

Mauritius

The Mauritius experience of creating industrial competitiveness is analysed in this chapter. It examines initial conditions, industrial achievements, explanations, institutional support for private sector competitiveness, future challenges and, most importantly, lessons for other small states.

4.1 Initial Conditions and Industrial Achievements

There is considerable interest in the Mauritius experience in academic, policy and business circles in small states, as well as in large developing countries.¹⁹ Over the last 30 years, few sub-Saharan African countries have made the transition to the production of manufactures for export, along with high per capita incomes and living standards for their population. Some African economies have begun producing manufactures for export but, sadly, their manufactured export growth rates have rarely been sustained.²⁰ Furthermore, they have yet to establish a significant international market presence even in a relatively simple, labour-intensive industry like textiles and garments. Mauritius is an exception in that it has turned in an impressive industrial performance. Of a sample of 40 small states, Mauritius is also the fourth best performer in terms of its overall SSMECI ranking (Table 3.5).

Yet a glance at its initial conditions at independence from British rule in the late 1960s indicated that the odds were heavily stacked against it achieving future industrial success. Mauritius was a poor, small developing state back in the 1960s with a dualistic economy consisting of a high productivity sugar plantation economy and a low productivity subsistence agricultural sector. In common with many other small developing states, it had a catalogue of unfavourable initial conditions:

- Economic dependence on a single primary commodity, sugar, and proneness to terms of trade shocks as well as natural disasters such as hurricanes;
- A remote island location in the south-western Indian Ocean, far from major markets and suppliers in the developed world and neighbouring a relatively weak African market and supplier base;
- A very small domestic market of well under 1 million relatively poor people (GDP per capita was \$270 in 1970), indicating limited domestic demand;
- An absence of raw materials and other natural resources (such as oil or minerals);

- Limited industrial experience and skills in the private sector outside a few sugar factories;
- A shortage of capital and an absence of financial institutions and intermediaries;
- A multi-ethnic population (Indians, Creoles, French and Chinese) and signs of rising ethnic tensions in an environment of high unemployment and a scramble for jobs.

Table 4.1: Selected Indicators, 1970, and Most Recent Estimates (MRE)

Indicators	1970	MRE
Share of Manufacturing in GDP	11.5%	20.1% (2002)
Share of Manufactured Exports in Total Exports	14.5%	74.8% (2001)
Manufactured Exports per head	\$10.4 (1976)	\$936.1 (2001)
Total EPZ Firms	85 (1976)	506 (2002)
Total EPZ Employment	17,171 (1976)	87,204 (2002)
GDP per Capita (current US\$)	\$270	\$3,771
Life Expectancy at Birth (years)	62.5	71 (1999)
Population	826,000	1.2 million
Infant Mortality Rate per Thousand	60	19 (1999)
Land Area (sq km)		2,040

Source: African Development Bank, *African Development Report 1996*, Abidjan; Treebhoohun, 2001; IMF, 2002; *Mauritius: Selected Issues and Statistical Appendix*, Africa Department, Central Statistical Office, 2003; *National Accounts Estimates (2000–2003)*, Issue No. 418, June 2003, Ministry of Economic Development, Financial Services and Corporate Affairs, Mauritius; Bank of Mauritius (2002), *Annual Report year ended 30 June 2002*

The industrial accomplishments of Mauritius have defied expectations. Table 4.1 provides selected economic indicators for 1970 and 2001/2002 to summarise its remarkable transformation from a mono-crop sugar producer to one of the leading exporters of manufactures in Africa with an emerging services sector. It has built up a significant base of export-related skills, information and institutions far ahead of neighbouring countries in Africa. The share of manufacturing in GDP nearly doubled from 11.5 to 20.1 per cent. The engine of growth was manufactured exports whose share in total exports increased five-fold from 14.5 to 74.8 per cent. By 2001, the country's value of manufactured exports per head (\$936) was the highest in Africa. The rapid growth of the textiles and clothing industry underlies much of the dynamism in Mauritian manufactured exports during the last three decades (see Box 4.1). In the sample of 40 small states in this study, Mauritius is one of a handful to have developed a significant, internationally competitive textile and clothing industry. Its textile and clothing industry is perhaps the oldest and most advanced (in terms of types of goods produced) of any among the sample economies.

Box 4.1: The Importance of the Textile and Clothing Industry in Mauritius

In popular discourse the textile and clothing industry is often referred to as a single, homogeneous industry. However, this is an over-simplification and it would be more accurate to view this global industry as a value chain consisting of five main activities:

- (a) Treatment of raw materials, i.e. the preparation or production of textile fibres and the manufacture of yarns, for example through spinning;
- (b) Production of knitted and woven fabrics (i.e. knitting and weaving);
- (c) Finishing activities for various fabrics such as bleaching, printing, dyeing, impregnating, coating, plasticising;
- (d) Transformation of fabrics into final goods, including clothing, knitted and woven items, carpets and other textile floor coverings, home textiles (bed linen and curtains) and industrial textiles;
- (e) Distribution of final goods, both fabrics and clothing.

Being a relative industrial late-comer, Mauritius does not have a strong presence in all the above activities in the global textile and clothing value chain. Clothing, the technologically simplest activity with low entry barriers, dominates its textile and clothing industry. For instance, in 2002 there were 43 textile firms and 274 clothing firms. The textile firms employed 7,995 workers, while the clothing firms employed 69,982 workers. The textile and clothing industry thus contributed 26.5 per cent of total employment in the Mauritian economy (up from 9.6 per cent in 1980). The textile and clothing industry also contributes significantly to Mauritius's GDP and total exports – 11.3 per cent of GDP and 56 per cent of total exports in 2002. Most of this GDP and export contribution is due to clothing rather than textiles. Textile and clothing exports are highly concentrated in the US and EU markets, with the US accounting for 31 per cent, France for 25 per cent, the United Kingdom for 20 per cent, Germany for 5 per cent and Italy for 5 per cent. Mauritius seems to have established a significant presence in the medium to high-end garment trade. Among other achievements, the country is reputed to be the world's second largest fully fashioned knitwear producer, the third largest exporter of pure new wool products and Europe's fourth largest supplier of T-shirts.

Source: Based on Mauritius Employers Federation (2003)

The creation of an internationally competitive industrial base has been accompanied by an improvement in economic welfare. Spurred by the expansion of manufactured exports, real GDP grew on average by 5.9 per cent compared with 2.4 per cent in Africa between 1973–1999.²¹ Furthermore, it achieved relatively high living standards for its

population in relation to its per capita income. The life expectancy of an average Mauritian was an impressive 71 years (up from 62.5 years in 1970) and infant mortality rates were 19 per thousand births (down from 60 in 1970). A per capita income of \$3,771 places it within the World Bank's category of upper middle-income economies. This performance has led some analysts to describe Mauritius as 'an economic miracle in paradise' (ILO, 1999).

4.2 Explaining Industrial Success

The Mauritian economy is based on three main economic sectors – manufactured exports (primarily textiles and clothing), up-market tourism and sugar. The country is also trying to develop new comparative advantages in services, particularly in offshore financial services and information technology. Only time will tell whether Mauritius will be able to diversify into such services successfully. Its development path in sugar and tourism has been fashioned by factors including its resource endowment, location and policy decisions. The continuation of the sugar quota arrangement with the EU has been a major influence on the sugar industry. Sugar, followed more recently by tourism, laid the foundations for modern Mauritian economic development by providing a surplus for investment, a pool of managerial skills, employment and an international country reputation for producing quality goods and services.²²

Table 4.2: Inflows of Total FDI in Selected Economies, 1985–95 (\$ million and percentage of Gross Domestic Investment)

	Mauritius	Singapore	Taiwan	Malaysia	Sri Lanka
Average annual inflows					
1984–89	16	2239	691	798	36
1990–95	22.5	4785.2	1207	4444.7	128.3
Average annual inflows (percentage of GDI)					
1984–89	4.3	28.3	3.3	8.8	2.3
1990–94	2.5	28.4	3	22.4	4.6

Source: UN World Investment Report, 1996

While the economic contribution of sugar and tourism should not be underestimated, it is widely recognised that FDI in export processing zones has been the major driver of the export-oriented industrialisation of Mauritius (Dubarry, 2001). Foreign investment brought in new capital and access to overseas markets. More importantly perhaps, FDI also resulted in significant technology, skill and information transfers from abroad. Accurate data on FDI inflows into Mauritius in the 1970s is difficult to obtain but information is available for the 1980s and 1990s. According to UNCTAD data, total FDI

inflows (including manufacturing) averaged \$16 million per year in 1984–89 and increased to an average of \$22.5 million in 1990–95 (Table 4.2). In relation to gross domestic investment, Mauritius's reliance on FDI (2.5 per cent in 1990–94) is comparable to Asian economies like Taiwan (3 per cent) and Sri Lanka (4.6 per cent), but less than large investor destinations like Malaysia and Singapore.

The impact of the relatively small inflows of FDI on the growth of the Mauritian EPZs is quite striking in terms of number of firms, employment and exports since the 1970s (Table 4.1). The number of EPZ enterprises increased sixfold from 85 to 506 in 1976–2002 and total employment in EPZs increased from 17,171 to 87,204 during the same period. Furthermore, virtually all the country's manufactured exports came from the EPZs. The textile and garment industry received most of these FDI inflows and its exports grew rapidly (Box 4.1). Hong Kong and French firms were the first overseas investors, and British and German firms followed suit. FDI in the textiles and garments industry in the EPZs had a knock-on effect on domestic investment. Some large local business houses engaged in the sugar and tourism sectors diversified by investing in garment operations. Through international sub-contracting relationships with foreign buyers and some joint ventures with foreign-owned firms, large local firms benefited from technology transfer and access to markets. Large local firms gradually became major exporters of textiles and garments from the EPZs alongside foreign-owned firms.

Several advantages appear to explain why foreign companies invested in Mauritius in the 1970s and 1980s rather than in other locations in Africa. These include:²³

- *An outward-looking trade and investment strategy.* Mauritius was probably the first African economy to adopt an appropriate development strategy that centred on attracting export-oriented foreign investment. Initiated with the passing of the Export Processing Zone Act in 1970, this strategy emphasised attracting FDI through the establishment of EPZs, duty-free access to raw materials and a package of investment incentives (see Box 4.2). The Mauritius strategy is interesting and offers valuable lessons for other small economies interested in attracting export-oriented FDI.
- *Preferential market access.* Mauritius has been proactive in fostering market access for firms producing in the country. Its links with the EU have been vital to its drive for export-oriented industrialisation over the last 30 years. As a signatory of the Lomé Convention originally launched in 1975 (and its successor, the Cotonou Agreement signed in 2000), it developed preferential trade and aid links with the EU. It has probably been the most successful ACP economy in exploiting these links. Duty and quota-free access to the EU market, coupled with aggressive marketing of this advantage, has attracted EU firms to relocate to Mauritius as well as encouraging Hong Kong firms to use Mauritius as a production base. Estimates by EPZ firms suggest that preferential market access under the Lomé Convention provided a 15–20 per cent cost advantage to firms producing there. Mauritius was also a founding member of

Box 4.2: Mauritius's Outward-looking Trade and Investment Strategy

The outward-looking trade and investment strategy of Mauritius has many interesting features. Unlike many African developing economies, Mauritius did not subscribe to the orthodoxy of inward-oriented, state-dominated development strategies of the 1960s and 1970s that emphasised import substitution coupled with heavy state intervention in the economy. Instead, starting in 1970, Mauritius followed a mixed trade policy of import substitution coupled with export incentives through the EPZs.

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. Gradual trade liberalisation has resulted in a regime that is much more liberal than in the past and one of the most open in Africa. Quantitative restrictions have been virtually eliminated; there are few import bans and no local content requirements. Nominal tariffs have fallen; the average tariff for manufacturing was about 20 per cent in 2003 compared with 30.1 per cent in 1994 and 86.2 per cent in 1980.

In an attempt to reduce anti-export bias, Mauritius began promoting exports early and has maintained steady support. The Export Processing Zone Act of 1970 put in place a package of incentives which is available to both foreign and local investors. Mauritius's EPZ programme was based on those in East Asia. The main incentives offered are: duty-free access to raw materials for exports; low corporation tax rates (typically 10–15 per cent); no tax on dividends and capital gains; free repatriation of capital, profits and dividends; and permanent residence permits. EPZ incentives are not automatically available to all potential investors. In order to qualify for EPZ incentives, foreign investors are subject to a detailed screening processes by an investment committee. In practice, however, FDI approvals processes are relatively good by African standards and most are approved in a matter of a few weeks. In 1985, a public trade and investment promotion agency, the Mauritius Export Development and Investment Authority (MEDIA) was established to attract FDI, promote exports and manage industrial estates. In 2001, foreign investment promotion became the sole responsibility of a new, powerful Board of Investment (BOI).

Mauritius put in place infrastructure to reduce the capital and operating costs of exporting enterprises by providing developed physical facilities and reasonably efficient infrastructure facilities. The first industrial estate, at Plaine Lauzun, was initiated in 1968. Enterprises are typically scattered throughout the island in small or individual industrial estates. In fact, the whole country serves as an EPZ. Another feature is the mixture of public and private provision of estates since the early 1970s.

The EPZ incentive package, coupled with preferential market access, low-cost literate labour and political stability, have made Mauritius attractive to export-oriented foreign investment. In addition, image building and investor facilitation by MEDIA has helped to translate general investor interest into actual investments in plant and equipment.

the Preferential Trade Area for Eastern and Southern African States (PTA), which transformed itself into COMESA in 1994. This and the Southern African Development Community (SADC) Treaty provide for preferential market access to the African regional market.

- *Availability of cheap, literate, bilingual labour.* Mauritius is justifiably proud of its record on education and in the African context it has a good base of schooling. Through a high level of expenditure on education since independence, it has ensured universal primary education for the whole population and a secondary enrolment rate of about 60 per cent of the relevant age group. The school curriculum is fairly up-to-date, has a reasonable social science and maths content and gives considerable emphasis to languages (both English and French). Sustained investments in primary and secondary education have translated into a literate, trainable and bilingual labour force for the EPZs. Through the Industrial and Vocational Training Board (IVTB), it has also created supplies of vocationally educated manpower (for example plant supervisors, quality management technicians, equipment repair technicians and clothing designers) for the EPZs. The IVTB is discussed in more detail in Section 4.3. High unemployment in the 1970s meant that wages for shop floor employees and technicians were relatively low. An educated but relatively low cost labour force thus has been a major draw for inward investment into the EPZs.
- *Political stability.* Compared with many other African economies and small states, the country has a political environment that is conducive to foreign investors and their families. There is a virtual absence of civil conflict and violent crime, which is noteworthy for a multi-ethnic society made up of Indians, Chinese, people of French descent and Creoles. Furthermore, there is respect for the rule of law, a reasonably efficient judicial system, strong adherence to democratic traditions and a free press. Added to this is a pleasant expatriate living environment with good housing, schools and leisure facilities. This is one of the country's foremost advantages and means that foreign investors can set up and operate their businesses without worrying about political shocks and the safety of their property or their families.
- *Prudent macroeconomic management.* Mauritius has had a well-managed economy. Fiscal and monetary policy has been carefully used to ensure reasonable macroeconomic stability in terms of low inflation, a competitive real exchange rate, reasonable real interest rates and good future economic growth prospects.²⁴ This has ensured a stable, predictable policy regime, which is highly conducive to foreign investment and exports.
- *Relatively efficient government.* At a microeconomic level the government is pro-business. Business associations are regularly consulted on economic policy matters and business interests are usually taken into account in shaping policy. Government

officials are typically keen to get things done and there is a relatively low level of red tape and corruption. These issues have ensured relatively low transaction costs to business and made Mauritius attractive to FDI.

- *Comprehensive institutional support.* In order to learn and become internationally competitive, foreign and local firms draw on a variety of technical, training, financial, marketing and information sources. Yet another important advantage of Mauritius was the presence of a reasonably comprehensive institutional support system to assist the attainment and improvement of enterprise competitiveness.

4.3 Institutional Support

Five key public institutions comprise the institutional support system of Mauritius. They are the Mauritius Export Development and Investment Authority (MEDIA) which, through attracting foreign investment, provides overseas marketing support and runs industrial estates; the Export Processing Zone Development Authority (EPZDA), which provides consultancy, training and information services for EPZ firms; the Industrial and Vocational Training Board, which provides training services; the Development Bank of Mauritius (DBM), which provides concessionary finance; and the Small and Medium Industry Development Organisation, which provides extension services to SMEs.²⁵

Table 4.3 provides the available information on the five public sector institutions which provide services to enterprises (including their objectives, major services, number of staff and budget). The five institutions vary considerably in purpose, age and size, measured by the number of staff and financial resource base:

- In existence since the 1970s, DBM is probably the oldest of the five institutions. MEDIA, founded next, is nearly 15 years old. SMIDO, EPZDA and IVTB are all less than eight years old.
- The Bank of Mauritius regulates the DBM but the other organisations come under the Ministry of Industry and Commerce (MOIC). Functioning under the strategic guidance of the MOIC, the agencies have some autonomy in day-to-day matters.
- Only SMIDO deals exclusively with SMEs and offers information, training and other services. The other four organisations assist both small and large enterprises, and each has a different entry point to service delivery such as consultancy and information for EPZDA; training for IVTB; concessionary finance for DBM; overseas marketing support and industrial estates for MEDIA.
- Of the five institutions, DBM and IVTB are the largest in terms of their financial resource base and employment. SMIDO and EPZDA (similar in terms of employment and financial resources) are the smallest. MEDIA falls in between these extremes.

Table 4.3: Overview of Institutions Supporting Enterprises (MRE)

Institutions	Core Purpose	Major Services	Number of Staff	Financial Resource Base	Date of Establishment
SMIDO	To provide support to small and medium-sized manufacturing enterprises in order to enhance their competitiveness	Entrepreneurship Development Programme One-Stop Shop Consultancy Awards Documentation Centre Common Facilities Centre Training	42	US\$0.87 million government grant in 2000–2001	1993
EPZDA	To provide support to all enterprises operating within the Export Processing Zone	Consultancy Training Trend Forum Publications Information services Clothing Technology Centre User Group	31	US\$ 0.81 million government grant in 1996/97 Revenue generated: US\$0.26 million	1992
MEDIA	To promote exports To promote foreign direct investment To develop and operate industrial sites and estates	Trade Information Centre Buyer/seller meets Trade fairs MITEX Market surveys Industrial estates	58	US\$2.2 million government grant in 1998/99	1985
IVTB	The promotion, development and delivery of training	Training courses Administration of training levy refund Technical advice Library and information services	500+	US\$4.1 million government grant in 1998/99	1992
DBM	To provide concessionary finance to small and medium enterprises	Loans Business advice Industrial estates	250	Investment portfolio US\$97.5 million – no grant	1970s

Source: Author's interviews with the support institutions

MEDIA is the spearhead for investment and export promotion. Its headquarters are in Mauritius but it has global reach through 14 small foreign offices in target investor markets in the US, EU and Africa. Its services include organising participation in trade fairs and textile exhibitions; facilitating contacts with foreign buyers; undertaking marketing surveys; providing trade information; and managing industrial estates. It has a committed staff and management. There is a strong private sector representation on MEDIA's board (50 per cent) and many of its professional staff have degrees from foreign universities and regularly go on overseas training courses. In 2001, the investment promotion function of MEDIA was removed and vested in a new and powerful Board of Investment (BOI). With 40 staff and an initial budget of \$1.6 million, the BOI has been tasked with developing a more targeted approach to foreign investment promotion. MEDIA became the Mauritius Industrial Development Agency and was mandated to provide export marketing assistance for SMEs and to work closely with SMIDO on SME development.

EPZDA's mandate is to improve the competitiveness of EPZ enterprises. As its principal focus is on the smaller exporter, its target population overlaps with that of SMIDO. Given the concentrated nature of the industrial export structure in Mauritius, most of the firms registered with EPZDA are in the textile and garment industry and, in response to their needs, EPZDA has developed a comprehensive range of support services for this industry, for example customised consultancy services for individual firms, a clothing technology centre, technical workshops on garment manufacturing, publications, and exhibitions and trade fairs.

IVTB provides vocational training courses to complement the training services of SMIDO and EPZDA in relation to SMEs. The training levy imposed on all enterprises links IVTB to other SME support institutions. Within this scheme, enterprises are required to contribute a percentage of their wage costs to a centralised fund. When an enterprise sends an employee on an approved vocational training course, it can claim a part refund of the course fee from the training levy fund. Approved training courses are run both by the IVTB (which has vocational training centres covering footwear and leather, jewellery, textiles, IT and printing) and private sector training institutions. IVTB also provides a library and some customised in-plant training services.

The aim of the state-owned DBM is to provide concessionary finance and business advice to local enterprises, particularly small businesses, which find it difficult to access formal sources of industrial finance such as commercial banks. Interest rates charged on DBM loans to SMEs are typically 2–3 per cent less than that charged by commercial banks and repayment periods are somewhat longer.

SMIDO is mandated to provide extension services to local firms that are engaged in manufacturing and that use production equipment that does not exceed 10 million Mauritian Rupees (1993). SMEs need to register with SMIDO in order to access its support services. Registration with SMIDO also triggers exemption from payment of duties on imported production equipment. In the main, SMIDO provides training on

small business start-up to new entrepreneurs, training on management and technical topics, the use of a relatively well-equipped workshop with trained staff, access to a documentation centre, award schemes for achievements in technology and exports and a match-making service to source external consultants for SMEs.

It is difficult to evaluate the effectiveness of this institutional support system and to gauge its specific contribution to Mauritian competitiveness. Some impressions, however, were gathered from our interviews with support institutions and enterprises. Our interviews with the above institutions suggested that there were positive attributes to the institutional support system as a whole. In the main, dedicated professionals with a reasonable level of equipment and other facilities staffed these institutions. Moreover, energetic and experienced directors led them. They also seemed to have coherent corporate strategies and implementation plans. Furthermore, our interviews with enterprises and business associations suggested that there was a high level of awareness about the institutions and the range of services they provided. There also seemed to be a reasonable take-up rate of support services by enterprises and the quality of support services was recognised as being of reasonable quality and fairly well delivered. Thus, we can conclude that Mauritius has a useful institutional support system, by African standards, and that this has contributed to the attainment of competitiveness by its enterprises.

4.4 Structural Constraints and Upgrading

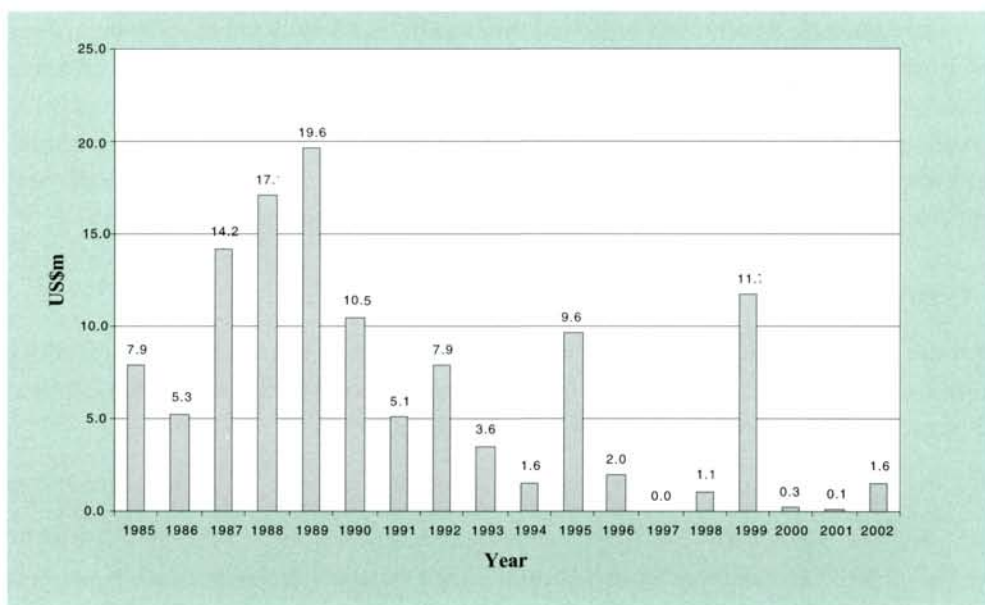
In time, however, this early export success via the EPZ ran into structural constraints. From the late 1980s onwards, a significant erosion occurred in the country's locational advantages for FDI and its competitiveness. In particular:

- Labour costs rose significantly, labour productivity declined and absenteeism rates increased;²⁶
- The gradual elimination of preferential access to the European and US markets seemed imminent with the expiry of the Lomé Agreement and the Multi-Fibre Arrangement for textiles;
- Residual bureaucratic procedures (particularly on FDI approvals, work permits for expatriate staff and customs) were perceived to be a significant barrier to increased inward investment, which was increasingly focusing on low transactions cost environments;
- There was a marked increase in competition from lower cost producers in Africa and Asia which had liberalised their entry regulations for FDI and established EPZs;
- Inflation had begun to rise and with it came relatively high real interest rates and a tendency for real exchange rate appreciation.

The consequence of these structural constraints on FDI inflows in Mauritian EPZs is

clearly visible. Figure 4.1 provides Bank of Mauritius data on actual FDI inflows into the manufacturing sector (i.e. the EPZ sector) in Mauritius between 1985–2002. The data show that annual average FDI inflows declined from \$12.8 million per year in 1985–89 to only \$4.2 million in 1990–2002. Some leading Hong Kong and French investors in textiles had begun to switch out of Mauritius to other low cost locations like China, Sri Lanka and Bangladesh. In Africa, Madagascar has been a particular beneficiary of Mauritian outward investment (due to its cheap labour and preferential market access to Europe). By 2002/2003, about 40 Mauritius-based enterprises had relocated to Madagascar to undertake textile and garment production for export.

Figure 4.1: Manufacturing FDI Inflows (US\$ million), 1985–2002



It is possible that inherent vulnerabilities associated with the country's small size may have caused the structural problems mentioned above to occur more rapidly than in larger states. Mauritius had a limited base of unskilled labour and technical skills due to its small population. Once the available supply of surplus labour and skills were absorbed in the EPZ sector, wages rose and the growth process faltered. The absence of a domestic market hindered domestic-market seeking MNCs and caused others to exit prematurely. It was at a disadvantage, compared to large economies, in accessing international financial markets and concessionary finance due a lack of creditworthiness to finance technological and skill upgrading.

All of this is reflected in a slowdown in the export growth of manufactures in the 1990s. Table 4.4 provides data on manufactured export growth by sub-periods. It shows

that manufactured exports grew rapidly in 1980–85 and accelerated in 1985–92. However, there was a sharp drop in growth rates in 1992–95 and 1996–2002. Some of the smaller exports fell sharply and there was a significant slowing down of clothing exports. Clothing has continued to dominate exports, accounting for 80.2 per cent of manufactured exports in 2002. The slowdown in export growth has had an adverse impact on GDP growth, which fell from 6.2 per cent per year in the 1980s to 4.9 per cent in the 1990s.

There are two other weaknesses in Mauritius’s export performance. First, a heavy dependence on a few labour-intensive export products renders the country vulnerable to unfavourable national and international developments in those activities. Compared to other developing economies, Mauritius is exceptionally vulnerable with its high dependence on one item (clothing) that has not declined over time.

Second is the virtual absence of more complex industrial products, either sophisticated consumer or producer goods. Mauritius has ‘missed the boat’ on the semi-conductor assembly boom that drove the growth of Singapore and, later, Malaysia and produced a variety of related electronic and electrical exports. The lack of upgrading is a significant weakness – it hinders technological spillovers and externalities from complex industries and the creation of new employment in technology-intensive industries.

Table 4.4: Manufactured Export Growth, 1980–2002 (annual average percentage per year)

Product	Annual Average Growth Rates (%)				Manufactured Exports (US\$m)
	1980–85	1985–92	1992–96	1996–2002	
Fish and preparations	–	–	21.0	10.6	73.4
Pearls, precious stones	7.0	15.3	6.0	4.7	37.3
Textile yarn, fabrics	–	30.9	24.1	–9.4	44.6
Clothing, accessories*	16.4	23.5	7.2	0.5	931.6
Toys, sporting goods	–	–	0.3	–7.4	6.8
Gold, jewellery	9.2	34.1	–14.4	12.0	31.4
Optical instruments	–	–	–	–11.7	5.6
Watches, clocks	34.2	15.0	–3.5	–10.1	12.0
Other**	–	–	–42.4 (a)	–	17.7
Total	16.9	24.3	8.6	0.7	1160.1

Source: Estimated from Bank of Mauritius database

*1992–95.

**Includes chemicals and machinery.

4.5 Recent Competitiveness Initiatives

Having successfully become an exporter of textiles and garments, Mauritius faces the challenge of how to sustain its export growth into the twenty-first century and to

broaden and upgrade its base of competitive advantage to cope effectively with different aspects of rapid globalisation, including falling trade barriers, footloose foreign direct investment, rapid technological change and more intense competition from low labour cost producers. In order to respond to these challenges, the government of Mauritius has taken a number of steps to attempt to diversify its export base and to upgrade its competitiveness since the 1990s. Some of the main policy initiatives undertaken include:

- Upgrading the quality and technology of textiles and garments, its dominant export, and attempts to develop new export niches in printing and publishing, information technology services, consultancy services and offshore financial services;
- The establishment of a Mauritius Competitiveness and Productivity Council, with private sector participation, to guide the development of a national competitiveness strategy and to improve firm-level productivity;
- Creation of a new specialised Board of Investment for an aggressive investment promotion drive which emphasises targeting selected activities and investors, cuts approval times for foreign investors and provides high quality post-approval investor services;
- Streamlining bureaucratic procedures for exporters, particularly in relation to customs procedures for imports and exports, procedures for new business start-up and foreign investment approvals;
- Improvements in human resources through the creation of a new Mauritius Institute for Technology to train tertiary-level technical manpower for new export industries and measures to encourage greater enterprise training via tax incentives and worker training programmes;
- Encouragement of enhanced technological activity in Mauritian firms by a public awareness campaign on productivity and quality management, as well as tax incentives for research and development;
- A greater focus on improving SME export capabilities by a significant increase in the operational budget of the main SME extension services organisation, SMIDO, and mandating the restructured MEDIA to provide greater overseas marketing assistance for SME exports;
- Privatisation of Mauritius Telecom in order to reduce telecom call charges, and other measures to boost the development of the IT sector in Mauritius;
- More timely and aggressive exchange rate management to provide a stable competitive real exchange rate for exporters.

Mauritius is likely to face many difficulties in attempting to upgrade its export compet-

itiveness. Groups which have been negatively affected by the exit of foreign enterprises are likely to pressure for protection and subsidies. External shocks (such as a contraction in overseas demand) are likely to dampen export growth. But on the positive side, Mauritius has recognised the urgent need to upgrade competitiveness, to attract more inward investment and to re-engineer its skills base. Moreover, it has actively sought technical advice from abroad, attempted to develop a consultative process with the main social partners (the government, the private sector and the trade unions) and established a strong institutional capacity to implement policy changes. These bold actions increase its chances of success.

4.6 Lessons from Mauritius

What lessons can be drawn from the Mauritius competitiveness experience for other small states? The following are probably the most important:

- Small states can develop export competitiveness and mitigate the economic vulnerabilities associated with small country size.
- Competitiveness at firm level in small states is closely linked to shifts in comparative advantage and needs to be carefully monitored by the government and the private sector.
- The creation of competitiveness in a single productive sector (such as textiles and garments in Mauritius) can bring significant welfare gains to the population of a small state.
- Export-oriented FDI is a powerful means to facilitating the entry of small states into export markets and creating competitiveness.
- A coherent competitiveness strategy is a necessary condition for the creation and improvement of enterprise competitiveness in small states.
- Many policies constitute a coherent competitiveness strategy for a small state. The main elements are an outward-oriented trade and investment strategy; active efforts to negotiate and maintain preferential market access; prudent macroeconomic management; investments in education and training at all levels; establishment of a comprehensive system of institutional support; and investments in physical infrastructure.
- Political stability and close involvement of the private sector in policy-making are also a vital part of a national policy programme to improve competitiveness.