

## **PART II - ECONOMIC POLICY REFORMS**

## Chapter 7

### Economic Policy Reforms : The Mauritian Experience

#### I. Introduction

Mauritian experience of economic transition has been widely held as a noteworthy success story. During the eighties, Mauritian economy has achieved a remarkable degree of success in overcoming a wide range of economic problems that it faced during the latter half of seventies. In the process, Mauritius has joined the ranks of middle-income countries and the special significance of this achievement is brought out by a comparison of the development experience of Mauritius with that of other developing countries, especially the sub-Saharan African neighbours of Mauritius. With a per capita GNP of US \$ 2,600 in 1990, Mauritius has achieved the standards of living and the standards of nutrition, health care and general education that greatly exceed those observed in many developing countries.

Mauritius seems to have overcome the natural handicaps of being a small and relatively remote island economy to record impressive economic performance during the period 1983 to 1990. It would be interesting to examine the role of economic liberalisation and associated policy reforms in bringing about this remarkable economic turnaround in Mauritius. An attempt has been made in this case study to analyse Mauritian experience of economic development during the 80's in the context of formulation and implementation of economic policy reforms and also examine some of the issues relating to the formulation of macroeconomic strategy for the future.

#### II. The Background

Mauritius is a group of tropical islands of volcanic origin, with a land area of approximately 1,865 square kilometers, located in the Indian Ocean to the east of Madagascar. Following occupation by the Dutch in 1598, the French in 1715 and the British in 1810, the islands gained independence in 1968 and became a sovereign state within the British Commonwealth of Nations. Currently, the population of Mauritius is slightly over 1 million, around 3 per cent of which live on the outer island of Rodrigues. The population of Mauritius is a rich mosaic of the descendants of migrants from Asia, Africa and Europe, about 68 per cent of the population being of Indian origin, about 27 per cent of African or mixed descent, and the remaining 5 per cent being Sino-Mauritians and Franco-Mauritians. Within this ethnic, religious and cultural diversity, the government of Mauritius functions in a system of parliamentary democracy. With a life expectancy at birth of 68 years, an infant mortality rate of less than 20 per thousand, and a literacy rate well over 90 per cent, Mauritius has a standard of living of a middle-income developing country(Exhibit 1).

Sugar has traditionally been the life-blood of the Mauritian economy. Although sugarcane was first introduced by the Dutch in 1639, after various unsuccessful attempts to grow cotton, coffee, tobacco and spices, it was only in 1735 that sugarcane cultivation began in earnest and the first sugar mills came into existence. The volcanic soil of the island is highly suited to the cultivation of sugarcane and this crop is able to withstand the effects of frequently occurring cyclones. Moreover, Mauritian

sugar has always had a ready market and it has enjoyed preferential prices through the various agreements that have been negotiated at different times: the Imperial Preference regimes, the Commonwealth Sugar Agreement and the Sugar Protocol of the Lome Convention. Sugar has, therefore, played a unique role in the social and economic history of the island, contributing significantly to the generation of employment and incomes.

The early years preceding and following independence (1964-72) were characterised by indifferent economic performance and conservative financial management. During this period, the economy grew slowly at an annual average rate of about 1.8 per cent and sugarcane cultivation was the principal economic activity, accounting for over 25 per cent of gross domestic product (GDP). The manufacturing sector was relatively small and contributed about 7 per cent to GDP. It consisted of a number of small scale private industries producing almost exclusively for the domestic market. The principal industries that came up during this period were food, beverages, tobacco, footwear and the repair and assembly of machinery and transport equipment. Domestic savings and investment remained constant at about 16 per cent of GDP and exports and imports both grew at a real annual average rate of just about 3 per cent. The balance of payments yielded surpluses for most of the period and the overall fiscal deficit averaged around 5 per cent of GDP. At the same time, the labour force continued to expand at an annual rate of about 3.3 per cent, notwithstanding the fall in the annual growth rate of population from 3 per cent in the 1950s and early 1960s to around 1.5 per cent by the early 1970s largely in response to a vigorous family planning programme. As a result, although employment grew by about 3 per cent per annum between 1968 and 1972, the unemployment rate in Mauritius was estimated at about 16 per cent by 1972.

The boom in sugar prices in 1973 and 1974, coupled with favourable weather conditions, paved the way for a spurt in economic growth during the post-1972 period. Thus, Mauritian economy grew by more than 10 per cent per annum between 1972 and 1977. Gross domestic savings increased and provided the capital necessary to accelerate the development of the manufacturing and services sectors, along with an increase in employment. This period, during which the government followed an expansionary policy of increased public investment in response to rising unemployment, also witnessed rapid increases in costs, wages and prices throughout the economy. The subsequent reversal in the terms of trade caused by a sudden and sharp 23 per cent decline in sugar prices in 1976, coupled with the second oil price shock in 1979, led to a rapid deterioration in the balance of payments, which was further aggravated by the government's expansionary fiscal stance. The ensuing budget deficits were financed by an increasing recourse to non-concessionary foreign borrowing which caused the country's external debt to triple between 1976 and 1979 and the debt service ratio to increase from a very modest 1 per cent to about 10 per cent. This period was also marked by a significant deceleration in the growth of output and exports and a simultaneous acceleration in the rate of inflation.

Thus, by 1979, Mauritius was on the verge of plunging into serious economic crisis following significant deterioration in balance of payments, sharp increase in external debt, rapid erosion of foreign exchange reserves, high levels of unemployment, low levels of savings and investment, growing fiscal imbalances, rapid increase in inflation rate and significant decline in overall growth. Faced with such serious economic difficulties in 1979, the government decided to approach the IMF and the World Bank for necessary support to embark upon a stabilization and structural adjustment programme. Between 1980 and 1986, the government implemented five successive standby arrangements with the IMF and two structural adjustment programmes through World Bank assistance to correct the economic and financial imbalances in Mauritian economy. The conventional prescriptions, which were suggested by the IMF and the World Bank as a central part of the stabilization and structural adjustment programme, were :

- i. The adoption of appropriate exchange rate policies
- ii. Restrictive credit and monetary policies
- iii. Restrictions in the overall fiscal deficit
- iv. Maintenance of a liberal system of trade and payments

- v. Restrictions in consumer subsidies, and
- vi. Wage restraints.

The government decided to implement the above package of economic policy reforms incorporating every element without exception. The main focus of the first structural adjustment programme implemented during the period 1979-82 was on demand management. It commenced with a 30% devaluation of the Mauritian Rupee (MR) in October 1979. The subsequent period witnessed a significant revision of the tax structure, introduction of a new package of export incentives and introduction of policies to attract direct foreign investment as well as transfer of technology. The programme achieved a reasonable degree of success in (a) reducing the overall budget deficit, (b) improving the external current account balance, and (c) bringing down the domestic inflation rate. However, several unfavourable exogenous factors seriously affected the performance of Mauritian economy during 1979-1982. The more significant among these unfavourable external factors were (a) adverse weather conditions in 1979-80, (b) rising oil prices, (c) rising import prices, and (d) world-wide recession during 1980-82. The performance of Mauritian economy during the early stages of implementation of stabilisation and structural adjustment programmes has been extensively examined in a series of World Bank documents (May 1982 and April 1985) and IMF reports (September 1985 and October 1986).

On account of several unfavourable external factors that Mauritius faced during 1979-82, the first structural adjustment loan that Mauritius obtained from the World Bank proved to be inadequate. Hence the government had to approach the World Bank for a second structural adjustment loan in 1983. Moreover, the series of standby arrangements with the IMF lasted till August 1986. The period from 1983 onwards can be regarded as the second phase of implementation of stabilisation and structural adjustment programme in Mauritius. This phase of structural adjustment programme has turned out to be highly successful. The following indicators, quoted by the Prime Minister of Mauritius in his Budget Speech of 17th June 1991, clearly bring out the scale of success achieved by Mauritius during the post-1982 period:

- Gross Domestic Product has increased from MRs. 12 billion in 1982 to MRs.37 billion in 1990 and it is expected to reach MRs.41 billion in 1991.
- Income per head, in terms of US dollars, has increased from 1,100 in 1982 to 2,600 in 1991, and would reach around 2,800 by 1992.
- Rate of unemployment has fallen from 17 per cent in 1982-83 to 2.5 per cent by 1991.
- Female labour participation rate has increased from 26 per cent in 1982 to 44 per cent in 1990.
- Gross export earnings of the EPZ sector have increased tenfold from Rs.1.2 billion in 1982 to Rs.11.4 billion in 1990, while employment in that sector has increased from 23 thousand to 90 thousand.
- Gross export earnings of Tourism sector have increased eightfold from MRs. 0.45 billion to MRs.3.5 billion.
- Foreign exchange reserves have increased from MRs.0.28 billion in 1982 to MRs.9.1 billion in 1990 and would reach MRs.13.5 billion by 1992.
- Total government external debt outstanding as a ratio to GDP has fallen from 49 per cent in 1982 to 16 per cent in 1991.
- The overall budget deficit as a percentage of GDP has fallen from 13 per cent in 1982 to 2 per cent in 1991.

In what follows, we examine various aspects of economic policy reforms which may have contributed to the successful economic performance of Mauritius during the period 1983 to 1990.

### III. Industrial Policy Reforms

Since 1970, promotion of export-oriented manufacturing has been the main thrust of industrial policy in Mauritius. The process of industrialisation in Mauritius has led to significant structural changes in the Mauritian economy over the last decade. During the period 1980 to 1990, the share of manufacturing in GDP increased from 15.2% to 24% at current prices and from 15.5% to 21.5% at 1982 prices (Exhibits 2 and 3). Similarly, the share of manufacturing in total employment increased from 18.4% in 1980 to 38.6% in 1990 (Exhibit 4).

For the purpose of formulating industrial policy, the manufacturing sector was divided into following four groups :

- (a) Sugar and sugar by-products;
- (b) Manufacturing for the domestic market with a Development Certificate (DC);
- (c) Manufacturing for the export markets with Export Enterprise Certificate (EEC); and
- (d) Standard manufacturing without DC/EEC incentives.  
Within this group, the policy also focusses separately on the small scale enterprises including the informal sector units.

The growth of manufacturing sector during the post independence period can be broadly classified into the following four sub-periods:

- (a) 1965 to 1970 : Period of Slow take-off with particular reference to import substitution;
- (b) 1970 to 1976 : Period of rapid growth starting from a low base.
- (c) 1976 to 1982 : Period of marked slow down in growth.
- (d) 1982 to 1990 : Period of rapid growth based on export- led industrialisation.

Since early sixties, manufacturing activity in the organised sector was fostered by the award of a Development Certificate to enterprises which were considered beneficial to economic development of Mauritius. This policy was targetted essentially towards promotion of import substitution industries and it included attempts of the government to attract foreign capital and know-how for the development of such industries. The import substitution strategy was evolved largely in response to the inherent weaknesses of Mauritian economy in the early sixties and the corresponding need to halt outflow of foreign exchange and correct deficits in the balance of payments. As a result of this policy, several industries such as food processing, beverages, cosmetics, footwear, furniture, fertilizers, paints and chemicals, etc. came up to meet the domestic demand. However, this policy failed to create the required level of employment. Total employment in the manufacturing sector in late-sixties was only around 9000 and the unemployment rate was as high as 29%. As the government realised the significance of promoting manufactured exports and the role it could play in industrial growth, the emphasis in industrial policy started shifting from Development Certificate scheme to export promotion. Thus, in 1970, the Government introduced the Export Processing Zone Act which together with other administrative support measures aimed at providing a comprehensive package of incentives to stimulate export-oriented manufacturing industry. Simultaneously in 1974, the government decided through Development Incentives Act (1974), to award a Development Certificate only in exceptional circumstances, i.e., to industries of strategic importance.

The following incentives and facilities were offered to the export-oriented manufacturing sector under the Export Processing Zone Act :

- i) duty free imports of machinery, equipment, spare parts and raw materials;
- ii) exemption from income tax on dividends during the first 10 years of operation from start of production and free repatriation of dividends;
- iii) free-repatriation of capital (without appreciation) on obtention of APPROVED STATUS from the Bank of Mauritius;

- iv) easy access to electric power, loans, investment and export finance at preferential rates;
- v) liberal export credit and export insurance facilities;
- vi) liberal capital depreciation allowances and investment credit.
- vii) comparatively flexible labour legislation;
- viii) exemption from payment of half of the normal registration fee on land and buildings purchased for new enterprises;
- ix) issue of residence and work permits to major shareholders and the expatriate technical/professional personnel;
- x) easy accessibility to factories for lease/rent; and
- xi) guarantee against nationalisation.

During the period from 1970 to 1982, Mauritian government followed a mixed strategy aimed at stimulating both export-oriented enterprises as well as import substituting enterprises. While this strategy met with some initial success especially during the first half of seventies, it failed during the subsequent period. Thus, the unemployment rate which fell below 15% by mid-seventies, rose sharply to 22% by 1982. Buoyancy in the manufacturing sector experienced in mid-seventies declined significantly by 1982. Manufacturing activities in the DC sector slowed down after 1977. Capacity utilisation for DC companies was low (around 44%) which severely constrained their capacity for diversification. Moreover, import substitution strategy often encouraged the production of import substitute by capital intensive methods and hence failed to reduce the pressure of unemployment.

The basic weaknesses of import substitution strategy were three-fold: (a) It encouraged inefficiency among firms catering exclusively for the protected domestic market; (b) It diverted resources from the more efficient export-oriented firms; and (c) It led to price distortions in the economy. Thus, it was felt that, although the import substitution strategy had brought some tangible benefits to the economy, it had outlived its utility by late seventies. Consequently, the industrial policy reforms introduced in early eighties shifted the emphasis of Mauritian industrialisation strategy from import substitution to export-led growth. Significant changes were made in fiscal policy and trade policy to strengthen this strategic shift in favour of export-led growth.

The latter half of eighties also witnessed added emphasis on the development of small scale industries as a part of new industrialisation strategy. Under the Small Scale Industries Act, 1988, a small scale firm is defined as the one engaged in manufacturing and having production equipment not exceeding half-a-million Mauritian Rupees (c.i.f. value). The Central Statistical Office, Ministry of Economic Development and Planning applies the employment criterion and defines a small scale firm as any unit employing less than 10 persons. The small scale sector comprises a number of overlapping areas and receives assistance from several organizations such as the Development Bank of Mauritius, The Mauritius Commercial Bank, Employers' Federation, National Development Unit, The Chamber of Commerce and Industry, Mauritius Cooperative Central Bank, Small Industries Development Organization, Ministry of Industry and Industrial Technology and the Handicrafts Section of the Ministry of Education. However, the major problem with regard to such assistance has been that there is no coordination among various agencies providing assistance to the small scale sector. Moreover, there is an acute paucity of information on the small scale sector. According to rough estimates, the small scale manufacturing units collectively employed around 22,000 persons in 1988.

While availability of long term capital is not a constraint on the development of small scale industry, there are several other impediments which account for the failure of the small scale sector to take off. The major constraints faced by the small scale firms are as follows :

- 1) Cumbersome and time-consuming formalities including unusually long time lag between the date of application and the date of actual disbursement of loans (often around 9 to 12 months);
- 2) Insistence of the commercial banks on adequate security and actual operation of the unit for at least six months before the loans are sanctioned;
- 3) Poor management, production and quality control;

- 4) Lack of technical know-how in product costing and poor marketing outlets; and
- 5) Lack of information regarding the procurement of raw materials and machinery.

#### IV. Fiscal Policy Reforms

The main focus of fiscal policy reforms in Mauritius during the eighties has been the special emphasis laid on fiscal restraint as the key instrument of stabilisation. The overall budget deficit was as high as 12.4% of GDP in the fiscal year 1981-82, but it was brought down through sustained efforts to 1.8% by 1987-88 and it was estimated to be around 2.5% of GDP in 1990-91 (Exhibit 5). Such marked improvement in the country's fiscal position was achieved through the combined effort in the direction of reducing government expenditure from 31.4% of GDP in 1981-82 to 24.4% of GDP in 1990-91 and simultaneously raising total revenues as a proportion of GDP from 19% to 21.9% during the same period. The proportion of current expenditure financed by tax revenue, which was only around 67% in 1981-82, increased to more than 100% by 1990-91. Growth of current expenditure, which constitutes more than 80% of total expenditure, was kept under remarkable control during the eighties and as a result the ratio of current expenditure to GDP declined from 24.7% in 1981-82 to 20.1% in 1990-91. Such a decline in the ratio of current expenditure to GDP has been achieved through substantial reductions in budgetary subsidies on rice and wheat flour, reduction in the parastatal subsidies and restrictive wage policy. The wage bill of the government and total subsidies, which amounted to 17.3% of GDP in 1981-82, declined to 14% by 1987-88.

The government introduced major fiscal reforms during the period 1984 to 1986 to bring about rationalisation of overall tax in revenue collection through the introduction of new tax management techniques. In fiscal year 1984, the rate of corporate tax was significantly reduced from an average of 60% to a flat rate of 35%. Moreover in the following year, the entire corporate tax system was simplified by streamlining the various tax regimes for the main productive sectors of the economy. The entire tax system of providing tax exemptions under either complete or partial period of tax holidays coupled with differential rates of depreciation allowances and corporate tax rates was replaced by a uniform rate of 15% corporate tax throughout the life span of all EPZ companies and DC companies. Under the new tax regime, the standard rate of corporate tax, which had earlier been brought down to 35%, was applicable to non-DC, non-EPZ companies. However, to promote the development of capital market in Mauritius, provision has been made under the Finance Act of 1988 to charge concessional corporate tax rate of only 25% to those companies which elect to be quoted on the Port Louis Stock Exchange. Moreover, the dividends of companies listed on the stock exchange received by the individuals are exempted from tax to the extent of 35% of such income. To promote exports of locally manufactured goods by non-EPZ firms, a special provision was also made in the Finance Act of 1988 to allow a reduction of 2% in the corporate tax rate for every 10% of the turnover exported.

To pursue the policy of fiscal reform that aimed at growth with social justice, the government raised the minimum taxable income threshold in stages during 1984 to 1986, which led to total tax exemption of around thirty thousand tax-payers in lower income groups. Also, in the fiscal year 1985 the government reduced the maximum marginal rate of income tax from 70% to 35%. Moreover, to curb inflationary growth in consumption expenditure, Sales Tax was introduced in 1982 and several commodity tax rates were raised by 10% in 1984.

In the budget for 1991-92, several fiscal initiatives were taken to give a fillip to the development of electronic sector. A special scheme to award Pioneer Status Certificates was created for companies operating as supporting units to the electronic sector, i.e. for companies engaged in such activities as high precision machines of metal and plastic parts and assembly of high precision electronic equipment. Companies holding pioneering status certificates are granted complete exemption from customs duty, import levy and sales tax on equipment and material and they are also charged corporate tax at the reduced rate of 15%. The 1991 budget also introduced a system of progressive reduction of tax rate for non-EPZ manufacturing companies operating in the export market. The corporate tax rate

payable by a non-EPZ company is brought down to 25% for 10-30% export turnover ratio, 20% for 30-50% export turnover ratio and 15% if exports exceed half of the turnover. Thus, the process of fiscal reforms in Mauritius is still in progress and its main objectives continue to be the achievement of proper balance in public finance and a significant reduction in overall deficit to a level that could be financed without affecting medium term growth prospects or creating additional inflationary pressures.

## V. Trade Policy Reforms

Efficient management of the external sector through appropriate trade policy reforms represents a crucial element of overall economic management in highly open and relatively small economy like Mauritius which is vulnerable to changes in international economic environment. To tide over the serious economic crisis faced by Mauritius, the Mauritian government entered into an agreement with the IMF in October 1979 to undertake an economic and financial stabilisation programme under a standby arrangement that would enable Mauritius to draw over a period of two years total financial assistance of SDR 73 million. As a part of this stabilisation programme package, the Mauritian Rupee was devalued on 23 October 1979 from MRe. 1 = SDR 0.13 to MRe. 1 = SDR 0.10. This exchange rate adjustment was made to restore the profitability and external competitiveness of Mauritian exports and simultaneously encourage the process of import substitution in the economy. This measure was also expected to depress the demand for imports through higher rupee prices of imports.

In September 1980, Mauritius entered into a new one-year stand-by arrangement with the IMF for a balance of payments assistance of SDR 35 million and in December 1981 it entered into another one year stand-by arrangement with the IMF for a further balance of payments assistance of SDR 30 million. Moreover, a Structural Adjustment Loan of US \$ 15 million was also contracted with the World Bank in June 1981 and this loan was fully disbursed by December 1981. Since Mauritius continued to face serious strains on its balance of payments during 1980-81 with overall BOP deficit rising sharply to exceed MRs. 950 million (Exhibit 6), another major exchange rate adjustment became inevitable. Thus, Mauritian Rupee was devalued again in September 1981 by 16.7% in terms of SDR (from MRe. 1 = SDR 0.10 to MRe. 1 = SDR 0.0833).

To attain greater flexibility in formulating the exchange rate policy, the government delinked the Mauritian Rupee from the SDR in 1983 and linked it to a trade-weighted basket of currencies. During the subsequent period, the Mauritian government followed a more realistic exchange rate policy that aimed at maintaining the international competitiveness of Mauritian exports through further depreciation of Mauritian rupee in terms of the nominal exchange rate. Thus, by 1985 the average annual exchange rate for US \$ and UK Pd. Sterling were MRs. 15.58 and MRs. 20.03 respectively (Exhibit 7). During the subsequent period from 1985 to 1990, Mauritian rupee continued to depreciate in nominal terms against British Pd. Stg., French Franc and Deutsche Mark. On the whole, the basic objective of the exchange rate policy of Mauritian government is to avoid appreciation in the real effective exchange rate of rupee.

By 1984, there were clear signals of economic revival in Mauritius. The overall growth rate went up from 0.4% in 1983 to 4.2% in 1984 and foreign investment went up sharply from MRs. 12 million in 1983 to MRs. 88 million in 1984. The rate of inflation, which was as high as 26.4% in 1980-81 and 13.4% in 1981-82 came down to 5.6% in 1983-84. In 1983-84, total exports increased by 25% while total imports increased by 16%. Encouraged by such positive signals of economic recovery, Mauritian government continued to pursue its economic adjustment programme with added enthusiasm and entered into its fifth stand-by arrangement with the IMF which commenced in January 1985 covering a period of 18 months involving overall balance of payments assistance of SDR 49 million. The government had already negotiated earlier (in 1983) the Second Structural Adjustment Loan of US \$ 40 million with the World Bank.

Besides the adoption of a realistic and flexible exchange rate policy, several other policy initiatives constituted important elements of the package of trade policy reforms introduced by the government in pursuit of the export-led growth strategy. These policy measures included elimination of quantitative restrictions on imports, rationalisation of tariff structure, substantial reduction of tariffs on several items of imports and various steps to encourage foreign private investment. As a part of the process of import liberalisation initiated in 1983, customs duties were significantly reduced for a large number of items and completely removed for items during the period 1983 to 1987. Moreover, the regime of import permits was completely abolished in July 1991. During the earlier period, industrial users had to obtain import permits for various items through an elaborate process of approvals involving Ministry of Foreign Trade and Ministry of Industry.

As a result of these policy reforms and also on account of sizeable assistance provided by the IMF and the World Bank during early eighties, the overall balance of payments position of Mauritius improved considerably by mid-eighties. The persistent and high deficits in balance of payments experienced during the period 1976 to 1982 disappeared and from 1984-85 onwards Mauritius has been enjoying an overall surplus in the balance of payments. The declining trend in foreign exchange reserves observed during 1976 to 1981 was arrested in 1982. In fact, during the post-1982 period, there has been a steady increase in the foreign exchange reserves of Mauritius from the highly vulnerable position of total reserves equivalent to only 2 weeks of imports in 1981 to more than 22 weeks of imports by 1990 (Exhibit 8).

The recovery and subsequent buoyancy in the balance of payments position has been partly also due to the rising trend in private foreign investment in Mauritius. During the latter half of eighties, there has been a significant inflow of foreign investment in Mauritian Export Processing Zone from various countries including Hong Kong, Taiwan, France, Germany, Switzerland, etc. and as a result aggregate foreign investment has increased sharply from MRs.73 million in 1986 to MRs. 299 million in 1989 and MRs.270 million in 1990 (Exhibit 9). Moreover, during the post-1982 period Mauritius has also enjoyed consistently favourable terms of trade with average export prices rising faster than average import prices (Exhibit 10). Improvement in the terms of trade indicates that the country is able to afford more imported goods for each rupee worth of goods exported and hence it implies rising real income leading to better standards of living. The improvement in the terms of trade was partly due to rising average price realisation for sugar exports, which still constitute around 30% of the country's total exports in 1989-90. The weighted average price of sugar exports increased by about 48% during the period 1986-87 to 1989-90 (Exhibit 11), while the average price index for exports increased by about 33% during the same period.

Another significant development during the latter half of eighties is the improvement in the external debt position of Mauritius. While the total external debt has steadily increased during the period 1985 to 1990, its pace of increase has slowed down considerably and as a result the ratio of external debt to GDP has declined from 58% in 1985 to 35% in 1990 (Exhibit 12). Moreover, the debt-service ratio has also declined from 24% to 6% over this period.

## **VI. Monetary Policy Reforms**

Since 1976, monetary policy in Mauritius was formulated with the basic objective of checking the growth in aggregate domestic expenditure and arresting the drain in foreign exchange reserves. Monetary control was achieved by the imposition of ceilings on bank credit, the regulation of bank liquidity, constraints to the access on central bank credit and revisions in interest rates. A specially designed package of monetary measures was announced in October 1979 following the devaluation of Mauritian Rupee. The bank rate was raised from 9% to 10.5%, the interest rates were increased across the board by one and-a-half points, the entire interest rate structure was rationalised, the overall ceiling on bank credit to the private sector was reintroduced and the inter-bank money market was restored. It was also stipulated that the commercial banks should use the central bank's rediscount and advance facilities only as the last resort. In order to discourage any excessive growth in the lending

ability of banks, a two-tier structure of interest rates on borrowings from the central bank was effected. Under the two-tier structure, each bank has a prescribed borrowing limit within which it can borrow from the central bank at the bank rate and any borrowing in excess to this limit would carry a rate twice the bank rate.

During the subsequent period, the overall deficit in the balance of payments got converted to a surplus, which was growing rapidly with the passage of time. The growing surplus in the overall balance of payments of the country during 1986 to 1988 brought about an increase in liquidity in the economy. Around March 1987, excess liquidity with commercial banks had reached Rs.1,200 million. Moreover, there was also an across-the-board increase in wages and salaries, which would further enhance the excess liquidity with the banks. Two immediate and adverse consequences of the increase in banks' liquidity are: (a) an upsurge of imports leading to a deterioration in the trade balance, and (b) an increase in the rate of inflation. The mopping up of excess liquidity in the economy became a priority of the Bank of Mauritius. The following measures were, therefore, taken to mop up the excess liquidity with the individuals as well as with the commercial banks.

- (i) The Bank of Mauritius Bonds which were issued in 1987. These bonds were specifically designed to mop up surplus liquidity with individuals only. Two types of such bonds, both with maturities of up to 8 years, were issued one carrying an interest rate of 14 per cent with interest payable half-yearly and subject to income tax, and the other with the initial capital tripling in 8 years with total tax exemption, and through these bonds an amount of MRs.263 million was sterilized.
- (ii) The liquid assets ratio that commercial banks are required to maintain was raised in January 1988 from 20 per cent to 23 per cent with the cash ratio requirement remaining unchanged at 10 per cent thus bringing up their liquidity ratio requirement from 30 per cent to 33 per cent of each bank's total deposit liabilities.
- (iii) Liquid assets were redefined to exclude Government stocks with maturity periods exceeding 7 years.

Highly restrictive monetary policy followed during the period 1980 to 1987 succeeded in containing double-digit inflation and the rate of inflation fell sharply from 26.4% in 1980-81 and 13.4% in 1981-82 to 1.8% in 1986 and further to 0.5% in 1987 despite relatively high growth rates of money supply during mid-eighties (Exhibit 13). However, during the subsequent period, the rate of inflation has accelerated again and the consumer price index has increased at the rate of 12% to 13% per annum during 1989 as well as 1990. Bank of Mauritius has, therefore, continued to follow tight money policy also during the latter part of eighties. The bank rate was stepped up from 11% to 12% in October 1989 and corresponding changes were also made in the entire interest rate structure.

The high rate of monetary expansion during the latter half of eighties has been induced mainly by a continuous and rapid increase in the net foreign assets of the banking sector during this period. However, a monetary development during the same period has been that the bank credit to the private sector has increased at a significant rate while net credit to the Government has declined significantly following progressive reduction in current account deficit. Thus, the tight money policy and resulting credit squeeze has not resulted in crowding out of private sector investment.

One of the aims of monetary policy during post-1982 period has been to ensure that the real rate of interest is positive. If monetary policy has to support the development strategy based on an aggressive export-led industrialisation, it is necessary for the banking system to follow an interest rate policy that is conducive to maintaining a sound investment climate so as to sustain the pace of economic growth. Accordingly, the government has initiated the policy of liberalisation of interest rates to stimulate inter-bank competition with a view to bringing about the following changes :

- (a) Gradual rise in interest rates on savings and time deposits that would be instrumental in maintaining positive real rates of interest and thereby mopping up excess liquidity;

- (b) Moving the lending rates closer to the structure that would prevail under perfectly competitive conditions to ensure that resources are more efficiently allocated among different sectors of the economy. In pursuance of this policy, there was a partial decontrol of interest rates including abolition of minimum savings deposit rate and maximum lending rate.

However, the policy of interest rate liberalisation could prove to be ineffective if there is a high degree of monopolistic concentration in the banking sector. As at the end of June 1990, there were 13 commercial banks operating in Mauritius with 117 branches and aggregate deposits of MRs.20.2 billion of which demand deposits constituted 13.5%, savings deposits 37.1% and time deposits 49.4%. However, the two largest banks control over 75% of total bank deposits, while 9 small banks share 15% of deposits. With such high levels of deposit concentration, it is unlikely that any of the smaller banks would challenge the leaders. In fact, the available evidence suggests that the commercial banks are acting almost like a cartel while dealing with the public, especially in regard to the fixation of interest rates. According to the World Bank mission (1990) that reviewed the progress of economic liberalisation in Mauritius, while some progress has been achieved in pursuing the liberalisation of the financial sector, the following problems continue to exist : (a) lack of real competition within the financial sector; (b) absence of a market determined system for the allocation and pricing of credit resources; and (c) reliance on credit ceilings.

Despite such shortcomings, there has been a remarkable attempt on the part of Mauritian government to bring about a gradual shift in the monetary management of the economy from the regime of regulated interest rates and restructuring on credit structure to a more flexible market determined interest rate structure and increasing reliance on open market operations to control money supply.

## VII. Export Processing Zone

The successful implementation of stabilisation and structural adjustment programme during early eighties created the economic environment in Mauritius in which most of the pre-conditions for sustained export-led growth strategy were fulfilled. The liberalisation of the exchange and trade regimes, improved resource mobilisation, effective control of public expenditures and restricted credit expansion contributed to laying a solid foundation for Mauritius to launch the new growth strategy and derive the maximum advantage of favourable developments in the global economic environment during the eighties. Moreover, throughout the structural adjustment period, Mauritius was able to derive the benefit of substantial foreign exchange earnings from sugar which were insulated against the adverse price behaviour in the world markets by virtue of the preferential price arrangements enjoyed by Mauritius with the EC under the Sugar Protocol of the Lome Convention. In fact, Mauritius enjoys the highest quota among the African, Caribbean and Pacific (ACP) countries currently fixed at 507 thousand metric tons, while the price that it has received from EC during most part of eighties on an average about three times the free world market price. Mauritius has made a very effective use of the resources generated from sugar exports to diversify into manufactured exports by explicitly and systematically focussing on the development of Export Processing Zone (EPZ).

Mauritian Export Processing Zone (MEPZ) was established in 1970. Following the examples of Hong Kong and Singapore, MEPZ is designed basically as a legal concept, unlike EPZs in other countries which have well defined geographical boundaries. Although MEPZ showed healthy growth during the first decade (1970-1980), its expansion accelerated significantly after the economic recovery in the post-1982 period. Thus, during the period 1982 to 1990, MEPZ has registered very impressive growth (Exhibit 15). The number of enterprises in EPZ sector has gone up from 115 to 568, employment from 23.5 to 88.3 thousand, value added has grown nine-fold and exports have grown from MRs. 1.2 billion to MRs. 11.5 billion. Currently, MEPZ has emerged as the single largest employer in the economy accounting for more than 20% of total employment and more than half of the employment in manufacturing sector. The share of EPZ exports in total exports has increased significantly from 31% in 1982 to around 64% by 1990. Similarly, the share of EPZ sector in the value added by the manufacturing sector has increased from less than 29% in 1982 to around 55% in 1990.

Rapid growth of the EPZ sector has failed to reduce the high degree of product-wise concentration in EPZ exports. Wearing apparel continues to dominate EPZ exports, and its share in total EPZ exports has in fact increased from 71% in 1982 to more than 79% in 1990 (Exhibit 16). Attempts to bring about diversification of EPZ exports has not produced the desired results so far. In fact, the only product group other than wearing apparel whose share in total EPZ exports has increased during the eighties is watches and clocks, with all other product groups indicating a marked decline in their relative share during this period. The high degree of product-wise concentration in MEPZ is also apparent from the fact that by 1990, the category of wearing apparel accounted for 61% of total firms and 84% of total employment in MEPZ (Exhibit 17). However, the degree of concentration measured in terms of size of EPZ firms seems to have declined during the period 1982 to 1990. Thus, the proportion of firms employing less than 50 workers has increased significantly and their share in total EPZ employment has also gone up during this period, while the proportion of firms employing more than 500 workers has declined and their share in total employment has also declined (Exhibit 18). It is also interesting to observe that the phenomenal growth of EPZ sector during the post-1983 period has brought about a significant decline in the incidence of sickness and closures of EPZ firms. The average proportion of closures of EPZ firms during 1978 to 1983 is found to be 9.5% per annum, while the average proportion for the subsequent period (1984 to 1988) has been much lower at 4.1% per annum (Exhibit 19). As against this, the average number of new EPZ firms being set up has increased sharply from 22 per annum during pre-1983 period to 106 per annum during the post-1983 period. Thus, entry of a large number of new firms in the EPZ sector during the post-1983 period has not seriously affected the viability of existing EPZ firms.

Backed by strong incentives and favourable economic environment, MEPZ enterprises have been able to take advantage of preferential access to European and American markets enjoyed by Mauritian products. Thus, about 75% of MEPZ exports go to EEC with France alone accounting for more than half of it, and another 20% go to USA (Exhibit 20).

#### VIII. SWOT Analysis of MEPZ

While analysing the past success and future prospects of MEPZ, it would be useful to examine its strengths and weaknesses and also evaluate the opportunities and threats facing MEPZ. The buoyancy of MEPZ during the eighties clearly indicates that Mauritius has successfully capitalized on global economic recovery during mid-eighties and has also exploited the available market opportunities through improved competitiveness of its exports resulting from an effective implementation of the structural adjustment programmes.

The strengths of MEPZ can be viewed in terms of the external factors as well as the internal factors. The main external factors which have proved to be major strengths for MEPZ are :

- i. Falling international oil prices;
- ii. Relative over-valuation of American and European currencies during mid-eighties coupled with rapid expansion of European and American markets;
- iii. Appreciation of Taiwanese dollar which reduced the competitive-ness of Taiwan firms and encouraged prospective Taiwanese investors to turn to Mauritius;
- iv. Political uncertainties in competitor countries especially Hong Kong, which pushed many successful firms to relocate their business out of Hong Kong. These firms found Mauritius to be a safe heaven for investment of their capital and relocation of manufacturing operations. In the process, the MEPZ not only gained in terms of inflow of foreign capital but also got the advantage of scarce know-how and international marketing network, which contributed to its rapid expansion.

The major internal factors which constitute the strengths of MEPZ are as follows :

- i. Mauritius offers a stable socio-political environment and the government which has a committed enthusiasm for private enterprise;

- ii. Mauritius offers a highly generous package of incentives for EPZ enterprises and it also accords a warm welcome to foreign investors with highly simplified administrative procedures for setting up enterprises in Mauritius. This creates a remarkably favourable business climate conducive to rapid growth of MEPZ;
- iii. In early-eighties, Mauritius offered an excellent combination of relatively cheap and reasonably skilled labour;
- iv. Economic planning and development of Mauritius during the sixties and seventies has ensured availability of physical infrastructure and institutional set up to facilitate industrial growth;
- v. Unlike EPZs in other countries which have relied over-whelmingly on foreign capital, MEPZ is financed substantially by local entrepreneurs and the foreign capital is used more as a stimulus rather than as an exclusive source of finance. The available information on the structure of capital ownership shows that share of accumulated capital invested by Mauritians has in fact risen from around 50% during mid-seventies to around 60% during mid-eighties. Thus, the local entrepreneurs have played a significant role in the growth of MEPZ.

The global as well as domestic economic environment has offered several opportunities to Mauritius which have effectively contributed to the growth of MEPZ during the eighties. Mauritius has benefitted significantly by effectively tapping the following opportunities:

- i. Mauritius is a signatory member of the LOME Convention between the EEC and the ACP states. Under the EEC-ACP agreement, goods manufactured from Mauritius enter the EEC market duty free as long as they satisfy the Rules of Origin (Annexure 1). LOME Convention has created vast opportunities for Mauritius and the Mauritian private sector has been fairly successful in taking full advantage of the preferential access that Mauritius has been enjoying with regard to the European Economic Community.
- ii. Mauritius enjoys an opportunity to charge preferential prices under the sugar protocol with the EEC since 1975 and currently Mauritius is the largest supplier of sugar to the EEC.
- iii. As a member of Preferential Trade Area (PTA) consisting of 19 Southern and East African countries, Mauritius derives significant benefits from Preferential Tariff Rates under the Treaty for PTA (Annexure 2).
- iv. Mauritius enjoys the benefit of a significant allocated quota on a number of textile items in both the USA and Canada. A wide range of Mauritian products also enter the USA free from quota (Annexure 3). Moreover, as a member of the Indian Ocean Island Commission, Mauritius also has easy access to a potential nearby market especially in Madagascar and Reunion.
- v. With the political climate set for reforms in South Africa, new opportunities are emerging in that region. South Africa with a population of more than 35 million and a per capita income in the range of US \$ 3000 provides vast opportunities both in the form of supply of critical raw materials and inputs to Mauritian manufacturing sector and also providing a large potential market for the goods manufactured by MEPZ.
- vi. Far reaching socioeconomic changes in Eastern Europe and USSR also represent significant opportunities for Mauritius. With the speeding up of the process of economic reforms in the erstwhile USSR and the consequent convertibility of Rouble, new opportunities have opened up for the Mauritian knitwear products. Similarly, the emergence of combined European market in 1992 would also provide fresh opportunities to Mauritius by making the access to EEC market more difficult for some of its competitor countries.
- vii. Mauritius has control over a large ocean area which represents vast untapped resources especially in the area of deep sea fishing.

While global economic environment offers many opportunities, it also poses certain threats. Among the major threats facing Mauritius, the following deserve special mention :

- i. Third World Countries with interest in the textile sector have been lobbying hard in recent years with the developed world to open fresh markets on equal terms to all textile exporters irrespective of their location or status. While not much progress has been made so far in this

- direction, the concerted efforts being continuously made by the non-ACP Third World countries poses a serious threat to Mauritian exports especially textiles. Similarly, Geneva talk for strengthening GATT instruments also poses a serious threat to the Mauritian textile sector.
- ii. USA has recently signed a pre-trade agreement with Canada. Moreover, there is also a distinct possibility of the setting up of an American free trade zone spanning the entire continent. If this possibility materialises in future, it would have serious implications for the future prospects of MEPZ.
  - iii. Successive oil shocks have led to rapid increases in freight charges. Thus, for instance, following the Gulf crisis, freight charges had increased by about 25% in 1990-91. Since Mauritius is located quite far from the main centres of international economic activities, increase in transport costs affects the prices of final products significantly and erodes the competitive age of MEPZ.
  - iv. The outcome of the last few UNCTAD meetings clearly shows the failure of the LDCs to secure a fairer deal for their manufactured exports. During the latter half of eighties, there has been a surge of protectionism and such pressures have resulted in the USA imposing quotas on a wide range of textile products produced by MEPZ which were earlier quota free. Thus, by 1988 29 categories of wearing apparel were brought under the quota system as against only 10 categories in 1984. The Multi Fibre Agreement (MFA) also continues to protect inefficient textile firms in the developing countries and this tendency poses a serious threat to countries like Mauritius.
  - v. Another serious threat to MEPZ emerges from the domestic environment. Even in those products where allocated quota is available, Mauritius has failed to make optimal utilisation of existing quotas. In fact, the average degree of quota utilisation by Mauritius has declined during the period 1985 to 1989.

Some of the weaknesses of Mauritian economy that would affect the prospects for continued expansion of MEPZ are as follows :

1. Mauritius continues to be vulnerable to external shocks.
2. MEPZ is highly dependent on the performance of the textile exports. There is a high degree of product concentration in MEPZ exports with wearing apparel accounting for more than four-fifths. Thus, the growth of MEPZ has not brought about the desired degree of diversification of Mauritian economy. It has only transformed Mauritius from a monocrop sugar dominated economy into a little more than a duo-product one. If due to some reasons Mauritian textile sector loses part of its competitiveness or preferential access to markets in EEC and USA, its repercussions on MEPZ and Mauritian economy in general could be quoted serious.
3. By the end of eighties Mauritius has started experiencing acute shortage of skilled labour as well as unskilled labour. Thus, a country which was proportionally facing the problem of surplus labour has transformed into a full employment economy facing shortages of labour. One of the consequences of such a situation has been a steadily mounting upward pressure on wage rates without there being any corresponding increase in productivity. Moreover, rapid expansion of manufacturing facility is extremely difficult under such condition.
4. Since 1989 Mauritius has been facing the problem of high rates of inflation. This has eroded part of the international competitiveness acquired by Mauritian products following depreciation of Mauritian Rupee in early 80's and mid-80's. Rising wages and rising prices of materials due to general inflation would ultimately create a situation in which Mauritian products would lose competitiveness especially in a situation where labour productivity is stagnant.

Thus, while Mauritian economy has several important strengths and is also benefitting from various opportunities provided by the global economic environment, it has also developed certain weaknesses and it is also facing some threats in recent years. The future scenario and macroeconomic strategy formulation in Mauritius will have to take cognizance of these factors.

## Lome Convention

The first Lome Convention was signed in 1975. Currently the fourth Lome Convention is in force for the period March 1, 1990 to February 28, 2000. The cornerstone of this preferential trade agreement are the relatively free access of exports from ACP countries to the EEC market as well as the exemption of customs duty. Under Article 168 [1], the products which originate from 69 ACP countries (46 African countries, 15 Caribbean countries and 8 Pacific countries) enter the EEC free of customs duties or charges having equivalent effect. Article 169[1] further provides that no quantitative restrictions or measures having equivalent effect shall apply to imports of goods originating from ACP states. This convention bestows considerable advantages to Mauritius over non-ACP countries in that the latter's exports of textile and garments are liable to a 17% duty on entry into the EEC. Mauritius has successfully exploited this preferential treatment in the textile sector.

However, there are two specific provisions in the Lome Convention, designed to protect EEC domestic industries against external exemption, which constitute a major constraint to the exports of Mauritius. These are :

1. RULES OF ORIGIN clause - The objective of this clause is to ensure exports of ACP countries origin. This implies that (a) the products must be produced from inputs wholly produced in one or more ACP countries or (b) the goods are produced from imported inputs which have undergone sufficient transformation. Moreover, if the raw materials or intermediate products are from the EEC, and processed in an ACP country, the goods are deemed to have been wholly produced in the ACP state. However, the protocol of the convention is fairly bulky and complicated. The main obstacle relates to the definition of sufficient processing or transformation that would change the tariff heading of the products processed (Article 3[1] of Protocol I). In practice, many products may have undergone sufficient transformation for a change in tariff heading but are disqualified. To the extent that Mauritius is deficient in endogenous raw materials, the Rules of Origin pose serious difficulties particularly in the garments sector which would not satisfy the Rules of Origin if manufactured from imported fabrics from non-ACP/EEC sources. To overcome this constraint, Mauritius encouraged a process of vertical integration in the textile sectors through the introduction of such processes as spinning, weaving, dyeing, printing and finishing form to raise the value-added. With the success achieved in the textile sector, the magnitude of this constraint has considerably diminished. On the contrary, it is now in the interest of Mauritius to maintain the rigidity of the Rule of Origin for the textile sector. But the Rules of Origin constitute serious handicaps to efforts of industrial diversification. A case in point is the electronics sector where the Rules of Origin stipulate that all inputs have to be imported from the EEC or produced in the ACP countries. However, there exists the possibility of derogation.

2. SAFEGUARD CLAUSE : This clause seeks to ensure that EEC is protected against any large or sudden increase in ACP imports although in practice the EEC has never invoked this clause. But under LOME II, Mauritius had once voluntarily agreed to restrain exports of textile products to avert the possibility of the EEC resorting to safeguard clauses.

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\* Source : *Mauritius at Crossroads : The Industrial Challenges Ahead*, Ministry of Industry & Industrial Technology, Government of Mauritius, 1990.

### Preferential Trade Area (PTA)

The Treaty for the establishment of Preferential Trade Area was signed in December 21, 1981 and entered into force on September 30, 1982. It sets out in 51 articles and 14 protocols, the legal and economic framework within which the member states of the Preferential Trade Area for Eastern and Southern African states (referred to as PTA) shall cooperate with the main objective of promoting the development of their economies through regional integration.

The PTA for Eastern and Southern African states covers an area of about 8.5 million sq. km. (27 per cent of the total of Africa) and currently consists of 19 countries. Forty-two per cent of the area is given as arable while 6 per cent is endowed with rivers and lakes but excludes the exclusive economic zones of island states which could be jointly exploited for irrigation, fisheries, hydropower and water transport development. Currently, less than 9 per cent of the arable land is under cultivation and only about 4 per cent of the available water is being utilised.

The human population of the PTA sub region is estimated at 175 million and increases on an average at 3 per cent per annum. The hydroelectric potential of the sub region is estimated at well over 700 billion kw per year. The countries of the sub region are rich in gold, diamonds, platinum, chrome and manganese. It has over 300 billion metric tons of phosphates, over 105 billion tons of iron ore deposits, over 60 billion tons of coal, over 170 cubic metres of natural gas, over 200 billion tons of petroleum and large quantities of uranium, nickel, copper and cobalt.

The ultimate objective of the PTA is to achieve sustained transformation of the nature of production of national economies, producing mainly unprocessed and semi-processed agricultural and mineral products, primarily for export to developed countries to high productivity and dynamic economies producing consumer and capital goods for national and sub-regional markets. The PTA is thus an instrument formulated for collective action in the generation of a process of self sustaining economic growth and development.

The treaty recognizes the fact that meaningful economic integration of the different PTA member states at different levels of economic development cannot be attained without restructuring their economies through cooperation in industrial development.

(a) According to the treaty, cooperation on industrial development will be to facilitate :

- (i) large scale capital and intermediate goods industries;
- (ii) food and agricultural industries; and
- (iii) consumer goods industries for the purpose of obtaining the economies of scale, reducing external dependence for the supply of industrial products and achieving greater complementarity of the economies of the member states.

(b) The methods of cooperation have been set out as :

- (i) the establishment of multinational enterprises;
- (ii) the establishment of joint industrial supporting institutions and infrastructural facilities;
- (iii) the encouragement of the rational and efficient use of existing as well as new industrial productive capacities, raw materials and other local resources through rationalisation and mutual sharing of resources where possible.

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\* Source : *Mauritius at Crossroads : The Industrial Challenges Ahead*, Ministry of Industry & Industrial Technology, Government of Mauritius, 1990.

- (iv) the promotion of the joint development of industrial research, skills and modern technology as well as the dissemination and exchange of related information; and
  - (v) ensuring that all the Member States gradually derive the greatest benefit and economic advantages from cooperation in industrial development.
- (c) Joint venture investments should be effected at state to state level, state to national (juridical and natural) level and national to national level. To facilitate joint ventures there is need for the PTA member states to agree on a common and preferential treatment of such ventures in relation to the movement of capital, benefits and incentives, remittances of profits and dividend, accessibility to credit, etc.

The provisions of the PTA treaty merely set out a legal economic framework within which the objectives of the PTA are to be achieved. These provisions have been concretized into programmes of action in the main economic sectors of trade, customs and monetary affairs; transport and communications; agriculture and industry. The PTA provides for eventual elimination of customs duties, modalities relating to rules of origin, clearing and payment arrangements, transport, communication, trade agriculture and industrial development, etc.

### The Quota System

The US Government imposes quota restrictions on the import of given category of clothing once the imports of that product from a country into US attains 1% of US production in that category. The US would then call on that country to hold bilateral negotiations. Fortunately, quotas are specified in volume terms, not money terms. This therefore, still leaves a country the choice to go for higher-value products. Moreover, under the agreement, provision is made for a 6% annual growth rate for the following years within the agreement period. The exception to this rule is for the wool categories for which the annual growth rate is 1%.

During the recovery period, a number of businessmen from Hong Kong, in particular those who could no longer export to the USA owing to quota restrictions, looked for a safer production haven. Mauritius initially benefitted from both the inflow of foreign capital and technical know-how. One implication is that demand for wearing apparel is to some extent a function of demand of the parent company in Hong Kong. Mauritius may not benefit to the full since the prices and the US market, additional items have been brought under quotas. Some 29 categories of wearing apparel are now under quotas against 10 categories in 1984-85. Quota in garments for exports to the US market is allocated as follows :

- (i) 90% is allocated to companies on the basis of past performance
- (ii) the remaining 10% is reserved for new comers and distributed equally among those who have orders in hand.

Thus, an exporter who has satisfied the performance criterion the preceding year would be entitled his previous year's quota plus the overall growth. Exporters who fail to meet 50% of their quota lose their quota in the following year, while exporters performing between 51 to 90% of the quota allocations would be entitled a quota equivalent to their export performance.

Exporters can surrender their quota, and if the surrender is effected six months prior to the agreement year, the exporters are deemed to have performed their quota and so do not lose their quota in subsequent years. The unused quota becomes available for distribution to new comers. The Ministry of Trade and Shipping had also a generous provision for firms working on a CMT basis to large enterprises. Actually the quota may be shared between the satellite firm and the large establishment actually effecting the export in the ratio of 75:25 based on the performance for May 1985 to April 1986. The latter formula did not meet with much success since many of the satellite firms lacking finance, experience and managerial skill or the marketing network of Hong Kong based firms failed to secure orders. Many even resorted to selling their quotas. In such cases the Ministry of Trade and Shipping revoked the quota allocations.

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\* Source : *Mauritius at Crossroads : The Industrial Challenges Ahead*, Ministry of Industry & Industrial Technology, Government of Mauritius, 1990.

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<i>Exhibit 1 Selected Socio-economic Indicators for Mauritian Economy, 1990</i>	
<i>Per Capita GNP (US \$)</i>	<i>2600</i>
<i>Population (000)</i>	<i>1036.8</i>
<i>Total Area ( sq. km)</i>	<i>1865</i>
<i>Density (persons per sq. km)</i>	<i>556</i>
<i>Labour Participation rate (%)</i>	<i>41.5</i>
<i>Share of Agriculture in Employment (%)</i>	<i>16.8</i>
<i>Birth Rate (Per 1000)</i>	<i>20.8</i>
<i>Death Rate (Per 1000)</i>	<i>6.9</i>
<i>Infant Mortality Rate (Per 1000)</i>	<i>19.5</i>
<i>Life expectancy at birth (Years)</i>	<i>68</i>
<i>Literacy rate (%)</i>	<i>90</i>
<i>Number of Doctors (Per 10,000)</i>	<i>10</i>
<i>Number of beds in Government Hospitals (Per 1000)</i>	<i>2.8</i>
<i>Number of Registered Vehicles (per 100)</i>	<i>10</i>
<i>Number of Telephones (Per 100)</i>	<i>5</i>
<i>Average annual per capita electricity consumption (Kwh)</i>	<i>950</i>
<i>Length of Roads (Kms)</i>	<i>1801</i>
<i>Ratio of Exports to GDP (%)</i>	<i>48.2</i>
<i>Ratio of Imports to GDP (%)</i>	<i>63.7</i>
<i>Savings Rate (%)</i>	<i>22.2</i>
<i>Unemployment Rate (%)</i>	<i>2.5</i>
<i>Source : Ministry of Economic Development and Planning, Government of Mauritius.</i>	

**Exhibit 2**  
**Sectoral Composition of Gross Domestic Product and Related Aggregates**

*(MRs. Million at Current Factor Cost)*

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
<i>Agriculture, Fishing and Mining</i>	929	1273	1547	1483	1755	2143	2532	2909	3094	3415	3855
<i>Manufacturing</i>	1127	1377	1560	1678	2183	2864	3830	4841	5627	6365	7450
<i>Electricity and Water</i>	209	188	260	245	296	397	462	490	517	577	540
<i>Construction</i>	561	588	625	655	690	775	880	1045	1370	1720	2185
<i>Tade, Restaurants and Hotels</i>	1050	1219	1290	1455	1640	1834	2300	2962	3785	4540	5390
<i>Transport, Storage and Communication</i>	837	997	1112	1230	1372	1510	1755	2075	2425	2915	3340
<i>Financing, Insurance and Real Estate</i>	1309	1517	1755	1890	2050	2190	2335	2482	2723	3150	3580
<i>Government Services</i>	952	1104	1275	1327	1379	1447	1560	2035	2680	2985	3360
<i>Other Services</i>	415	502	596	650	685	720	776	856	960	1172	1335
<i>Gross Domestic Product at factor cost</i>	7389	8765	10020	10613	12050	13880	16450	19695	23181	26839	31070
<i>Indirect Taxes (Net of subsidies)</i>	1308	1444	1705	2150	2310	2738	3250	3881	4622	5176	5875
<i>Gross Domestic Product at Market Prices</i>	8697	10209	11725	12763	14360	16618	19700	23576	27803	32015	36945
<i>Net factor income from rest of the world</i>	-178	-408	-498	-485	-626	-700	-729	-538	-593	-303	-170
<i>Gross National Product at factor cost</i>	7211	8357	9522	10128	11424	13180	15721	19157	22588	26536	30900

*Source : Central Statistical Office, Government of Mauritius.*

<b>Exhibit 3</b>									
<b>Sectoral Composition of Gross Domestic Product and Related Aggregates</b>									
<i>(MRs. Million at Constant 1982 prices)</i>									
	1982	1983	1984	1985	1986	1987	1988	1989	1990
<i>Agriculture, Fishing and Mining</i>	1547	1348	1358	1509	1670	1633	1544	1414	1564
<i>Manufacturing</i>	1560	1576	1768	2038	2450	2795	3030	3112	3330
<i>Electricity and Water</i>	260	243	267	315	343	360	372	415	425
<i>Construction</i>	625	633	646	698	768	834	978	1086	1206
<i>Trade, Restaurants and Hotels</i>	1290	1373	1455	1527	1677	2010	2247	2415	2549
<i>Transport, Storage and Communication</i>	1112	1151	1209	1260	1345	1465	1606	1727	1822
<i>Financing, Insurance and Real Estate</i>	1755	1812	1872	1935	1993	2070	2157	2270	2374
<i>Government Services</i>	1275	1300	1320	1330	1343	1383	1439	1491	1543
<i>Other Services</i>	596	627	646	652	675	710	753	802	834
<i>Gross Domestic Product at factor cost (MRs.'000)</i>	10020	10063	10541	11264	12264	13260	14006	14535	15458

*Note : Figures for 1989 and 1990 are provisional.*  
*Source : Central Statistical Office, Government of Mauritius.*

<b>Exhibit 4</b>											
<b>Employment in Large Establishments by Major Sectors</b>											
<i>(Numbers in September in 000)</i>											
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
<i>Agriculture, Fishing and Mining</i>	58.10	57.10	56.90	56.00	53.70	52.90	52.20	50.20	50.00	48.00	47.00
<i>Manufacturing</i>	36.40	37.20	37.10	38.30	48.60	62.90	83.90	99.90	105.50	107.80	107.80
<i>Electricity and Water</i>	4.50	4.40	4.40	4.10	3.90	3.80	3.70	3.60	3.50	3.50	3.40
<i>Construction</i>	7.40	6.30	5.60	4.40	4.10	5.00	6.40	8.70	9.30	9.90	11.10
<i>Trade, Restaurants and Hotels</i>	9.20	9.00	9.00	8.90	8.90	9.20	10.10	11.90	13.20	14.50	17.40
<i>Transport, Storage and Communication</i>	8.10	8.20	7.90	8.00	8.50	8.70	9.10	10.00	11.30	12.00	13.30
<i>Government Services (incl Finance, Insurance and Real Estate)</i>	54.50	54.90	55.00	54.90	55.10	55.10	54.70	54.80	54.70	54.90	66.80
<i>Other Services</i>	19.40	19.20	19.40	19.20	17.80	17.80	18.20	20.60	21.50	22.50	12.70
<b>Total</b>	<b>197.60</b>	<b>196.30</b>	<b>195.10</b>	<b>193.80</b>	<b>200.60</b>	<b>215.40</b>	<b>238.30</b>	<b>259.70</b>	<b>271.20</b>	<b>273.20</b>	<b>279.50</b>

*Source : 1. Bank of Mauritius, Annual Report 1990*  
*2. Mauritius Chamber of Commerce and Industry, Annual Report 1990.*

<b>Exhibit 5</b>										
<b>Trends in Budget Deficit and Related Aggregates</b>										
<i>(MRs. Million)</i>										
	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
<b>Tax Revenue</b>	1956	2437	2803	2993	3503	4317	5516	6656	7460	8689
<b>Non-tax Revenue</b>	268	366	267	403	395	624	625	557	609	543
<b>Total Revenues</b>	2224 (19.0)	2803 (22.0)	3070 (21.4)	3396 (20.4)	3898 (19.8)	4939 (20.9)	6141 (22.1)	7213 (22.4)	8068 (21.4)	9232 (21.9)
<b>Current Expenditures</b>	2891	3222	3393	3691	3938	4273	5298	6518	7739	8507
<b>Capital Expenditure</b>	444	360	349	585	567	935	1142	1110	1534	1734
<b>Net Lending</b>	341	402	237	110	266	216	204	603	85	60
<b>Total Expenditures</b>	3676 (31.4)	3984 (31.2)	3979 (27.7)	4386 (26.4)	4771 (24.2)	5424 (23.0)	6644 (23.9)	8231 (25.6)	9358 (24.8)	10301 (24.4)
<b>Current Account Deficit/Surplus</b>	-667	-419	-323	-295	-40	666	843	695	329	725
<b>Overall Deficit/Surplus</b>	-1452 (-12.4)	-1181 (-9.3)	-909 (-6.3)	-990 (-6.0)	-873 (-4.4)	-485 (-2.1)	-503 (-1.8)	-1018 (-3.2)	-1290 (-3.4)	-1069 (-2.5)
<b>External Financing</b>	866	-152	-88	887	119	336	816	-433	65	12
<b>Domestic Financing</b>	587	1333	997	103	754	149	-313	1451	1225	1057

*Note : 1990-91 figures are Estimates.*  
*Figures in Parantheses are per cent to GDP at market prices*  
*Source : Annual Reports of the Bank of Mauritius.*

<b>Exhibit 6</b>								
<b>Balance of Payments Summary 1976-77 to 1989-90</b>								
<i>(MRs. Million)</i>								
<b>Year</b>	<b>Exports (FOB)</b>	<b>Imports (FOB)</b>	<b>Merchandise Balance</b>	<b>Services (net)</b>	<b>Transfers (net)</b>	<b>Current Account Balance</b>	<b>Capital Account Balance*</b>	<b>Overall Balance of Payments</b>
1976-77	1947	2220	-273	-214	36	-451	44	-407
1977-78	2029	2523	-494	-223	89	-628	423	-205
1978-79	2202	2664	-462	-253	82	-633	128	-505
1979-80	2904	3533	-629	-300	116	-813	311	-502
1980-81	2877	4243	-1366	-250	192	-1424	471	-953
1981-82	3853	4255	-402	-447	232	-617	219	-398
1982-83	3844	4387	-543	-409	348	-604	339	-265
1983-84	4790	5080	-290	-452	320	-422	38	-384
1984-85	5766	6272	-506	-606	509	-603	1001	398
1985-86	7539	7529	10	-494	660	176	467	643
1986-87	10467	9651	816	81	678	1575	997	2572
1987-88	12377	14558	-2181	116	1099	-966	3694	2728
1988-89	14493	16137	-1644	337	1193	-114	2110	1996
1989-90 (Provisional)	15766	20019	-4253	1019	1259	-1975	5016	3041

*\*Including Errors & Omissions.*  
*Source : Annual Reports of Bank of Mauritius.*

<b>Exhibit 7</b>				
<b>Trends in Foreign Exchange Rates of Mauritian Rupee</b>				
<i>(MRs. per unit of Foreign Currency)</i>				
<i>Year</i>	<i>U.S.A. (MRs./\$)</i>	<i>United Kingdom (MRs./Pd.Stg.)</i>	<i>France (MRs./Fr.)</i>	<i>Germany (MRs./DM)</i>
1983	11.91	17.86	1.56	4.64
1984	13.95	18.47	1.60	4.91
1985	15.58	20.03	1.74	5.33
1986	13.27	19.87	1.96	6.30
1987	13.01	21.20	2.15	7.26
1988	13.59	24.07	2.27	7.75
1989	15.36	24.83	2.44	8.31
1990	15.28	25.82	2.67	9.07

*Source : Annual Reports of Bank of Mauritius.*

<b>Exhibit 8</b>		
<b>Trends in Foreign Exchange Reserves in Mauritius</b>		
<i>Year</i>	<i>Forex Reserves at the end of June (MRs. Million)</i>	<i>Forex Reserves in terms of Weeks of Imports</i>
1975	598.5	15.60
1976	776.1	16.75
1977	369.5	6.51
1978	485.5	8.21
1979	224.9	3.22
1980	243.7	2.68
1981	205.8	2.14
1982	460.4	4.74
1983	457.0	4.59
1984	546.4	4.38
1985	852.0	5.46
1986	1307.9	7.39
1987	3193.1	12.73
1988	5547.3	16.52
1989	6995.8	17.99
1990	10268.9	22.23

*Source : Annual Reports of Bank of Mauritius.*

<b>Exhibit 9</b>					
<b>Sources of Foreign Investments in Mauritian Export Processing Zone</b>					
<i>(MRs. '000)</i>					
<i>Sources</i>	<i>1986</i>	<i>1987</i>	<i>1988</i>	<i>1989</i>	<i>1990</i>
<i>Australia</i>	--	6,505	1,000	--	4,500
<i>China</i>	--	--	20,469	6,018	13,354
<i>France</i>	4,359	7,572	13,252	31,937	57,948
<i>Germany</i>	3,464	500	1,785	49,663	3,761
<i>Holland</i>	--	--	--	2,200	--
<i>Hong Kong</i>	23,939	10,295	119,949	19,407	54,636
<i>India</i>	100	1,015	1,495	585	--
<i>Italy</i>	698	--	--	6,681	294
<i>Pakistan</i>	--	--	--	1,700	31
<i>Seychelles</i>	--	--	2,000	2,625	--
<i>Singapore</i>	--	400	1,000	5,300	--
<i>South Africa</i>	7,580	2,420	360	1,598	250
<i>Switzerland</i>	--	--	--	3,929	18,640
<i>Taiwan</i>	1,400	12,571	1,825	13,338	62,647
<i>United Kingdom</i>	3,141	6,466	12,387	28,698	7,218
<i>U.S.A.</i>	550	15,175	--	--	--
<i>Zimbabwe</i>	--	--	--	2,203	375
<i>Others</i>	28,174	126,284	68,362	122,667	46,541
<b>TOTAL</b>	<b>73,405</b>	<b>189,203</b>	<b>235,864</b>	<b>298,549</b>	<b>270,195</b>

*Source : Mauritius Export Development and Investment Authority*

<b>Exhibit 10</b>		
<b>Export And Import Price Indices</b>		
<i>(1982 = 100)</i>		
<i>Period</i>	<i>Price Indices</i>	
	<i>Export</i>	<i>Import</i>
<i>1982</i>	<i>100</i>	<i>100</i>
<i>1983</i>	<i>107</i>	<i>98</i>
<i>1984</i>	<i>119</i>	<i>110</i>
<i>1985</i>	<i>136</i>	<i>121</i>
<i>1986</i>	<i>144</i>	<i>98</i>
<i>1987</i>	<i>161</i>	<i>102</i>
<i>1988.</i>	<i>172</i>	<i>111</i>
<i>1989</i>	<i>191</i>	<i>132</i>

*Source : Central Statistical Office, Government of Mauritius.*

<b>Exhibit 11</b>				
<b>Sugar Exports by Main Markets and Local Sales,</b>				
<b>Crop Year 1986-87 to 1989-90</b>				
<b>Destination/Item</b>	<b>1986-87</b>	<b>1987-88</b>	<b>1988-89</b>	<b>1989-90</b>
<b>E.E.C.</b>				
<i>Quantity (000 M/tons)</i>	505.0	507.2	514.7	506.3
<i>Value (MRs. Mn.)</i>	3656.2	4055.8	4159.0	4515.2
<i>Average Price (MRs./Ton)</i>	7219	7988	8064	8900
<b>U.S.A.</b>				
<i>Quantity (000 M/tons)</i>	9.5	7.3	15.3	15.9
<i>Value (MRs. Mn.)</i>	54.1	41.8	99.7	115.0
<i>Average Price (MRs./Ton)</i>	5674	5913	6500	7243
<b>World Market</b>				
<i>Quantity (000 M/tons)</i>	147.8	144.0	69.5	10.2
<i>Value (MRs. Mn.)</i>	272.4	392.0	293.0	97.5
<i>Average Price (MRs./Ton)</i>	1840	2696	4204	6002
<b>Total Exports</b>				
<i>Quantity (000 M/tons)</i>	662.8	658.5	599.2	532.4
<i>Value (MRs. Mn.)</i>	3982.7	4489.6	4551.7	4727.7
<i>Average Price (MRs./Ton)</i>	5998	6800	7576	8862
<b>Local Sales</b>				
<i>Quantity (000 M/tons)</i>	44.8	32.4	34.7	36.0
<i>Value (MRs. Mn.)</i>	115.9	89.2	94.3	99.1
<i>Average Price (MRs./Ton)</i>	2580	2743	2714	2748
<i>Source : Digest of Industrial Statistics 1990, Central Statistical Office, government of Mauritius (June 1991).</i>				

<b>Exhibit 12</b> <i>Trends in the External Debt of Mauritius</i>							
<i>(US \$ Million)</i>							
	1980	1985	1986	1987	1988	1989	1990
<i>Public and Publicly Guaranteed Long Term Debt</i>	295	397	466	581	652	631	699
<i>Private Non-Guaranteed Long Term Debt</i>	24	15	22	46	57	106	106
<i>Total Long Term Debt (% Share of World Bank &amp; IDA Assistance in Long Term Debt)</i>	319 (17.33)	412 (33.15)	468 (35.85)	627 (33.85)	709 (29.47)	737 (26.37)	805 (24.21)
<i>IMF Credit</i>	102	165	162	152	103	63	22
<i>Net Short Term Debt</i>	47	51	38	34	49	32	32
<i>Total External Debt</i>	468	628	668	813	861	832	860
<i>Total External Debt as Per cent of GDP</i>	41.31	58.36	45.64	45.53	44.20	40.09	34.92
<i>Total Debt Service as Per cent of Exports</i>	9.07	24.28	16.23	10.84	14.33	10.86	6.13

*Source : Trends in Developing Economies, 1990 and 1991, The World Bank.*

<b>Exhibit 13</b> <i>Trends in Money Supply and Related Indicators</i>									
<i>(MRs. Million)</i>									
	1982	1983	1984	1985	1986	1987	1988	1989	1990
<i>Money (M<sub>1</sub>)</i>	1742	1806	1738	2041	2436	3304	3821	4514	5580
<i>Quasi-Money</i>	3185	3622	5022	6146	8085	10351	13748	15765	18990
<i>Money and Quasi-Money (M<sub>2</sub>)</i>	4927	5428	6760	8187	10521	13655	17569	20279	24570
<i>M<sub>1</sub> as % of GDPMP</i>	14.9	14.2	12.1	12.3	12.4	14.0	13.7	14.0	14.8
<i>M<sub>2</sub> as % of GDPMP</i>	42.0	42.5	47.1	49.3	53.4	57.9	63.2	63.1	65.2
<i>Velocity</i>	2.4	2.4	2.1	2.0	1.9	1.7	1.6	1.6	1.5
<i>Rate of Inflation (CPI)</i>	11.5	5.6	7.4	6.7	1.8	0.5	9.2	12.6	13.5
<i>Nominal Interest Rate (Saving Deposits)</i>	9.0	9.0	8.5	8.5	8.5	8.0	8.0	10.0	12.0
<i>Real Interest Rate (Saving Deposits)</i>	-2.5	3.4	1.1	1.8	6.7	7.5	-1.2	-2.6	-1.5
<i>Nominal Interest Rate (Time Deposits)</i>	12.0	14.0	12.0	12.0	12.0	11.0	11.0	12.0	13.5
<i>Real Interest Rate (Time Deposits)</i>	0.5	8.4	4.6	5.3	10.2	10.5	1.8	-0.6	0.0
<i>Nominal Growth of GDPMP</i>	14.8	8.9	12.5	15.7	18.5	19.7	17.9	15.6	17.3
<i>Nominal Growth of M<sub>1</sub></i>	13.6	3.7	-3.8	17.4	19.4	35.6	15.6	18.1	23.6
<i>Nominal Growth of M<sub>2</sub></i>	23.4	10.2	24.5	21.1	28.5	29.8	28.7	15.4	21.2

*Note: M<sub>1</sub> : Money supply -> currency held by the public plus demand deposits of the banking system.  
Quasi-Money : -> Savings and time deposits of the banking system.  
M<sub>2</sub> : Aggregate Monetary Resources -> M<sub>1</sub> + Quasi-Money.  
Sources : Annual Reports of Bank of Mauritius.*

<b>Exhibit 14</b>								
<b>Trends in Aggregate Employment, Unemployment and Labour Productivity</b>								
	1983	1984	1985	1986	1987	1988	1989	1990
Population (000)	968.6	993.8	1003.8	993.8	1003.8	1016.6	1026.8	1036.8
Total Working Force (000)	279.3	302.3	336.2	366.5	389.6	418.0	425.6	440.7
Employment (in large establishments) (000)	193.8	200.6	215.4	238.3	259.7	271.2	273.2	279.5
Other Working Force (000)	85.5	101.7	120.8	128.2	129.9	146.8	152.4	161.2
Total Unemployment (000)	70.7	65.9	58.4	49.5	39.0	22.0	15.4	11.3
Total Labour Force (000)	350.0	368.2	394.6	416.0	428.6	440.0	441.0	452.0
Unemployment Rate(%)	20.2	17.9	14.8	11.9	9.1	5.0	3.5	2.5
Labour Productivity (at current prices) (MRs.000)	37998.6	39861.1	41284.9	44884.0	50551.9	55457.0	53322.4	71477.2
Labour Productivity at constant 1982 prices (MRs.000)	36029.3	34869.4	33503.9	33462.5	34034.9	33491.1	34151.8	35076.0

Note : Labour productivity is measured as the ratio of GDP at factor cost to total working force.  
Source : Ministry of Economic Development and Planning, Mauritius.

<b>Exhibit 15</b>							
<b>Growth of the Mauritian Export Processing Zone</b>							
	1982	1985	1986	1987	1988	1989	1990
No. of Enterprise	115	290	408	531	591	563	568
Employment	23500	50047	70519	85685	89080	88650	88258
Value Added at Current Factor Cost (MRs. Mn.)	449	1333	1900	2585	3125	3450	4079
Total investment at Current Prices (MRs.Mn.)	38	340	560	655	870	900	750
Exports (MRs.Mn.)	1236	3283	4960	6567	8179	9057	11474
Imports (MRs.Mn.)	743	2530	3837	4800	5890	7502	7348
<b>Share of EPZ Sector (%) :</b>							
EPZ employment in total employment	12.0	14.5	18.8	20.9	21.3	20.8	20.5
EPZ employment in manufacturing employment	63.4	49.5	53.5	54.3	54.3	52.8	53.2
EPZ Value Added in GDP	4.5	9.6	11.6	13.1	13.5	12.8	13.1
EPZ Value Added in Manufacturing Value Added	28.8	46.5	49.6	53.4	55.5	54.2	54.6
EPZ investment in GDFCF	1.8	11.0	14.4	12.9	10.9	10.9	8.3
EPZ investment in manufacturing investment	12.1	45.9	52.3	44.9	46.4	42.2	35.0
EPZ exports in total exports	31.0	50.2	52.6	55.1	59.0	58.4	63.6
EPZ imports in total imports	14.7	31.2	42.0	36.8	33.7	37.1	30.7

Source : 1. *Digest of Industrial Statistics, 1990*, Central Statistical Office, Government of Mauritius.  
2. *Mauritius at Crossroads*, Ministry of Industry and Industrial Technology, Government of Mauritius

**Exhibit 16**  
**Exports of Selected Commodities of EPZ Industries (1982-1990)**

<i>Mrs. Mn.</i>									
<i>Product Group</i>	1982	1983	1984	1985	1986	1987	1988	1989	1990
<i>Fish and Fish Preparation</i>	47	68	99	115	97	100	173	190	142
<i>Textile Yarn, Fabrics, Made-up Articles</i>	89	66	78	86	101	138	180	361	444
<i>Articles of Apparel and clothing accessories</i>	877	921	1584	2539	4012	5407	6446	7038	9096
<i>Optical Goods, nes</i>	29	33	60	82	90	90	88	133	125
<i>Watches and clocks</i>	38	65	84	146	246	337	563	500	629
<i>Pearls, precious and semi-precious stones</i>	52	49	89	127	172	185	302	325	354
<i>Jewellery, gold-smühs' and silversmühs' wares</i>	27	31	48	58	82	65	69	80	155
<i>Toys, games and sporting goods</i>	30	34	50	44	57	78	85	90	124
<i>Others</i>	46	40	59	86	94	167	270	340	373
<b>Total</b>	<b>1235</b>	<b>1307</b>	<b>2151</b>	<b>3283</b>	<b>4951</b>	<b>6567</b>	<b>8176</b>	<b>9057</b>	<b>11442</b>

*Source : Mauritius Export Development and Investment Authority*

**Exhibit 17**  
**Percentage Distribution of EPZ Firms and Employment**

<i>Product Group</i>	<i>Firms</i>		<i>Employment</i>	
	1983	1990	1983	1990
<i>Textiles</i>	5.5	5.4	5.4	4.8
<i>Wearing Apparel</i>	43.8	60.2	80.0	84.8
<i>Flowers</i>	10.3	7.5	0.6	0.6
<i>Leather Product/Footwear</i>	3.4	2.3	1.1	1.6
<i>Wood, Furniture and Paper</i>	2.7	2.8	1.9	0.6
<i>Optical Goods</i>	1.4	0.9	0.7	0.6
<i>Watches and Clocks</i>	4.1	1.0	1.5	1.0
<i>Jewellery</i>	6.2	3.3	2.7	1.5
<i>Toys and Carnival Articles</i>	4.1	1.4	2.1	1.1
<i>Other</i>	18.5	15.2	4.0	3.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*Source : Ministry of Industry and Industrial Technology, Government of Mauritius.*

<b>Exhibit 18</b> <b>Distribution of Mauritian EPZ Firms and Employment by Size</b>						
<b>Size of Employment</b>	<b>1982</b>			<b>1990</b>		
	<b>Firms</b>	<b>Employment</b>		<b>Firms</b>	<b>Employment</b>	
	<b>No.</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>No.</b>	<b>%</b>
<i>Less than 50</i>	47	871	3.7	299	6142	6.9
<i>51 - 100</i>	18	1179	5.0	77	5377	6.1
<i>101 - 300</i>	28	4051	17.3	105	19256	21.8
<i>301 - 500</i>	11	4270	18.2	37	11745	13.3
<i>501 - 1000</i>	9	5330	22.7	33	21127	24.0
<i>More than 1000</i>	5	7775	33.1	15	24611	27.9
	<b>118</b>	<b>23476</b>	<b>100.0</b>	<b>566</b>	<b>88258</b>	<b>100.0</b>

*Source : Mauritian Export Development and Investment Authority.*

<b>Exhibit 19</b> <b>Number of Closures in the EPZ for the Period 1978-1990</b>					
<b>Period</b>	<b>No. of New EPZ firms starting operation</b>	<b>No. of EPZ Closures</b>	<b>Net Additions</b>	<b>Total No. of EPZ firms</b>	<b>Proportion of Closures (Per cent)</b>
1978	12	15	-3	85	17.6
1979	16	7	9	94	7.4
1980	10	4	6	100	4.0
1981	18	10	8	107	9.3
1982	20	8	12	118	6.8
1983	57	17	40	146	11.6
1984	54	6	48	195	3.1
1985	101	6	95	290	2.1
1986	139	21	118	408	5.1
1987	141	20	121	531	3.8
1988	95	38	57	591	6.4

*Source : Mauritius at Crossroads, Ministry of Industry and Industrial Technology, Mauritius.*

Exhibit 20 Main EPZ Exports by Destination, 1988			
(Percentage Shares)			
	E.E.C	U.S.	Others
Garments	70.8	21.6	7.7
Textiles	54.0	37.5	8.5
Knitwear	86.5	6.6	6.9
Tuna	99.2	0.0	0.8
Yarn	84.4	0.0	15.6
Diamonds	68.7	4.7	26.6
Leather Goods	92.4	0.0	7.6
Spectacles and Goggles	17.1	63.0	19.9
Watches	86.8	0.0	13.2
Toys	97.8	0.0	2.2
Total	75.1	20.5	4.4

Source : World Bank Country Study on Mauritius.

Exhibit 21 Production Account of the EPZ Sector by Product Groups, 1989					
(MRs.Million)					
	Gross Output at Producers' Value	Intermediate Consumption	Value Added at Factor Cost	Compensation of Employees	Gross Operating Surplus
Food Products	246.2	195.8	50.4	26.8	23.6
Textile Yarn and Fabrics	924.4	603.2	321.2	119.2	202.0
Wearing Apparel	8156.0	591.2	2564.8	1415.4	1149.4
Leather Products	177.3	111.3	66.0	31.5	34.5
Wood and Furniture	33.7	13.7	20.0	10.4	9.6
Paper Products	24.6	14.0	10.6	4.8	5.8
Rubber and Plastic Products and Chemicals	96.2	68.7	27.5	5.9	21.6
Metal Products, Non-electrical Machinery and Electrical Machinery	37.7	23.2	14.5	5.0	9.5
Watches, clocks and optical goods	619.9	430.2	189.7	61.6	128.1
Jewellery	410.7	292.6	118.1	50.0	68.1
Other Products	161.1	93.9	67.2	34.4	32.8
<b>Total</b>	<b>10887.8</b>	<b>7437.8</b>	<b>3450.0</b>	<b>1765.0</b>	<b>1685.0</b>

Source : Digest of Industrial Statistics 1990, CSO, Government of Mauritius, June 1991.

Exhibit 22 Value Added, Employment and Productivity in EPZ Sector by Main Product Groups					
Item/Sector	1986	1987	1988	1989	1990
<b>Value Added (MRs. Mn.)</b>					
Textile Yarn & Fabrics	136.5	173.9	271.3	321.2	378.9
Wearing Apparel	1498.3	2058.5	2361.5	2564.8	3025.7
Watches, Clocks and Optical Goods	99.7	130.2	176.0	189.7	223.8
Jewellery and Related Articles	50.6	62.6	104.0	118.1	139.3
Other Products	114.8	159.8	212.2	256.2	302.3
<b>Total</b>	<b>1899.9</b>	<b>2585.0</b>	<b>3125.0</b>	<b>3450.0</b>	<b>4070.0</b>
<b>Employment</b>					
Textile Yarn & Fabrics	2631	3514	4171	4445	4360
Wearing Apparel	56879	70128	76667	74738	73263
Watches, Clocks and Optical Goods	1014	1258	1433	1502	1455
Jewellery and Related Articles	928	1029	1345	1623	1471
Other Products	3224	3621	3976	4674	4605
<b>Total</b>	<b>64676</b>	<b>79550</b>	<b>87592</b>	<b>86982</b>	<b>85154</b>
<b>Productivity (MRs.000)</b>					
Textile Yarn & Fabrics	51.9	49.5	65.0	72.3	86.9
Wearing Apparel	26.3	29.4	30.8	34.3	41.3
Watches, Clocks and Optical Goods	98.3	103.5	122.8	126.3	153.8
Jewellery and Related Articles	54.5	60.8	77.3	72.8	94.7
Other Products	35.6	44.1	53.4	54.8	65.6
<b>Total</b>	<b>29.4</b>	<b>32.5</b>	<b>35.7</b>	<b>39.7</b>	<b>47.8</b>

Note : 1. Employment indicates mid-year average.  
2. Value added is at current factor cost.

Source : Digest of Industrial Statistics 1990, CSO, Government of Mauritius, June 1991.

Exhibit 23 Trends in Labour Productivity in Manufacturing and EPZ Sectors (1982 = 100)						
	Manufacturing Sector (including Sugar)			EPZ Sector		
	Production Index	Employment Index	Productivity Index	Production Index	Employment Index	Productivity Index
1982	100	100	100	100	100	100
1983	100	107	93	109	112	97
1984	113	134	84	145	165	88
1985	133	173	77	188	240	78
1986	153	216	71	254	319	80
1987	180	248	72	310	376	82
1988	197	256	77	347	385	90
1989	205	261	78	367	383	96
1990	220	264	83	400	375	107

Source : Digest of Industrial Statistics 1990, Central Statistical Office, Government of Mauritius, June 1991.

**Exhibit 24**  
**Direction of Exports and Imports**

(MRs. Million)

	1986	1987	1988	1989	1990
<b>Exports (F.O.B.)</b>					
France	2121	2945	3025	2986	3981
Germany	660	907	1273	1391	1528
Italy	208	300	505	570	793
United Kingdom	3405	4076	4808	5384	6289
United States of America	1457	1699	1785	2076	2307
Other	1212	1570	2069	2642	2671
<b>Total Exports</b>	<b>9063</b>	<b>11497</b>	<b>13465</b>	<b>15049</b>	<b>17569</b>
E.E.C.	7010	9095	10622	11583	13997
Other Preferential Tariff Countries	1882	2271	2307	2835	2993
General Tariff Countries	171	131	536	631	579
<b>Imports (c.i.f.)</b>					
China	447	692	671	1000	810
France	1248	1699	2133	2746	3525
Germany	531	733	902	1462	1690
Hong Kong	626	822	942	971	932
India	281	492	643	759	1012
Japan	636	1279	1281	1843	1454
South Africa	910	1110	1482	1817	2110
Taiwan	414	685	765	1073	1123
United Kingdom	686	1058	1259	1284	1702
United States of America	163	227	2078	321	1102
Other	3148	4245	5091	6941	8559
<b>Total Imports</b>	<b>9090</b>	<b>13042</b>	<b>17247</b>	<b>20217</b>	<b>24019</b>
E.E.C.	3247	4281	5350	6923	8644
Other Preferential Tariff Countries	3010	4071	6991	6263	8253
General Tariff Countries	2833	4690	4906	7031	7122

**Source :** Central Statistical Office, Government of Mauritius