3

Trade and Industrial Policies

This chapter examines selected aspects of trade and industrial policies in Mauritius, those that are considered directly relevant to export competitiveness: import liberalisation, exchange rate management, export policies and incentives, bureaucratic regulations and procedures. It also examines enterprise-level perceptions of the policy and incentive regime, drawing on the findings of our firm-level survey. Where relevant, it makes comparisons with the trade and industrial policies of the Asian NIEs and other developing countries.

3.1 Import Liberalisation

Mauritius followed a mixed trade policy of import substitution coupled with incentives for exports through the Export Processing Zone (EPZ) in the 1970s. These two trade regimes co-existed, influencing enterprises producing for the small home market and those producing for export. Mauritius began trade liberalisation in 1983 as a part of its 1981 structural adjustment loan agreement with the World Bank.[8] We shall examine briefly the trade liberalisation process and then discuss the nature of the process.

Three episodes of trade liberalisation in Mauritius can be identified since 1983, each with a different speed and coverage of reform:

- The first episode, between 1983-85, consists of the rapid elimination of most quantitative restrictions on imports and their replacement by tariffs. Existing incentives for exporting, granted via the EPZ since 1970, were maintained.
- The second, between 1986-1993, tried to gradually reduce the dispersion of effective protection among industries and to promote exports more vigorously by providing exporters with overseas marketing support, preferential interest rates on development loans and tax concessions. Export and foreign investment promotion was strengthened by the creation of the Mauritius Export Development and Investment Authority (MEDIA) in 1985.
- The third episode, from 1994 to date, attempted to cut protection by reducing tariffs. The government seems committed to further reductions in protection but no specific targets seem to have been set.

The reforms have resulted in a notable reduction in tariff and non-tariff barriers to imports:

- *Quantitative restrictions* have been mostly eliminated. The share of imports covered by import licensing fell from 57 per cent of total import value in 1980 to under 5 per cent in 1986. The few that remain are largely on health, sanitary and security grounds and have little impact on manufacturing production. No new import licenses were applied since 1985 and the system of import licensing was abolished in 1991.
- Historically, there have been few *import prohibitions*. In 1994, with the elimination of import licensing, a handful import prohibitions were introduced including: second-hand motor vehicle spare parts, re-treaded rubber tyres, explosives, underwater fishing guns and water scooters. Again these are largely on health, safety and environmental grounds and have little effect on manufacturing.

❖ The level of nominal *tariffs* have fallen as well as its dispersion. A new single tariff system was introduced in mid-1994 which consolidated the old three column tariff (i.e. the fiscal duty, the general customs duty and the preferential duty). The number of tariff rates have been also cut to 8 from 60 and the maximum duty was fixed at 80 per cent.[9] The average tariff for manufacturing was 30.1 per cent in 1994 compared to 86.2 per cent in 1980.[10] The tariff schedule shows a trend towards escalation – the average tariff for raw materials (14.8 per cent) and semi-manufactures (17.2 per cent) was lower than that for finished goods (39.5 per cent) in 1994.

❖ In spite of the recent tariff changes, manufacturing as a whole is more protected than agriculture and mining (see Table 3.1). Within manufacturing some industries continue to receive higher nominal tariff protection than others. Four industries – clothing, furniture, footwear and rubber products – have average tariff rates in excess of 50 per cent, while electronics and plastics have tariff rates of over 40 per cent. The remainder have relatively low tariffs.

❖ The pervasive use of *duty exemptions and concessions* have made the tariff system less transparent and efficient in the 1990s. According to one estimate, there were about 400 exemption categories in 1991 of which 200 were commonly used.[11] The main exemptions are: (a) those under different investment incentives schemes, (b) duty reductions on inputs for various manufacturing industries, (c) firm-specific exemptions granted by the Ministry of Finance for one year on the expectation that domestic value-added or export potential will increase, and (d) unclassified exemptions (93 in 1994). Other surcharges were consolidated into the customs duty in 1994.

Table 3.1 **Nominal Tariff Rates (per cent) 1994**

Industry	**1994**
Aggregate:	
Agriculture	17.7
Mining	14.1
Manufacturing	30.1
Industry-Level (Manufacturing Only):	
Food manufacturing	21.1
Textiles	25.7
Clothing	71.8
Leather products	34.7
Footwear	57.0
Wood products	28.6
Furniture	74.6
Paper products	33.2
Printing & publishing	36.6
Chemicals	25.3
Rubber products	50.2
Plastic products	43.4
Non-metallic mineral products	33.0
Iron & steel products	26.0
Fabricated metal products	35.1
Machinery (exc. electrical)	21.0
Electrical machinery etc.	48.9
Transport equipment	37.1
Optical goods, watches etc.	31.8

Source: World Trade Organisation (1996).

❖ There are no *local content* programmes to assist local suppliers and subcontractors. Most of these measures are now frowned upon under the new rules of international trade and under the Uruguay Round their use will be prohibited in the near future.

❖ There are no official buy "Mauritius" *public procurement* policies. Foreign suppliers seem free to tender for government orders on similar terms as local enterprises and registration requirements for foreign suppliers do not exist. The one exception may be cases involving foreign aid where the international agency's procurement guidelines are followed. But this probably has little effect

Table 3. 2 **ERP Estimates for the Manufacturing Sector (per cent) 1983-1990 (a)**

Source	Year	Average ERP	Range of ERPs	Selected Industry ERPs
World Bank (1985)	1983	89(b)	-24 to 824	leather (330), textiles and clothing (189), electrical machinery (824)
Woldekidan (1994)	1987	57 (c)	2 to 382	clothing (2), leather (31), electrical machinery (157), beverages (382)
UNDP/World Bank (1993)	1990	59 (d)	27 to 259	leather (27), clothing (53), electrical machinery (218), furniture (259)

Notes: (a) All sales. (b) number of industries unknown. (c) 21 industries. (d) 35 industries.

on domestic manufacturing production.

- Mauritius does not employ *anti-dumping or countervailing duties* and has not enacted such legislation to date.
- Mauritius does not use technical standards or health and sanitary regulations as a means of non-tariff protection. Technical standards are largely voluntary and international standards are used where possible. In addition, the few health and safety regulations are confined to food, pharmaceuticals and chemical products and do not affect other areas of manufacturing.[12]

A few studies have attempted to estimate effective rates of protection (ERP) for the manufacturing sector in Mauritius. Table 3.2 shows estimates of average ERPs, the range of ERPs and selected industry-level ERPs from three major studies, two of which were sponsored by the World Bank. The studies confirm the impression from the nominal tariff data that average ERPs have fallen and that the range of ERPs has narrowed during 1983-1990. However, bearing in mind that even the most recent estimate (for 1990) is somewhat dated, given that a notable liberalisation took place in 1994, the average ERP still seems quite high.

Apart from the fact that no recent ERPs are available, the different estimates are not fully comparable. They seem to differ in methodology: one is based on tariffs only, while the other two include import restrictions and exemptions; two are largely based on import substituting industries and the other on both import substituting and export-oriented ones. Moreover, they differ in coverage: two are based on small samples of firms and industries while the other has a wider coverage of both. Thus, there seems to have been little attempt to apply a consistent methodology to appraise inter-temporal manufacturing ERPs in Mauritius.

One exception is Milner and McKay (1996), who draw together previous ERP work by Greenaway and Milner and Maxwell Stamp Consultants, for 1980 and 1990 (see Table 3.3). Although also somewhat dated, this study offers the best picture of the impact of trade reforms in Mauritius since 1980.

The average ERP for the manufacturing sector declined from 115 per cent to 65 per cent during 1980 to 1990. The latter is still high by most developing country standards and well above those in rapidly growing Asian NIEs. In addition, the reduction has only had a limited impact on the dispersion of ERPs. ERPs fell in 15 of the 19 product groups for which estimates were available and they rose in another 4. The largest reductions were recorded in optical goods and watches, wood products, fabricated metal products and clothing. Several industries, including some potential exports like beverages and tobacco, footwear, rubber products and electrical machinery remain highly protected. Other activities in which Mauritius seems unlikely to develop a comparative advantage in the near future are also highly protected such as iron and steel products and non-metallic minerals. Six activities had ERPs of over 70 per cent. Thus, if the figures still hold true today, *trade liberalisation is still incomplete in Mauritius*.

Table 3.3 **Industry-Level ERPs in Manufacturing (per cent), 1980 and 1990**

Industry	1980	1990	Change in protection since 1980
Beverages & tobacco	123	182	59
Textile yarn/fabrics	77	11	-66
Clothing	99	4	-95
Leather products	29	8	-21
Footwear	158	88	-70
Wood products	191	38	-153
Furniture	130	241	111
Paper products	131	57	-74
Printing & publishing	75	7	-68
Chemicals	38	21	-17
Rubber products	125	144	19
Plastic products	89	59	-30
Non-metallic mineral products	77	48	-29
Iron & steel products	154	73	-81
Fabricated metal products	156	48	-108
Machinery (exc. Electrical)	62	3	-59
Electrical machinery etc.	179	189	10
Transport equipment	23	4	-19
Optical goods, watches etc.	266	9	-257
Arithmetic Mean [a]	**115**	**65**	**50**
Range [a]	**23 to 269**	**11 to 241**	

(a) Our estimates.
Source: Milner and McKay (1996).

Table 3.4 shows the import to GDP ratio which can be used as another measure of import liberalisation. Though this ratio also reflects the availability of foreign exchange, the data confirm that there was a notable liberalisation in Mauritius. The ratio of non-fuel imports to GDP nearly doubled between 1983 and 1989. The ratio declined slightly in the 1990s but remained above its 1983 level

Table 3.4 **Non-fuel Imports in Mauritius, 1983-1995**

Year	Non-fuel imports (US$ Mn)	As a % of GDP
1983	356	33
1986	645	43
1989	1214	58
1993	1593	51
1994	1790	52
1995	1780	46

Source: Calculated from Government of Mauritius (1996); IMF International Financial Statistics, various

The trade regime in Mauritius is now much more liberal than in the past and is one of the more open regimes in Africa. Although the effective protection data for 1990 suggest that the country is quite highly protected compared to the Asian NIEs, the level and dispersion of protection is likely to have fallen since the 1994 trade reforms. The country has also given considerable emphasis to export promotion policies and incentives to boost exports. Thus, it has creditable achievements in the area of trade policy reform. The more liberal trade regime makes Mauritius well set to sustain and diversify its export growth. It anticipates the demands of more international competition under the new international trading system under the WTO.

Nevertheless, the process of liberalisation and the sequencing of trade and other policies may need more attention. The evidence seems to suggest that it is not based on a coherent strategy when compared with the experience of successful East Asian economies (see Box 3.1)

Three weaknesses in Mauritius approach seem to be the following:

- The inherited structure of protection from the import substituting period, and maintained for some time thereafter, was inefficient and costly. It had been built up without any assessment of the nature and duration of protection required by infant industries. Unlike the dynamic NIEs such as Korea and Taiwan that fostered such infants to build up a broad and deep industrial base, Mauritius seemed to give protection to most industrial activities that it set up. When liberalisation began, protection was reduced without a clear idea of restructuring needs. Some activities are being given protection without ensuring their restructuring while others suffered from exposure to international competition without measures to assist them.

- Export promotion efforts have been useful but are still insufficient to force protected firms into export markets. No performance requirements or contests were imposed in return for the privileges provided. Nor was there a monthly meeting between senior government officials and the heads of enterprises to review progress made towards export targets and solve pressing policy problems.
- Most importantly, supply-side measures (e.g. training, information and technical support) to help firms boost their competitiveness are deficient or absent (see Chapters 6 and 7) and, with some exceptions, are not geared to the liberalisation process.

Thus, *we recommend that Mauritius continues to attempt to achieve a low and uniform level of protection*. The task of import liberalisation should be entrusted to a single government institution (such as the newly established Ministry of Industry and Commerce) and it should draw up a simple, clear programme of future tariff reform. This institution should also keep an up-to-date information system on import tariffs and other forms of non-tariff protection and develop strong in-house capabilities to carry out inter-temporal effective protection studies.

Highly protected activities which have no clear economic rationale should be phased out in a systematic fashion over a short time period; those that can develop into future exports should be assisted by supply-side measures to promote rapid restructuring and upgrading. The signals given on the pace of trade policy reform should remain clear and strong so that industry can take appropriate steps to restructure. Industry should be informed in advance about plans for the pace of tariff reform at regular intervals. Three broad sets of policies would be needed to make the import liberalisation programme effective by helping industry to restructure: attracting FDI via a strong promotion and targeting strategy; export support of different kinds; and skill, technology and infrastructure upgrading. Each of these will be examined in other chapters of the report.

3.2 Exchange Rate Management

Since the mid-1970s, the Mauritian rupee was pegged to the SDR. Following devaluations of 30 per cent and 20 per cent in 1979 and 1981, respectively, Mauritius adopted a managed exchange rate policy in 1983[13] Under the new policy, the Bank of Mauritius intervened on the foreign exchange market to smooth out irregular fluctuations of its currency. An undisclosed basket of currencies of major trading partners was used to determine the value of the Mauritius rupee. Foreign exchange con-

Box 3.1 Export Promotion Policies in East Asian NIEs

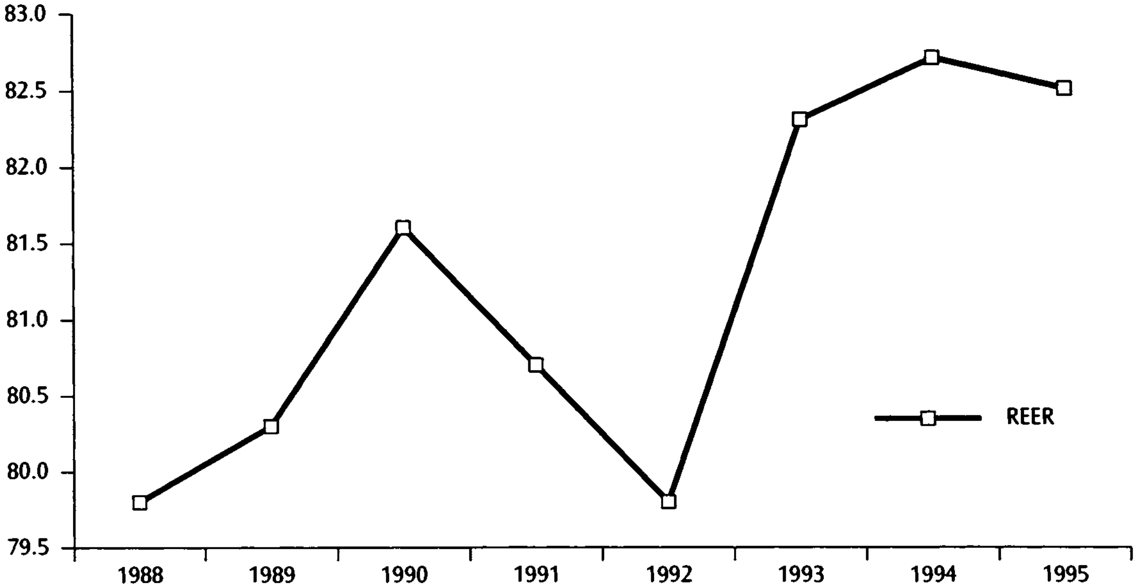
The entire system of incentives in NIEs like Korea and Taiwan was geared to forcing firms to export. Unlike most other developing countries, practically all privileges were tied to export performance and weak performers were penalised. In addition, all industrial policy measures, such as import protection, local content provisions, support of SMEs, technology support, human capital formation, infrastructure and financial policies were directed to the export drive and to deepening and widening the export base (discussed elsewhere). In addition, Korea adopted specific measures to promote large private conglomerates, the chaebol, to lead the heavy industry and high technology drive. Both had strongly targeted R&D programmes, with considerable government investment in technology development. In free trade centres like Hong Kong and Singapore, governments relied more on supply side support, in the latter's case highly targeted.

The NIEs also adopted several *direct* measures for export promotion. The main ones were:

- *Export targets* were used as the basis for awarding access to imports, long-term credit and other incentives. In Korea and Taiwan, the system of export targeting was more elaborate than elsewhere. Export targets were set at the firm and industry levels and access to loans, tax breaks and imported inputs for domestic production were dependent on targets being met. The government established export targets in co-operation with firms and exporting associations. Although these targets were challenging, the tendency was for them to be bettered.
- *Credit* to exporters was often subsidised and targeted.
- Unsuccessful exporters faced *penalties* such as a reduction in export incentives, cuts in import licenses and stringent tax audits. President's prizes were given to the most successful firms.
- In Korea, monthly *meetings* between government officials and heads of firms, chaired by the President, carefully reviewed progress towards export targets.
- Access to duty free imported inputs and working capital loans was automatic and immediate. Recognising that potential exporters might be discouraged from export production if access to these export incentives was slow and discretionary, documentation requirements were kept to a minimum. Export letters of credit that exporters received from buyers were used to document actual orders for direct exports. To document actual orders for indirect exports, a domestic letter of credit was used. This provided indirect exporters automatic access to working capital loans and duty free imported inputs and helped to draw them into the export trade. It was originally adopted in Korea, but gradually adopted by other countries. The streamlined documentation requirements for export incentives in East Asia meant that direct exporters and indirect exports suffered few procedural delays.
- Strong institutional support was provided by the government for *export marketing*. Export offices were established by Korea and Taiwan in major overseas markets. The Hong Kong export development board provided a very active and efficient 'match-making' service between foreign buyers and local suppliers.
- *Private* information and specialised services were encouraged. Chambers of commerce, industry associations and other private service firms provided advice, training and information to exporters.
- Korea created giant trading houses to overcome the competitive disadvantages of entering new export markets. Many of these trading houses were part of the *chaebol*, which spearheaded the heavy industry drive.
- Singapore based its export drive on attracting *MNCs*, but not in a passive way. It targeted activities that lay in the future comparative advantage of the economy: higher value added electronics, advanced services and so on. MNCs were induced to upgrade their activities by incentives, rising wages and the provision of high-level skills and superlative infrastructure. The public sector played an active catalytic role.

Sources: Amsden (1989), Herderschee (1995), Hogan *et al.* (1991), Rhee *et al.* (1984), World Bank (1993), Stiglitz (1996), Wignaraja (1997a).

Fig 3.1 **Trade Weighted REER in Mauritius, 1988-95**



Source: Enweze and others

trols were partially liberalised in 1986 when commercial banks were allowed to undertake foreign transactions up to rupees 200,000 without Bank of Mauritius approval. A further liberalisation took place in 1994. The Exchange Control Act was suspended and free movement of foreign exchange was permitted. In addition, the Bank of Mauritius stopped setting rates and the rupee was floated with the creation of a new inter-bank foreign exchange market.

Most analysts seem to concur that exchange rate management in Mauritius was effective in maintaining a depreciated nominal and real exchange rate up to the mid-1980s.[14] However, several studies, including UNDP/World Bank (1993) and World Bank (1995), indicate that the real exchange rate tended to appreciate against major trading partners since the mid-1980s. One study estimated that the real exchange rate appreciated by 38 per cent during 1985-1991 (UNDP/World Bank, 1993, p. 2). Another study estimated that the real effective exchange rate rose by 9 per cent in 1989-1993 compared to 1984-1988 (World Bank, 1995, pp. 3-4). It went on to argue that "the sustained appreciation of the real exchange rate is a source of concern, as it is not backed by productivity gains and thus erodes the price competitiveness of Mauritian exports and threatens the survival of many firms" (World Bank, 1995, p.25).

Figure 3.1 shows the trade weighted real effective exchange rate (REER) for Mauritius vis-à-vis its four major trading partners (UK, France, Germany and the USA) for 1986-1995, using IMF data with 1980 as the base year. A fall in the index indicates a real exchange rate depreciation and a rise an appreciation. Overall, the rupee appreciated by 3.4 per cent against its major trading partners over 1988-1995.[15] Closer examination shows that the rupee actually appreciated by 2.3 per cent during 1988-1990 and depreciated by 2.2 per cent in 1990-1992. The depreciation was halted thereafter, with a sharp 3.4 per cent appreciation during 1995.

Figure 3.2 shows trade-weighted REERs for selected Asian and African countries which compete with Mauritius in international trade for 1989-1994.[16] The Mauritius, Sri Lankan and South African currencies appreciated during this period (by 3.5 per cent, 7.9 per cent and 3.5 per cent respectively) and were the only ones to do in the sample. Several countries were aggressive in depreciating their currencies, particularly Côte d'Ivoire (37.7 per cent), Zimbabwe (35.3 per cent) and India (34.5 per cent). The remainder also depreciated their currencies to maintain export competitiveness including Pakistan (13.3 per cent), Bangladesh (10.7 per cent), Indonesia (3.9 per cent) and Thailand (3.5 per cent). Mauritius has generally been far less aggressive in using the exchange rate to improve its competitiveness than its African neighbours and its Asian competitors.

The weakness in the area of exchange rate management is a source of concern, particularly because Mauritius depends heavily on labour-cost sensitive industries like clothing. While a relative exchange rate appreciation can be beneficial in forcing exporters to upgrade quality, it imposes penalties on price sensitive items operating at low margins (which probably applies to a large proportion of Mauritius clothing exports). Our preliminary data suggests that the government, particularly the Bank of Mauritius, needs to pay more attention to monitoring cross-country behaviour in exchange rate management and emulate the more aggressive posture witnessed in neighbouring African countries and Asian competitors.

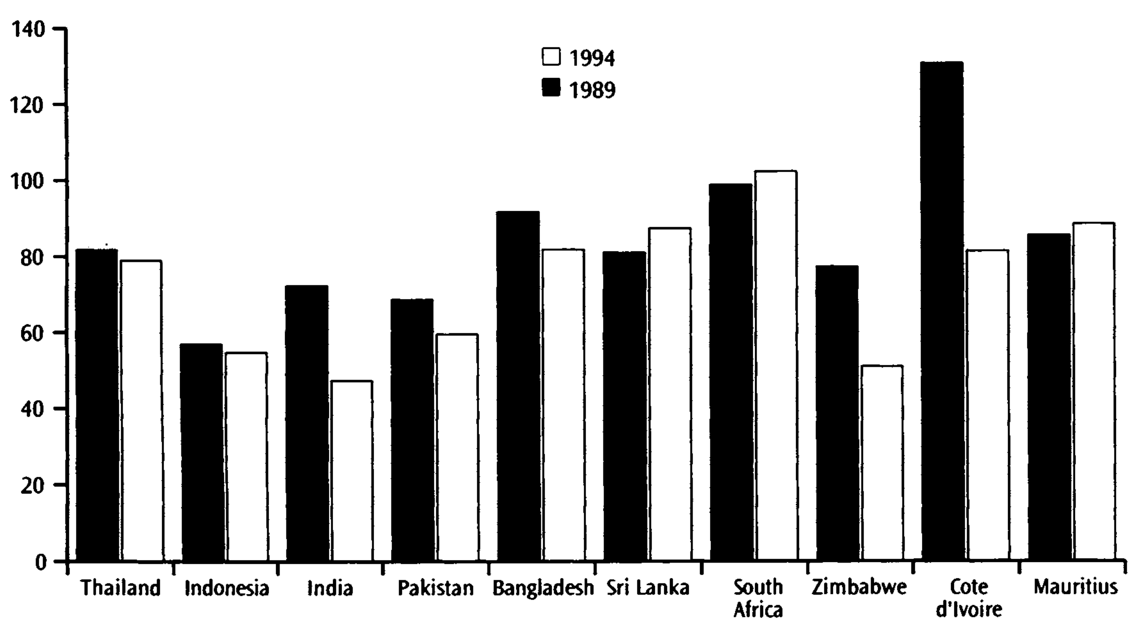
3.3 Export Policies and Incentives

By African standards and those of South Asia, Mauritius was an early promoter of exports and has maintained steady support. The Export Processing Zone Act was passed in 1970. In 1985 a public trade and investment promotion agency, the Mauritius Export Development and Investment Authority (MEDIA), was established. With the enactment of the Industrial Expansion Act in 1993, the incentive package for exporters was amended. Unlike African and South Asian competitors, EPZ status in Mauritius is not associated with a particular geographical location or foreign ownership. Any exporter in the country can quality for EPZ status and a package of incentives.

At present, there are four general measures to assist exporters in Mauritius:[17]

- *Duty free* access to "scheduled" imports of raw materials and equipment. EPZ firms can import a list of goods exempt from duties and sales tax while non-EPZ firms are entitled to a duty drawback on the proportion of imports used in making

Fig 3.2 **Trade weighted REERs of Competitors, 1989 and 1994**



exports. The refunds to non-EPZ firms have to be claimed from Customs within a six month period of importing.

- A *corporate tax holiday* for the entire life of an export-oriented project and tax exemption on distributed dividends for 20 years. This represents a significant improvement in tax incentives for exporters because previously the corporate tax rate was 15 per cent.

- An *export credit guarantee scheme and export credit insurance* is offered by the Development Bank of Mauritius (DBM). Under the former, the DBM offers credit guarantees to banks to cover pre-shipment and post-shipment loans to exporters. Under the latter, the DBM will cover an exporter against loss that may arise due to standard commercial and country risks for one year.

- *Overseas marketing support* for exporters is provided by MEDIA through organised participation in trade fairs and textile exhibitions, facilitation of contacts with foreign buyers, undertaking of market surveys and provision of trade information. In 1994-95, MEDIA organised the participation of exporters in 12 trade fairs and 4 buyer-seller meetings and 10 market surveys. In 1996-97, MEDIA plans facilitate participation in 11 trade fairs, 6 buyer-seller meetings and conduct 4 market surveys. Apart from exploring niches for garments in the traditional US and Western European export markets, MEDIA is actively targeting non-garment opportunities in the emerging regional COMESA market.[18] About half of MEDIA's promotion activities in 1994-95 and 1996-97 were oriented to COMESA countries and 6 out of 14 overseas offices/ representatives were based in the region.

These policies seem to have been effective in providing a conducive environment for exports. However, there are few recent estimates of the trade bias facing the manufacturing sector based on either exchange rate measures or effective rates of protection. The latest available study based on effective protection estimates for 1990 by Maxwell Stamp concluded that in spite of the trade reforms of the 1980s, an anti-export bias still remained in the trade regime in Mauritius.[19]

MEDIA is the pivotal institution behind the country's drive for export growth and industrial upgrading. Previous studies, which examined MEDIA's effectiveness, have not found evidence that it was deficient in its export marketing function, but have recommended that it should maintain up-to-date and comprehensive data bases on trade and tariff data and enhance marketing functions within individual firms.[20] Our discussions with MEDIA staff and exporters indicated positive and negative elements in its capacity to support exports.

On the positive side, MEDIA has consistently provided relevant services – such as profitable buyer-seller meetings and high quality market surveys – which are well regarded by the private sector. The private sector is strongly represented in its Board (making up about half of the current 9 person Board). It is staffed with well educated people with international experience who enable it to deliver quality services – about one-third of its 50 strong team have university degrees (some from abroad). It benefits from a non-bureaucratic, market-oriented mind-set of its staff and dynamic top management which are conducive to organisational effectiveness and staff morale. By developing country standards, it has a relatively high ratio of total staff engaged in promotional activities (about 30 per cent of staff are directly involved in export or foreign investment promotion) rather than in unproductive, bureaucratic forms of work. It has begun to gather strategic business information about global and regional markets by establishing its own overseas offices/representatives in 14 countries (including the US, Europe and Africa).[21] In this vein, such offices seem to be staffed by aggressive and experienced sales employees capable of holding their own in foreign markets. It also has a useful trade information centre (with a range of publications, journals and trade directories) which receives about 15 visitors per day.

However, there also seem to be several negative attributes. First, MEDIA is involved in an overly broad range of activities and may lack focus. Apart from export promotion, it undertakes foreign investment promotion and constructs and manages industrial estates. Some firms, particularly SMEs, complain that the weight of the two other functions may not permit it to devote sufficient resources to export promotion. Experience of other developing countries suggest that multi-function trade promotion organisations are rarely able to dedicate sufficient interest or resources to individual core activities.

Second, its overall effectiveness may be held back by a lack of funds. MEDIA's total budget nearly doubled from US$ 1.9 million to US$ 3.1 million between 1993-94 to 1995-96. Expenditures on export promotion alone more than doubled from US$ 0.20 million to US$ 0.55 million in the same period. In spite of the increase, available funds are a fraction the size of those spent by the Asian NIEs. For instance, the Hong Kong Trade and Development Council, which has a large network of overseas offices and staged 350 events around the world last year, had an annual budget of US$ 130 million in 1996.[22] Similarly, the Singapore Economic Development Board had an annual budget of US$ 45 million in 1995.

Third, MEDIA delivers nearly all of its marketing and information services free of charge which makes it reliant on central government grants and foreign aid and limits its autonomy from government interference in its operations. More generally, it has yet to develop a range of commercial services in relation to information and export marketing. In trade promotion organisations in developed countries, perhaps the most striking trend has been toward charging for services, i.e. cost-sharing by recipients. This facilitates the provision of a broad range of quality export information and marketing services and the entry of affiliates of MNC service firms and development of local private sector service providers. There seems to be little direct pressure on private business associations to take a more active role in trade promotion as in other developing countries and inadequate action seems to have been taken to encourage the entry of MNC service firms to set up regional service centres in Mauritius.

Fourth, MEDIA conducts useful surveys of overseas markets and produces a useful annual report, but it does not produce an overall national export development plan for the country with a set of export targets. The experience of the East Asian NIEs suggests that the formulation of an export development plan helps to focus the attention of exporters and the government on current and potential export growth, assists in identifying gaps in policies and other constraints to expansion and provides for collective solutions to problems. Export targets were used as the basis for awarding access to imports, long-term credit, tax breaks and other incentives. Korea and Taiwan, which had the most comprehensive systems of export targeting, set targets at firm and industry-level and made access to incentives dependent on targets being met. Such targets were set in collaboration with firms and industry associations. The top performers were rewarded with President's prizes while persistent under-performers were penalised. In Korea, monthly meetings between government ministers and heads of firms, chaired by the President, reviewed progress made towards export targets. Such meetings also rapidly found solutions to problems arising from infrastructural and policy bottlenecks as well as delays arising over procedural and regulatory issues.

Fifth, in spite of MEDIA's work, our firm-level survey indicates that the overseas marketing efforts of SMEs in Mauritius lag considerably behind those of large and giant firms in the whole sample.[23] Table 3.5 shows information on the average number of foreign buyers in 1995, average overseas marketing expenditures in 1992-95, and average attendance of overseas trade fairs in 1992-95 for SMEs (<250 employees) and large & giant firms (>251 employees).

Table 3.5 **Overseas Marketing Efforts in Mauritius SMEs and Large & Giant Firms**

Category	Average number of foreign buyers, 1995	Average overseas marketing expenditure (US$ Mn), 1992-95	Average number of overseas trade fairs attended, 1992-95
SMEs	5.2	0.02	1.9
Large & giant firms	26.9	0.13	3.8
All firms	16.5	0.09	2.9

Like other developing country firms in the early stages of export development, Mauritius firms rely heavily on foreign buyers for the risky, costly and information-intensive activity of export marketing. With a few exceptions, there is little evidence of well developed independent marketing capabilities. Experience in Asian developing countries shows that intense buyer-seller relationships can involve considerable transfers of marketing know-how as well as detailed information on manufacturing technology, product designs, quality control systems and training.[24] The data suggest that large & giant firms in Mauritius deal with significantly more foreign buyers (26.9) than SMEs (5.2) indicating better capacities to discriminate between different kinds of buyers, strike better deals and, possibly, acquire a broader range of technological information. In addition, large & giant firms (US$ 0.13 million) spent more than six times on overseas marketing in 1992-95 compared with SMEs (US$ 0.02 million). Finally, large & giant firms (3.8) attendance of overseas trade fairs in 1992-95 is nearly double that of SMEs (1.9). These averages, of course, somewhat mask the great divide in export marketing capabilities between the giant firms and the small enterprises in Mauritius. The few giant firms in our sample dealt with over 100 foreign buyers in 1995, attended 10 or more trade fairs in 1992-95 and spent over US$ 0.5 million on overseas marketing in 1992-95. Meanwhile, the smallest firms dealt with one or two foreign buyers, attended one trade fair and spent a few hundred dollars on export marketing. Thus, the gaps in export marketing efforts between large & giant firms and SMEs are a major source for concern.

Thus, we recommend that Mauritius continues to strengthen its export drive to offset the anti-export bias in the trade regime. In particular, MEDIA's useful contribution to the Mauritius export drive could be enhanced further and new institutional arrangements should be established to foster public-private sector partnerships in export development. The government should undertake a detailed assessment of MEDIA with a view to transforming it into the pivotal institution for export growth and upgrading in the country. Such an assessment should identify strategic institutional restructuring alternatives and carefully evaluate the costs and benefits of each approach. Based on our preliminary work, we feel that the assessment should focus on whether MEDIA is spread too thinly across too many functions and should concentrate on export promotion alone; whether it is adequately financed to help exporters achieve their goals; whether mechanisms for cost-sharing by recipients and commercial services on information and export marketing could be developed by MEDIA; and whether a new dedicated SME unit should be established in MEDIA to help link the more successful firms in marketing contracts with foreign buyers and subcontracting relations with large local enterprises, and to provide extension services to develop their independent marketing capabilities. It is strongly recommended that such an assessment be conducted under the aegis of the Prime Minister's Policy Unit or the Ministry of Finance.

Apart from the assessment to strategically restructure MEDIA, we feel that consideration ought to be given to significantly enhancing the export marketing capabilities of private business associations and systematically attracting MNC service firms (to establish regional operations in Mauritius). The important goal underlying these initiatives is that the effectiveness of MEDIA should be not only enhanced, but also to make sure that it does not inadvertently "crowd out" potential private sector providers of export promotion services.

Finally, we feel that consideration should be given to formulating an overall export development plan for the country (along with a system of export targeting) and calling a monthly meeting between key ministers and the heads of firms (chaired by the Prime Minister) to review progress made towards export targets and deal with pressing policy problems. The direct involvement of the highest levels of government and enterprises in the export drive would contribute towards building relationships of mutual trust and support, deal with practical export problems at a political and economic level, and continually re-focus attention on the importance of boosting national export competitiveness. The export planning mechanism could be located in the re-structured MEDIA and MEDIA's corporate plan should be developed in line with the overall national export development plan.

3.4 Regulations and Procedures

Export competitiveness is also influenced by the efficiency of bureaucratic regulations and procedures affecting imports, exports, foreign exchange allocations, foreign investment approvals and other public services. A streamlined, well functioning system of regulations and procedures enhances competitiveness.

Studies undertaken by the World Bank and the WTO found that firms in Mauritius were affected by bureaucratic delays in their day-to-day operations in the late 1980s and early 1990s.[25] These studies suggest that delays and red tape have had an adverse impact on enterprise-competitiveness through raising operating costs above optimum levels, employing extra clerical staff to deal with unnecessary paperwork and maintain good relations with the relevant officials, and acting as an obstacle to enterprise efforts to adopt quick response practices. It is also acknowledged that there has been a significant improvement with regard to procedures over the last few years. For instance, import licensing was abolished in 1991 and foreign exchange transactions no longer need Bank of Mauritius approval.

Table 3.6 **Average Processing Time for Selected Bureaucratic Procedures in Mauritius, Sri Lanka and Indonesia**

Item	Mauritius	Sri Lanka	Indonesia
1. Customs clearance at port	4 days	3-4 days	4 days
2. Customs clearance at airport	2 days	N/A	N/A
3. Refund of duties on imported inputs	4-24 weeks	2 weeks	2-6 weeks

How does Mauritius compare with aspiring Asian NIEs in relation to procedures and regulations? Table 3.6 provides comparable information on the average processing time involved in obtaining customs clearance at the port and airport and refund of duties on imports in Mauritius, Sri Lanka and Indonesia.[26] The data suggest the following:

- It takes about 4 days to receive customs clearance for goods at ports in all three countries (although Sri Lanka may be marginally faster) suggesting that Mauritius is as efficient as the other two. This represents a major improvement over time in Mauritius. A study by the World Bank found that in 1990 it took more than10 days for over half the country's imports to receive port clearance.[27] The reduction in processing time is attributed to the adoption of the computerised Automated System for Customs Data (ASYCUDA), with the assistance of consultants from Singapore, which can process import declarations in ten to fifteen minutes.

- It takes between 4 to 24 weeks to receive refunds of duties on imported raw materials and equipment in Mauritius compared to between 2 to 6 weeks in Indonesia and 2 weeks in Sri Lanka. This constraint is particularly severe on non-EPZ firms while EPZ firms are not affected.
- Finally, as discussed in Chapter 7, there are long delays in obtaining foreign investment approval in Mauritius (ranging from between 9 to 32 weeks) compared to countries in Asia. A related area of concern is long delays in the granting of work permits to expatriate staff.

Thus, while Mauritius has recently addressed bureaucratic procedures and regulations connected with the foreign exchange approval and customs clearance, others still pose a notable impediment to developing competitiveness in Mauritius. *We recommend that the government takes steps to streamline residual procedures and regulations, particularly in regard to foreign investment approvals, work permit applications and processing of refunds on duty drawbacks.* Where possible, a single short form should replace multiple, lengthy documentation requirements and unnecessary bureaucratic stages should be dispensed with. In addition, an appeals procedure should be established to deal with instances where foreign investment approvals are rejected or subject to delays in excess of four weeks (this should include the processing of work permit applications). These steps would significantly contribute to Mauritius moving towards an environment with a low-level of bureaucratic procedures.

3.5 Enterprise-Level Perceptions of the Policy and Incentive Regime

The mission gained some insights from enterprises on aspects of the policy and incentive regime and other factors. Table 3.7 lists the main constraints to exporting in Mauritius identified by the sample firms in decreasing order of importance. These constraints are grouped under three headings: policy and incentive framework, supply-side factors and other, and further differentiated by the degree of intensity into those regarded as "very negative" and those viewed as "moderately negative". The discussion below highlights those factors viewed as "very negative".

Contrary to expectations, the most widespread perception is a deterioration in supply-side factors since 1995. The leading constraint to export growth and upgrading is seen as an infrastructural bottleneck – the *infrequent sailings* and the *high sea freight costs* to established and potential markets.[28] Large textile and garment firms indicated that over one-third of their business involves just-in-time production and short-cycle lead times where the speed at which orders and repeat orders from foreign buyers can be met is the key to success. Due to its geographical position and few shipping lines serving exports, Mauritian firms seem to suffer from relatively long shipping times and high freight costs compared to their competitors – for instance, the average shipping time from Mauritius to the USA (45-55 days) is double that from South-East Asia (25 days). Moreover, firms argue that international shipping operators are unreliable and often do not turn up when cargoes are small. These factors may have caused Mauritius firms to loose out on short-cycle orders from foreign buyers like mail order firms and retailers. One foreign firm suggested that Mauritius should set up a national shipping line to facilitate exports to large regional ports like Durban from where re-exports to the USA and Europe could take place. Another notable infrastructural constraint that was mentioned by some firms was *fluctuating electricity*.

Skill shortages and technological factors follow closely behind as significant constraints to export growth and upgrading. Firms reported that there was a *shortage of technical personnel* and a shortage of skilled labour reflecting in part an excess demand for labour caused by the almost full employment situation in the economy. In particular, firms argued that there were significant

Table 3.7 **Constraints to Competitiveness** (% of firms noting constraints)

Constraint	All Firms		Foreign		Local	
	Very Negative	***Moderately Negative***	***Very Negative***	***Moderately Negative***	***Very Negative***	***Moderately Negative***
Policy & incentive framework:						
High interest rates	29	38	15	18	15	21
Cumbersome bureaucratic procedures	29	41	18	15	12	26
Appreciating exchange rate	18	18	6	9	12	9
Lack of access to finance	15	15	0	6	15	9
Policy uncertainty	12	26	6	9	6	18
High sales tax	6	21	0	15	6	6
Supply-side factors:						
Infrequent sailings & high freight costs	47	29	26	12	21	18
Lack of technical personnel	35	35	24	15	12	21
Lack of good local supplies	32	29	21	18	12	12
Lack of skilled labour	29	38	18	21	12	18
Low labour productivity and absenteeism	26	35	12	24	15	12
Fluctuating electricity	21	32	15	18	6	15
Excessive labour regulations	18	21	9	18	9	3
Inadequate technological support	12	35	3	21	9	15
Inadequate water & sewage supplies	12	32	6	18	6	15
Industrial unrest	3	15	0	6	3	9
Other factors:						
Smuggled raw materials	12	15	3	6	9	9
Weak protection against counterfeiting	6	0	6	0	0	0

gaps in the availability of specialised categories of technical manpower including chemical engineers, food technologists and watch-making technicians, as well as a shortage of production managers and designers. Moreover, they argued that there was a *lack of reliable suppliers of raw materials, parts and components* and that *technology institutions* were inadequate. A lack of reliable suppliers refers to both the absence of a plastics industry and precision injection moulding facilities to support electronics, the lack of a range of fabrics and accessories manufacturers for fashion-clothing and dying and finishing facilities.

Some concern was also expressed about *low labour productivity, absenteeism and excessive labour regulations*. As discussed below, several MNC affiliates in different industries said that the labour productivity of their Mauritius affiliate was below that of affiliates in other developing countries, that absenteeism rates tended to be higher and that there were more labour regulations.

On the policy and incentive side, *high interest rates and cumbersome bureaucratic procedures* are viewed as major constraints. Firms argued that the cost of domestic borrowing is relatively high due to interest rates of 12 per cent on working capital loans and 15 per cent for long-term finance from commercial banks, coupled with high bank charges. The cost of borrowing may have deterred some firms from investing in new equipment, technologies and marketing methods to compete effectively overseas. The Development Bank of Mauritius offers long-term finance at 10 per cent but its bureaucratic procedures for loans are viewed as cumbersome and approvals can take up to four months. Firms also pointed to long delays in obtaining refunds on duties on imported inputs.

In contrast, there seems to have been a streamlining of export and import procedures at customs; it only seems to take an average of 8-10 days to clear goods by sea and 2 days for those by air. Finally, some firms pointed to an *appreciating exchange rate, policy uncertainty and lack of access to finance* as obstacles.

Interestingly, the *high sales tax, smuggled raw materials, inadequate water and sewage supplies, weak protection against counterfeiting,* and *industrial unrest,* while mentioned as constraints, were not given a high priority. The low ranking given to water and sewage problems may reflect improvements in this type of infrastructure, particularly in private EPZs. Only two firms complained about competition from smuggled textiles indicating that it is a minor problem compared to the destructive impact that illegal second hand garment imports from East Asia have had on the textile and garment industries of Ghana and Kenya.[29] The single garment firm that mentioned counterfeiting had its designs on T-shirts pirated by other local firms and argued that cases under the Trade Mark Act took six years to be judged.

Turning to ownership differences, foreign firms pointed to the shortages in skilled labour and technical manpower, lack of suppliers and high sea freight costs/infrequent sailings as the most pressing constraints to export growth and upgrading. This is followed by low labour productivity and absenteeism, cumbersome bureaucratic procedures and high interest rates. Local firms viewed high sea freight costs/infrequent sailings as the most pressing constraint, followed by low labour productivity, high interest rates and a lack of access to finance. The difference in emphasis given to interest rates and access to finance may reflect the fact that since 1993 off-shore borrowing was permitted and several large firms have taken advantage of low interest rates (6-8 per cent for working capital) but SMEs, which may be less able to borrow off-shore, still complain about the high cost of domestic borrowing and difficulties of access. Similarly, the difference in emphasis given to the important area of shortages in skills and a lack of suppliers may reflect the fact that foreign firms have a longer industrial experience than local firms and therefore a better understanding of such constraints to export growth and upgrading.

These results may be compared with a similar survey of constraints to exporting in Sri Lanka in 1996 (see table 3.8).[30] As in the Mauritius survey, the constraints are grouped under policy and incentive framework, supply-side factors and other constraints, however, they are not differentiated by the degree of intensity into "very negative" and "moderately negative".

Table 3.8 **Constraints to Competitiveness in Sri Lanka 1996 (% of firms noting constraints)**

Constraint	All firms
Policy & incentive framework:	
Policy uncertainty	35
Appreciating real exchange rate	30
High interest rates	25
Cumbersome bureaucratic procedures	20
Supply-side factors:	
Heightened industrial unrest	60
Low labour productivity	55
Inadequate technological support	50
Excessive labour regulations	45
Lack of suppliers	40
Lack of skilled labour	30
Fluctuating water supply	25
Fluctuating electricity supply	15
Other factors:	
Difficult security situation	20
Excessive holidays	30
Smuggled raw materials	5

Source: Lall, Rao and Wignaraja (1996).

The main findings are as follows:

- Unlike the situation in Mauritius, labour related factors – *industrial unrest, labour regulations and low productivity* – are viewed as the leading constraints to export growth and upgrading in Sri Lanka. Industrial unrest reflects the wave of politically motivated strikes that affected the country in late 1995 which resulted in plant closures for several months, lost production and cancellation of orders. Labour regulations refer to the government's support for the Termination of Workmen Act and the adoption of the Workers' Charter which firms argue make it difficult to rationalise the work force and adopt new technologies. As a result of these factors, firms argue that labour productivity has declined.

- Unlike the situation in Mauritius, firms pointed to *policy uncertainty* and *an appreciating exchange rate* as key constraints on the incentive and policy framework side to exporting in Sri Lanka. Policy uncertainty concerns the government's hesitant, somewhat slow response to industrial unrest. Some firms argued that an appreciating exchange rate in the 1990s had deterred investments in new capacity and new technology.
- Unlike the situation in Mauritius, *excessive holidays* are also noted as an obstacle in Sri Lanka; with 30-40 annual public holidays, the latter has one of the shortest working years in the developing world. Some firms also mentioned the *difficult security situation* which deterred potential foreign investors and buyers and worsened Sri Lanka's image.
- In contrast to Mauritius, *high sea freight cost/infrequent sailings* were not mentioned at all in Sri Lanka. Similarly, *cumbersome bureaucratic procedures* and *high interest rates* were accorded a lower priority in Sri Lanka which may reflect the fact that improvements have taken place in these areas.
- In common with Mauritius, technological factors and skill shortages were emphasised as significant constraints in Sri Lanka, notably, *a lack of suppliers* and *skill shortages* as well as weak technology institutions.

Thus, from the perspective of enterprises, the policy and incentive regime in Mauritius is conducive in some areas and weak in others. Unlike competitors such as Sri Lanka, Mauritius is fortunate not to be adversely affected by factors such as like a difficult security situation, industrial unrest, labour regulations, excessive holidays, policy uncertainty and a sharply appreciating exchange rate. The most pressing constraints in Mauritius seem to be the following: high interest rates, cumbersome bureaucratic procedures and regulations, high cost of freight/infrequent sailings, a lack of reliable suppliers and skill shortages. We recommend that the government *undertake a regular annual survey of enterprise perceptions of the policy and incentive regime and constraints, along the lines undertaken in our study, and feed the results into the export policy-making process*. Needless to say, this survey should cover enterprises from different industries (i.e. those with a current comparative advantage and those in emerging areas), ownership forms (foreign, local and joint ventures) and size classes (giant, large and SMEs). The results of this survey would be an important input into the work of the proposed Competitiveness Council (see Chapter 8) and the high-level meeting between ministers and the heads of enterprises, chaired by the Prime Minister.