascar where labour costs were cheap. The output has declined markedly, as a result, in 2006 and 2007.

Rosunee (2005) identified competition from low cost producers such as China, Vietnam, Bangladesh etc against a backdrop of eroding trade preferences; the over-concentration of Mauritian textile and clothing exports towards the European Union (65% in 2000); and depreciating Euro against the US Dollar which brought serious financial crises to the Mauritian textile producers at the beginning of the millennium, as root causes for this down turn.

A further blow to the Mauritian textile industry came from the EU with their trade liberalization measures. Under the Lomé conventions and Cotonou Agreements, Mauritius was allowed to use double transformation which involves fabric and apparel production, but EU rules changed to allow only a single transformation. This meant that Mauritius had to compete on an equal footing with larger and more competitive countries using fabric from lower-cost countries such as China. This development seriously hindered the efforts of Mauritian textile and apparel companies that had made a move to move upstream by becoming vertically integrated units, in order to become competitive.

A Mauritius diplomat this author spoke to revealed that during this time of difficulty, Mauritius government used a number of channels and means to work on securing favourable conditions for the country's garment producers.

Firstly, the Mauritius government and Mauritius-U.S. Business Association (MUSBA, 2006) tried to lobby with the US government to get LDC derogation for Mauritius to use third-country fabric[38] under the AGOA. This argument was based on the fact that, AGOA allowed the African LDCs to use more available, less expensive yarns and fabric from any third country. However, the non-LDCs, which included Mauritius, were only allowed either U.S. or

[38] The privilege to use third country fabric was usually extended to LDCs by the US

African-origin yarns/fabrics, which proved to be a serious competitive disadvantage and led to marked downturns in Mauritian fabric exports. Mauritius' lobbying for the LDC derogation under AGOA is to continue even in 2008 (African Coalition for Trade, Inc).

Secondly, Mauritius had been lobbying within the WTO with likeminded countries to counter threats from China. As a founder member of the Global Alliance for Fair Textile Trade (GAFTT), Mauritius has been at the forefront of the "Brussels Communiques" and the "Istanbul Declaration," which calls to counter threats from China's use of "illegal trade practices, such as currency manipulation, state subsidies, tax rebates and the deliberate promulgation of non-performing loans" to "wipe out textile and apparel production in dozens of developed, developing and least developed countries around the world" (GAFTT).

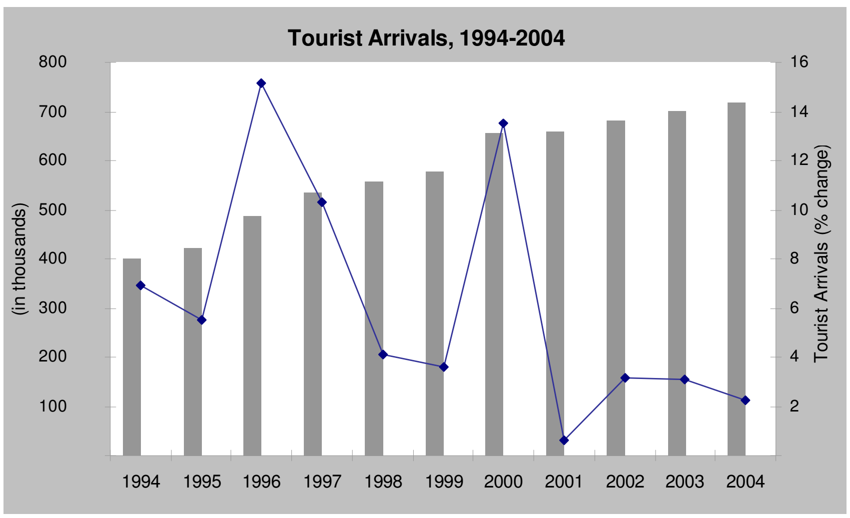
Thirdly, Mauritius has been working on promoting trade within the SADC, COMESA and IOC and proactively working on regional integration as a means to overcome challenges and gain international competitiveness (RATE, (2005).

Fourthly, Mauritius had also worked closely with EU to maintain the trade preferences. A breakthrough came with the signing of an interim trade deal with the EU in December 2007. According to this interim arrangement Mauritius companies were allowed to use material imported from countries outside EU or ACP to manufacture textile products for export to the European Union (EU business)

3.4.4. TOURISM AND BRAND MAURITIUS

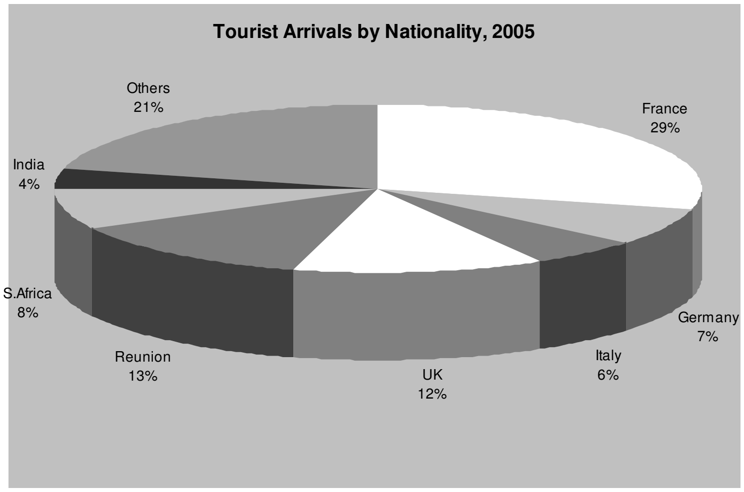
Despite the problems it encountered during the initial period on account of the country's geographical isolation, Mauritius has capitalized well on its charming natural beauty and the tropical climate, over the last three decades.

In the early 1970s Mauritius received only around 25,000 tourists annually. Tourist arrivals reached 719 thousand in 2004 and the tourism and related activities contributed to around 10percent to the country's GDP. Direct employment in the tourism sector accounted for over 12,000 with many more working indirectly. By the end of 2007 there were around 100 hotels in the country.



Source: Central Statistics Office

As Mauritius did not have the geographical area and the other attractions of countries in the region such as Kenya or South Africa, the country has opted to capitalize on its strengths - the country's natural beauty, its social and political stability and the people to develop its tourism industry



Source: Central Statistics Office

In terms of the tourist generating markets, France, Reunion, UK, Germany, South Africa and Italy are the main countries of tourist origin.

Based on the lessons from a period of down turn in the tourism industry during the period 1972-1982, the country has adopted a policy of focusing on up-market tourism on the island. The concerns highlighted in the aftermath of this period included issues related to environmental and social impacts of tourism as the natural beauty of the island was being increasingly undermined; and ethical concerns about the impact on local values etc owing to the lifestyles of the tourists (English, 2002, p.6).

As a result of these concerns, Mauritius has put in place several measures for sustainable development of tourism. An important initiative in this regard has been the 'Social Responsibility Fund' to which developers are required to contribute USD1million for each developed area. Another initiative is developing stopover sites at localities en route to tourist attractions as a means to spread the benefits of tourism to the locals and promote interactions (Lee, 2002).

A recent development that has served well for the country is the development of Integrated Resort Schemes (IRS). Much of the private investment flow the country has seen in the last two years was attributable to developments in the IRS projects (State Department, 2006).

3.4.5. FISHERIES SECTOR

Fish, particularly pelagic verities such as tuna, constitute not only an important export item for Mauritius. As the local production is inadequate, Mauritius imported about 50 percent of its consumption need (some 9 400 tonnes in 2002) in addition to raw materials (about 60 000 tonnes of tuna in 2002) for export processing (Jahanger, 2004,).

Canned tuna exports to EU were particularly noteworthy as an export item. By the mid 2000s, Mauritius canned tuna exports of about 25 thousand metric tons represented around 6 percent of the EU's canned-tuna imports. Despite several trade related issues, Mauritius had been able to continue this trend well into 2008 as indicated by the Europe's March 2008 Tuna Market Report (FAO Fish Info Network, 2008). Mauritius in fact dominated the UK canned tuna market – the largest consumer of canned tuna in Europe.

Mauritius had been exporting fish to the EU under Cotonou Agreement trade provisions, which provided preferential market access to ACP countries since the signing of Cotonou. The treaty allowed fish and fish products from ACP countries that comply with EU's rules of origin to be imported into the EU free of tariffs. The competitive position however, was to be phased out at first by the Uruguay Round and later by the WTO NAMA negotiations. The Asian group led by Japan regarded the preferences given to ACP tuna-canners in the EU market as a violation of the WTO rules. As such EU adopted a middle position on the issue as several EU members (including Germany and Great Britain) offered reduced European customs taxes to tuna imports from Asian countries such as Thailand and the Philippines, causing concern for the potential loss of EU sales among ACP countries.

With the failure of the Doha Round in July 2006, the environment was set for bilateral trade agreements that go beyond WTO commitments. Individual nations started placing greater emphasis on trade liberalisation through bilateral trade agreements than through the WTO's multi-lateral approach.

Mauritius also took the initiative to sign a bilateral interim trade deal with the EU in December 2007, just before the preferential market access was to cease. According to the Mauritius's ambassador in Belgium, the deal " pays special attention to Mauritius's textile and tuna industries (EU Business, Dec 2006)"

Seafood Hub in the making

As Mauritius is facing the decline of its traditional sources of export incomes, the country is working on creating new economic initiatives. An important initiative, in this regard, is the plan to develop Mauritius as a seafood hub.

According to the country's Ministry of Agro Industries and Fisheries, the strategy of the Seafood Hub is on the development of value added fisheries and seafood related sectors including fishing, transshipment, storage and warehousing, light processing, canning, ancillary services by attracting investors.

Mauritius has already achieved some success with the project as the number of foreign vessels and the tonnage of fish transhipped at Port-Louis are on the rise.

The country is also working on entering into fishing agreements with potential partners. Agreements have been signed with the EU, Seychelles and the Federation of Japan Tuna Fisheries Cooperative Associations and Madagascar. A number of MOUs with countries such as Ireland, Iceland, Greece, Norway, Spain, Kenya and Egypt are also being pursued.

Mauritius is also actively participating in fisheries organizations such as Infofish, Indian Ocean Tuna Commission (IOTC), the Convention for the Conservation of Antarctic Marine Living Resources, (CCAMLR), and the South West Indian Ocean Fisheries Commission (SWIOFC). International cooperation in fisheries is also being pursued through the SADC, COMESA, and IOR-ARC.

3.4.6. FREE PORT

The Mauritius Freeport established in 1992 as a customs-free zone is a project that is envisaged as a duty-free logistics, distribution and marketing hub targeted for re-export. The project is being marketed primarily by offering a package of incentives - preferential access to markets, integrated logistical facilities and value added services to the investors. Through the country's membership in the COMESA, SADC, and IOC, Mauritius offers preferential access to a market of 425 million consumers, representing an import potential of over USD 100 billion (Mauritius Freeport, 2008). This works as an attractive proposition for aspiring investors at the Freeport.

By the end of 2006, over 350 companies, engaged in activities such as re-export, transshipment, minor processing and assembly, operated in the Free port area (Mauritius Freeport). The main products re- exported included machinery and electronic equipment, textiles, seafood, chemical and pharmaceutical products while their main export markets were UAE, France, Madagascar, Italy, Reunion Island, Spain, and Japan. The fact that Port Louis was increasingly used by major shipping lines as a regional container transshipment hub, also showed that activity was on the rise at Freeport (US State department 2006).

4. CHAPTER 4 - CONCLUDING OBSERVATIONS

All microstates are generally characterized by small populations; shortages of natural resources; limited domestic capacities and weak institutional structures coupled with insufficient domestic demand; micro or small sized business entities, vulnerability to natural hazards and external shocks. These inherent characteristics pose serious questions to the socioeconomic and geopolitical viability of such states.

Economic Diplomacy defined as 'the process through which countries tackle the outside world, to maximize their national gain in all the fields of activity, including trade, investment and other forms of economically beneficial exchanges' (Rana, 2007, p.201) provides a means with which microstates could mitigate the multifaceted challenges that they face. In an increasingly competitive world of eroding trade preferences owing to trade liberalization and intense competition among countries to attract FDI, commercial diplomacy which entails services provided usually through 'a diplomatic mission or trade promotion organization to the business community' with the aim of developing 'socially beneficial international business ventures' (Kostecki and Naray, 2007, p.1), albeit costly from the perspective of smalls states, provides a tool for small states to increase their engagement in the wider gamut economic diplomacy.

The engagement of microstates in economic and commercial diplomacy is justified by the success stories from microstates through individual and collective engagements in economic and commercial diplomacy. An example of collective action by microstates is demonstrated by CARICOM under which Caribbean states have pooled their negotiation resources to achieve substantial success through increased bargaining power (Andriamananjara & Schiff, 1998, p.3). The two microstates of Mauritius and Maldives presented as case studies in the study has had considerable success in economic diplomacy. The case of Mauritius has been particularly well documented and provides a fine and concrete example of successful microstate engagement in economic diplomacy.

Some concluding observations on the Maldives.

1. At the time of independence in 1965, Maldives emerged as an isolated and one of the poorest countries in the world with a per capita income of less than USD150. However, by the mid 2000s the country had achieved the highest per capita income in South Asia and ranked high among the developing countries in terms of Human Development Index. The robust economic growth was led by developments in the country's planned and controlled tourism industry, targeted mainly towards high-spending European visitors. However, the country continues to face serious vulnerabilities on account of the inherent weaknesses of being an island economy that relies only on tourism and fishery industries.
2. Although economic and commercial diplomacy were not given much focus under the foreign policy of the country throughout the last four decades, the proactive role of the country's public and private stakeholders in the tourism sector played an important role in representing and promoting the economic interests of the country overseas.
3. The institutional arrangements within the government do not support integration and harmonization of foreign affairs and external economic management. Role confusion, poor coordination and turf disputes that exist among the four different ministries – the Ministry of Foreign Affairs, Ministry of Economic Development and Trade, Ministry of Finance and Treasury and the Ministry of Tourism and Civil Aviation, that operate in the area of foreign affairs and external economic management prevents the country from gainfully utilizing the resources employed in the area.
4. As part of a reform programme the Maldives had been undergoing since 2004, the government committed itself to a major overhaul of the political, legislative and

administrative framework that was in place. Through this process, emphasis was placed on proactive engagement with the international community, particularly on issues related to human rights, democracy, transparency and good governance. Further, the scope of engagement with the outside world which was previously centered on "links with donor institutions and countries" was widened to include issues related to economic development, covering LDC Graduation, WTO issues, etc. Maldives missions in the country's major trading partners were mandated with undertaking commercial diplomatic activities. The weight of the economic issues in the country's foreign policy has particularly increased in the wake of the challenges the country has faced owing to the unprecedented hike in oil and food prices and fears of worldwide economic recession.

5. Although private organization such as the Maldives National Chamber of Commerce and Industry (MNCCI) and the Maldives Association of Tourism Industry (MATI) have existed for a considerable period of time, the lack of capacity constraints and absence of initiatives to form healthy public-private partnerships have bottlenecked the much needed private sector engagement in the area of economic diplomacy.
6. The few and ad hoc exercises with regard to trade policy formulation undertaken by the government were inadequate and did not provide an effective and comprehensive policy framework. In addition, the lack of public-private partnership and capacity constraints continues to be a major deterrent to engage private sector in trade policy formulation.
7. The country's vibrant tourism industry has continued to attract a substantially high level of FDI. Due to lack of statistics and poor monitoring, the records are largely anecdotal. Much of the FDI the country has received in the tourism industry appear to have come from non-institutional sources such as angel investors and foreign tour

operators. Anecdotal evidence indicates that this financing was very costly and deters the retention of tourism income[39] within the country.

8. The Maldives which has had a change of leadership only once since its independence in 1965, does not have effective political institutions and the media which was subjected to stringent censorship[40] until recently, is still at a nascent stage. This has been a stumbling block in developing the necessary enabling environments to attract FDI and successfully engage in trade diplomacy.
9. The severe inadequacies in the country's legislative and regulatory framework in economic and trade related areas continue to be a stumbling block to the country's proactive engagement with the outside world. Important pieces of legislation in areas such as intellectual property and instruments to deal with WTO's TRIPs etc are non-existent. Although, the Government has prioritized the introduction of economic and trade related legislative reforms as a means to enhance investor confidence and to ensure the predictability of the country's trade regime, the experience of the last five years have shown that the greater emphasis on political reforms have somewhat clogged the much needed economic reforms.

In spite of the difficulties the Maldives face both on the international and domestic front; the country has made remarkable strides in the recent years to improve its engagement with the outside world as part of the on-going reform programme in the country. An important part of this engagement is the initiation of increased focus in the area of economic diplomacy in the work of the country's diplomatic missions abroad.

Outlined below are some concluding observations on Mauritius.

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[39] Some estimates indicate the out of every dollar earned from tourism, only 17 cents are retained in the country. International Reports, The Washington Times, 2002, [online] Available from: http://www.internationalreports.net/asiapacific/maldives/2002/claiming.html [Accessed 02 May 2008]

[40] See Press Releases of Reporters sans Frontiers on Maldives 2003-2004, [online] http://www.rsf.org [Accessed 02 June 2008]

1. Compared to a number of developing countries Mauritius was disadvantaged because of the initial conditions the country faced at the time of independence, including its mono-crop economy that depended on sugar production, and lack of other resources. However, this did not prevent the country from formulating and pursuing policies well suited to the economic needs of the country. As a result, since the economic liberalization of the 1970s, Mauritius has had robust growth.
2. Similar to most other microstates, Mauritius was faced with, among others, openness which subjected the country to disadvantages with regard to its trade regime. Mauritius utilized effective tools in its tax regime and aggressively promoted export sectors by creating EPZs, through liberal policies on labour market.
3. Mauritius was able to take advantage of the preferential market access provided by EU and US in sugar, textiles and clothing - to an extent few developing countries were able to do. While the implicit export subsidization resulting from the market access was important to the growth of Mauritius, the Mauritius government's policy interventions in trade and development strategy and the public private partnership that the government was able to forge with the industry participants was pivotal to the success of the country.
4. Mauritius has made use of a wide network of diplomatic missions and honorary consuls located in a number of cities throughout the world important to the country for its political, consular and economic needs. Economic and commercial diplomacy had always been an important aspect of the work of its bilateral and multilateral missions.
5. The numerous bilateral and multilateral trade and economic partnership agreements Mauritius has signed with external parties, together with benefits and preferential arrangements accorded by such parties to Mauritius played an important role in the country's economic success. Particularly noteworthy in this regard are the Indo Mauritius Double Taxation Avoidance Treaty (DTAT); Lomé Conventions and ACP-

EU arrangements; Multi Fibre Agreement and the African Growth Opportunity Act (AGOA).

6. Mauritius' proactive engagement in the regional and multilateral trade initiatives and discussions also contributed immensely towards the development of capacity and safeguarding the economic interests of the country. Mauritius successfully utilized the strong networks and platforms provided to the country through WTO SADC, COMESA, ACP group etc to voice concerns and advocate for the country's economic interests.

7. Unlike in several other countries where ethnic diversity has contributed to fragmentation, Mauritius has been able to utilize the country's ethnic diversity as an important tool of 'Diaspora diplomacy' to forge successful economic linkages. The externalities that the ethnic communities provided were used strongly to create important international linkages, particularly with India and China. The language and cultural connections have been established as an important facilitator of international trade (Rauch, 1999). The role ethnic Chinese provided both through formal and informal channels through their linkages with the Chinese and Hong Kong based textile entrepreneurs was instrumental in the success of the textile industry while the close diplomatic and economic cooperation brought through the majority Indians in the country provided a crucial role in the country's successful initiatives in the economic and commercial arena with India. The double taxation avoidance treaty with India and the Mauritian offshore financial sector owes much of its success to the country's ethnic Indian connection which was well capitalized on. The approach of the majority Indian government towards the country's attractive sugar industry dominated by the ethnic French which was not subjected to undue taxes provided an enabling

environment for the sugar industry to flourish[41]. The presence of ethnic diversity also made it imperative for the country to establish participatory politics and maintain law and order. In addition, it provided the need to maintain economic balance among the various ethnicities thereby creating an enabling environment to maintain and promote the country's key economic sectors.

8. The country's strong governance was also pivotal in enabling Mauritius to play its cards right in the arena of economic diplomacy. The strong political institutions and the independent media were catalysts for regular changes of government through free and fair elections. This enabled the country to develop strong enabling environments in the form of legislative and regulatory frameworks to attract FDI and successfully engage in the international trading system.
9. Strong engagement with the international community on trade and development related issues through proactive participation which was made possible through the strong domestic institutions was the other enabling factor in the success of the country. The proactive engagement not only enabled the country to develop appropriate institutions and legislative and regulatory frameworks for the same but helped the country to develop a relatively well qualified pool of human resources.

The success Mauritius has had in the field of economic and commercial diplomacy is remarkable from the standpoint of microstates. The country's transparent and accountable political institutions, healthy public-private partnership, strong legislative and regulatory framework and the priority of FDI and export oriented growth had created conditions for growth in the country, in spite of the challenges it had faced throughout much of its

[41] The choice Mauritius made in the 1970s in favour of lower price with higher guaranteed quotas to the EU compared to limited quota access at the then high world price for its sugar was also a major factor that contributed immensely to the success of the sugar industry.

development. The institutional arrangements, the legislative and regulatory framework and the capacity that Mauritius acquired through its active engagement in economic diplomacy would continue to contribute positively to the country's economic development.

Maldives, a much smaller state in terms of its resources and faced with more acute capacity constraints has achieved remarkable success with the development of its tourism sector. The country has also taken some positive steps in reforming its institutional and legislative frameworks in the field of economic diplomacy. However, the efficacy of the reform efforts undertaken in the recent years would depend to a large extent on the country's ability to, among others, integrate and harmonize foreign affairs and external economic management; create a healthy public-private partnership; and bring about conducive and timely legislative frameworks that prioritize FDI and trade promotion. This is particularly pressing in the case of the Maldives, given the multitude of challenges the country face both on the external and domestic front.

Successful engagements in economic and commercial diplomacy are not beyond the capacity of microstates. On the contrary, it is well within the reach of most microstates, albeit on a much smaller scale compared to larger and more resource-rich states. And, as a policy option, despite the small size of economies of microstates, it is advisable to intensify participation in international trade as a means to increase the share of trade in GDP and to increase the size of economy (Hamori and Razafimahera, 2003).

The ingredients for successful engagement in economic diplomacy are by no means onerous even from the perspective of the resource and capacity constraints of microstates. What is required is the creation of (a) enabling environments which must come in the form of integration and harmonization of foreign affairs and external economic management; a healthy public-private partnership; facilitating policy variables through conducive legislative and regulatory frameworks that prioritize FDI and trade promotion; (b) implementation mechanism which must come in the form of capacity building and effective coordination between the foreign ministry and the missions; and improving the effectiveness of the activities undertaken in the area.

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