Mauritius

1. Introduction

Mauritius became independent of Britain in 1968 and acceded to the status of Republic in 1992. Mauritius has often been referred to as the tiger of Africa due to the rapid growth that this small island experienced in the last two decades. The World Bank Ease of Doing Business report 2008 ranked Mauritius as the best place to do business in Africa, and 27th in the world. In 2006, the government introduced the Business Facilitation Act which provided a new legal framework whereby businesses operated on the basis of self-adherence to comprehensive and clear guidelines and the authorities checked for compliance by exercising ex post control, facilitate doing of business and acquisition of properties by foreigners and enable small enterprises to start their business activities within three working days.

The traditional engines of growth in Mauritius have been sugar, textiles and tourism. More recently, Mauritius has diversified into financial services and information and communication technologies (ICT). The Mauritius economy has, to a large extent, been successful thanks to trade preferences granted by developed country and in particular the EU under the Lomé/Cotonou agreements. The main exports of Mauritius are sugar and textiles in the manufacturing sector and financial services and tourism in the services sector. Both sugar and textiles are exported under preferential trading agreements. Mauritius sugar is exported to the EU duty free and quota free and until recently at a guaranteed price well above the market price. Until recently because as from July 2006, following a WTO ruling (see section 7 on sugar), the guaranteed price has reduced by 5% and will gradually be reduced by 36% by 2010. Mauritius exports its textile products mainly to the EU and the US under the Cotonou Agreement and the AGOA respectively. The offshore financial services sector is booming. This is basically due to the level of transaction between Mauritius and India because of the favorable Double Taxation Treaty that India has with Mauritius - more favorable than what India has with other countries. In terms of Human Development Index (a composite of indicators on life expectance, educational attainment and income), the UNDP, in its report of 2007/2008, rank Mauritius 65th out of 194 countries.

Because of the preferences that Mauritius benefited, economic activities in the country have been over-concentration of on few sectors, namely sugar and textile and clothing, in the manufacturing sector. However, due to the phasing out of the multi-fiber agreement and the decline in sugar prices coupled with increase oil prices, Mauritius with limited physical resources, it is finding it extremely difficult to face competition from the larger, new emerging developing countries. In response to embrace the radical change, Mauritius is going through a structural reform of its economy, with more emphasis on its competitiveness and the services sector. In this connection, Mauritius has shown strong support to open discussions on Trade in Services in the context of the forthcoming EPA negotiations.

2. Economy

2.1. Major economic sectors

With a GDP per capita of $US6,100 in 2007, Mauritius is one of the 'richest' and most successful African economies. Manufacturing dominated the country's economy, accounting for 18% of its GDP at market prices. Within that broad sector, the sugar sector contributed 0.7%, the food (excluding sugar) and textile sectors accounted for 5% and 6%, respectively, while the rest, as shown in Table 1, contributed 6% to the GDP.

Table 1: GDP by industry group, 2004-2007

	2004	2005	2006	2007
GDP at market prices (US$m)	6,327.8	6,304.4	6,749.3	7,262.7
Wholesale & retail trade; repair of motor vehicles, motorcycles, personal and household goods	9.9	10.6	10.8	10.7
Hotels and restaurants	6.4	6.7	7.5	8.1
Transport, storage and communications	11.2	11.0	10.7	10.5
Financial intermediation	8.5	9.0	9.2	9.3
Real estate, renting and business activities	8.4	9.0	9.2	9.7
Manufacturing (% of GDP) out of which	**18.2**	**17.4**	**17.7**	**17.6**
Sugar	0.9	0.9	0.8	0.7
Food (excluding sugar)	4.1	4.5	4.9	5.0
Textile	7.0	5.9	5.8	6.0
Other	6.1	6.1	6.1	6.0

Source: Central Statistical Office (CSO) data, Republic of Mauritius

In spite of various attempts by the authorities to engage with a sectoral diversification over the years, the main pillars of the Mauritian economy remain the textile and clothing sector, the sugar sector and the tourism sector. However, some comparatively new sectors of activity have emerged, notably, the financial and ITC sectors.

During the decade prior to 2002, the Mauritius economy has witnessed an average annual GDP (at basic prices) growth rate in excess of 5%. However, since 2002, the economy started to face some serious challenges as a result of increasing oil prices on the world market and the end of preferential trade agreements – the phasing out of the

multi-fiber agreement (MFA) through the conclusion of the Agreement on Textiles and Clothing (the ATC) and the reduction of guaranteed prices on sugar exports to the EU. Economic growth slowed down while unemployment, the government budget deficit and public debt increased steadily. Post 2005, following economic reforms, it seems that the economy has started to pick up again. After having reached a low level of annual GDP growth of 2.3% in 2005, the annual GDP growth rate rebounded to 5% in 2006. The economy continued to recover in 2007, growing by 5.8%, and forecasts suggest that the economy will do better during 2008.

Investors have regained confidence in the economy and this has resulted in increased FDI inflows since 2006. A shift has been generated by the Business Facilitation Act of 2006 which was passed to provide for a new legal investment framework. Government sought, through the Act, to allow businesses to start operations on the basis of self-adherence to comprehensive and clear guidelines, to facilitate business operations and the acquisition of properties by foreigners and to enable small enterprises to start their business activities within three working days. In turn, the Act allows the authorities to check for compliance by exercising ex-post control.[1]

New business and investment legislation contains a number of clauses that render the implementation of business much easier. For example, on application for land use and building permits, the Permits and Business Monitoring Committee shall, within two weeks of the effective date of receipt of the application, issue the applicant with a Building and Land Use Permit if all the required criteria have been satisfied. If the application is from a small enterprise or handicraft enterprise, under the Small Enterprises and Handicraft Development Authority Act 2005, the authorities have to issue the applicant with a Building and Land Use Permit within three working days of the effective date of receipt of the application. Generally, the investment climate is sound and effective: the World Bank 2008 *Doing Business Survey* ranks Mauritius 27th in the world and first in Africa (just before South Africa) in terms of "ease of doing business" (World Bank, 2008).

Besides the aforementioned changes, the authorities have been introducing a series of other incentives and interventions. For instance, already in the budget year 2007, Mauritius' corporate tax rate was amongst the lowest in the world – a flat 15%. From 2007 onwards, a particular project was set up that would have major economic implications for the economy of island and for the region. The Tianli project (Tianli Economic and Trade Cooperation Zone), an integrated industrial park, will generate an estimated US$ 0.57bn in FDI over the next five years and the create 7,500 jobs. The project is driven by investors

1 The Business Facilitation (Miscellaneous Provisions) Act 2006

from China. In addition to encouraging the restructuring and modernization of the textile and sugar sectors, the government is putting much emphasis on the development of the ICT sector and the promotion of Mauritius as a seafood hub in the region, using existing logistics and distribution facilities at the Freeport (a free trade zone at the port and airport launched in 1992).

To further diversify the economic base and generate sustainable growth, the government is actively encouraging the following economic activities: (i) the land-based oceanic industry, (ii) hospitality and property development, (iii) healthcare and biomedical industry, (iv) agro-processing and biotechnology and (v) the knowledge industry.[2]

In 2004-2006, Mauritius's textile and clothing sector was negatively affected by the phasing out of the MFA. Over the period 2000-2005, almost 30,000 workers lost their jobs and 125 firms, mostly foreign-owned ones, closed down. The value of exports of textile and clothing products decreased from US$883.4m in 2000 to US$728.1m in 2005, a decrease of US$155.3m. After five years of decline, conditions in the sector started to improve and for the first time since 2006, revenue generated from exports increased to US$817.7m.

In 2007, government, in consultation with all industry stakeholders, prepared a Multi-Annual Adaptation Strategy Action Plan for 2006-2015 (MAAS) to re-engineer the sugar industry. Embracing fast-track modernisation and diversification, the MAAS states that Mauritius' sugar industry will be converted into an efficient cane industry that is geared towards the production of a higher proportion of white and special sugars, ethanol, energy and other by-products. This shift was motivated by the drastic cut in the sugar price following the EU's sugar trade reforms. In December 2007, an agreement was reached between the government and the Mauritius Sugar Planters' Association (MSPA) and the reforms have already been initiated. Section 7 of this chapter discusses the Mauritian sugar industry in some detail.

Developments in other sectors are also proving positive. Tourism, a rapidly expanding sector, makes an important contribution to the foreign exchange earnings of Mauritius. Tourism accounts for roughly 8.5% of GDP. In light of the threats faced by the sugar and textile sectors, Mauritius has boosted tourism and set an annual target of two million tourists for 2015 onwards. The number of tourist arrivals in Mauritius has increased from 718,861 in 2004 to 900,000 in 2007 while revenue generated by the sector has increased from US$781.6m to US$1,280m. By 2008, it is anticipated that one million tourists will visit the country annually.

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2 U.S. Department of State, Bureau of African Affairs. http://www.state.gov/r/pa/ei/bgn/2833.htm [last accessed on 13/05/08].

In addition to tourism, the ICT sector has expanded. Over the last few years, a number of information technology-enabled services and business process outsourcing (ITES-BPO) firms have mushroomed across the island. The Mauritian ITES-BPO sector is dominated by companies providing BPO and call centre services. The BPO service providers account for 45% of the total sector, followed by software development providers at 20% and call centres at 18%. A dedicated ITES-BPO secretariat has been set up at the Board of Investment to ensure success within the sector.

The evolution of the number of firms operating in the ITES-BPO sector has expanded very rapidly. In 2003, there were 20 firms, which increased to 185 by March 2007. In parallel, employment in the sector increased from 3,434 in 2004 to 6,960 in March 2007.

Telecommunication infrastructure is of an international standard in Mauritius. Internet costs have decreased by more than 50% from 2001's cost of US$20,000 for two megabytes to US$7,800 in 2005. The South Africa Far East (SAFE) network, to which Mauritius is connected, is a technologically advanced cable system offering a faster and more efficient trading channel to the world. Through the SAFE network, transferring large amounts of data is very easy and inexpensive. It is expected that the price for Internet access will drop further once Mauritius is linked to the Eastern Africa Submarine System (EASS) network and will provide the country with additional international bandwidth capacity.

2.2. Macroeconomic indicators

For the two decades prior to 2002, the average annual rate of growth of the Mauritian GDP was above 5%. However, due to the triple shocks that Mauritius suffered – the increasing oil price, the phasing out of the MFA and the reduction in sugar prices – the rate of GDP growth has been mediocre during 2002-2005 relative to what was observed during other periods. Recovery occurred in 2006 following a series of bold economic reforms undertaken by the government.

Table 2: Main macroeconomic indicators, 2000-2007

	2000	2001	2002	2003	2004	2005	2006	2007
GDP growth at basic price	9.7	5.2	1.8	4.4	4.8	2.3	5.0	5.8
Unemployment (%)	6.7	6.9	7.3	7.7	8.5	9.6	9.1	8.8
Inflation	4.2	5.4	6.4	3.9	4.7	4.9	8.9	10.5
Savings to GDP ratio	26.3	28.4	27.4	25.1	22.6	17.4	17.0	17.1
Budget deficit to GDP ratio (%)	-3.3	-2.1	-6.1	-6.2	-5.4	-5.0	-5.3	-4.3
Trade balance (US$m)	-335	-144	-211.2	-300.6	-582	-797	-1,127.3	-1,106
Balance on services (US$m)	308.4	412.9	356.7	373.1	430.6	420	366.5	446.4
FDI inflows (US$m)	277.3	32.2	32.7	70.5	65.3	80.3	236	168.9 (Jan-June)
US$ exchange rate	26.26	29.07	29.96	28.38	27.75	29.4	30.5	31.8

Note that Mauritian rupees have been converted into US dollars using that year's annual average.
Source: Central Statistical Office (CSO) Bulletins, Bank of Mauritius Monthly Reports, and Ministry of Finance Consolidated Accounts

The unemployment rate has been increasing since the 1999/2000 fiscal year. It was at its peak (9.6%) in 2005 as the ATC was expiring. However, a fall in the unemployment rate has been noted in the data since 2006, and it has been projected that the rate will continue to decrease. Though some of the reasons for this have been detailed in the introduction to this chapter, some alleviation is linked to interventions from government in the labour market The government of Mauritius, through the Empowerment Programme and the Human Resource Development Council (HRDC), has provided training to make workers who have lost their jobs more employable in other sectors.

The Bank of Mauritius, until 2005, successfully maintained the rate of inflation at below 5%.[3] In 2005/2006, when the oil price increased dramatically, inflation rose and estimates suggested it was at 10.5% for 2006/2007. Other key contributors to this double-digit inflation have been the rising prices of food and of commodities.

On the investment front, Mauritius has inherited a significant export-oriented FDI. Inward FDI originate from different parts of the world. This is due to the constant effort of the government and to its open door policy and fiscal incentives. In the early 1990s, foreign capital flows started to slow down. These were altered in 1997 and in 2000 when an expansion in FDI inflows occurred. With effect from July 1994, restrictions on capital account transactions were removed and foreign investors do not require the approval of the Bank of Mauritius to carry out FDI activity. The main sources of FDI until 2003 have been from South Africa (except in 2000 when France invested in Mauritius Telecom). The UK, the US and France have been the main sources of FDI for the country in the last three years of our analysis.

3 It should be noted that the Bank of Mauritius Act 2004 requires that the Central Bank maintain price stability and also promote orderly and balanced economic development.

In 1997, the banking sector registered more than 90% of total FDI inflows – in line with government's diversification strategy which identifies the service sector as the fourth pillar of the economy. A large amount of foreign capital was secured in 2000 in telecommunication services through the purchase of 40% of the equity capital of Mauritius Telecom by France Telecom for US$0.28bn. A large share, equivalent to 77% of realised FDI in 2007, was invested in the property development sector and much of that went to the new Integrated Resort Scheme (IRS), an initiative described in Box 1.

Box 1: The Integrated Resort Scheme

The Integrated Resort Scheme (IRS) is a project involving the construction and sale of luxury villas to foreigners in an idyllic setting on Mauritius's beautiful coastal region. This scheme was announced in the 2006-2007 budgets.

Under the scheme, a foreign resident may acquire a villa for residential purposes and be permitted, along with his/her family, to reside in Mauritius as long as ownership is retained. Each villa is not permitted to exceed 1.25 arpents (0.5276 hectares). The villa can be acquired on plan or during the construction phase.

The acquisition of a villa grants resident status to the investor and to her or his spouse and dependents. A minimum investment of US$500,000 is required. From the total of US$500,000, an amount of US$70,000 is extracted as a payment of a fixed duty (called a Land Registration Duty) to the government of Mauritius.

3. Basic trade flows

During the review period, Mauritius's total exports and imports both increased, but the rate of increase in imports was higher than that of exports. Consequently, as shown in Table 3, the existing trade deficit widened.[4]

[4] The formula used for the calculation of the compound annual growth rate (CAGR) was:

$$\text{CAGR} = \left(\frac{\text{Ending Value}}{\text{Beginning Value}}\right)^{\left(\frac{1}{\#\text{ of years}}\right)} - 1$$

Table 3: Overview of current account (US$m)

Trade flow overview	2000	2001	2002	2003	2004	2005	2006	2007*	Compound annual growth 2000-06
Total exports	2,616	3,095	2,929	3,106	3,395	3,730	4,136	4,431	7.9
Total imports	2,639	2,827	2,785	3,036	3,544	4,104	4,894	5,011	10.8
BOP surplus	-24	268	144	71	-149	-374	-758	-580	
Total visible exports	1,488	1,565	1,725	1,827	1,917	2,033	2,323	2,316	7.7
Total visible imports	2,093	1,989	2,156	2,363	2,784	3,204	3,887	3,482	10.8
Trade balance	-604	-425	-432	-536	-867	-1,171	-1,564	-1,166	
Visible exports to SADC	89	118	101	149	139	148	165		0.1
Visible imports from SADC	330	295	298	311	346	313	331		0.0
Trade balance with SADC	-309	-271	-263	-273	-302	-278	-166		
Exports to South Africa	9	12	19	28	28	27	50		33.0
Imports from South Africa	312	276	271	289	311	275	285		-1.4
Trade balance with South Africa	-303	-263	-252	-261	-283	-247	-247		-

* estimates

Source: Central Statistical Office

In 2007, the balance of payment (BOP) deficit appeared to be narrowing. When looking at the components of the BOP, the large deficit in the trade balance was partially offset by an invisible trade surplus. It is important to understand the reasons for Mauritius' increasing levels of imports and to consider whether they could have been reduced.

The main import items for Mauritius over the last few years have been refined petroleum products (15%),'telecommunications, sound recording and reproducing apparatus & equipment' (10%) and machinery (5%) (H27, H84 and H85 – see Table 10 for chapter details, with section performances reported in Table 8). Therefore, around 30% of total Mauritian imports are in products which Mauritius is not in a position to manufacture (and thus import substitute).

Given that the oil price is continuously rising on the world market and that oil constitutes a large share of Mauritius' imports, the government, through the State Trading Corporation (STC), changed its oil imports strategy in 2006. However, for the 2006/07 contract period, STC finalised the imports for its entire annual petroleum requirement for the country from Mangalore Refinery and Petrochemicals Limited (MRPL) in India. The process was initiated at the highest levels between the governments of Mauritius and India and facilitated by the Indian High Commission in Mauritius. In July 2007 a new agreement – valued at about US$2bn – was signed between the two parties for a period of three years ending in 2010.

On the exports side, Mauritius exported mainly clothing and apparel within the HS61 and HS62 categories, at a value equivalent to 35% of its total exports revenue, while sugar accounted for a 16% share of total exports, as shown in Table 11.

When exports from and imports to the SADC region are considered, the rate of growth of exports has much higher than the rate of growth of imports, but Mauritius continued to experience a trade deficit vis-à-vis the SADC region. In value terms, imports from the SADC far outweighed the country's exports to the SADC. Interestingly, Mauritius had a very high rate of growth in exports to the SADC region. Mauritius' principal export trading partners were Madagascar and South Africa, while South Africa was also its principal import trading partner. As a ratio of its exports to the SADC region, Mauritius exported 65% of its exported products to Madagascar and 29% to South Africa. As a ratio of its imports from the SADC, in 2006, Mauritius imported 85% of its imports from South Africa.

Using the Standard International Trade Classification (SITC) codes, textile yarn, fabrics, made-up articles and related products (SITC 65) and feeding stuff for animals, excluding unmilled cereals, (SITC 08) were the principal exports to Madagascar. The main exports to South Africa were articles of apparels and clothing accessories (SITC 84) and non-industrial diamonds, worked but not mounted or set (SITC 66). The main imported products from South Africa were iron and steel (SITC 67) and petroleum, petroleum products and related materials (SITC 33).

Table 4: Mauritius exports and imports by region, 2005

Region	Exports		Imports	
	Value (US$'000)	Region's share %	Value (US$'000)	Region's share %
EU25	1,316,709	65.69	971,091	30.73
NAFTA	197,290	9.84	72,889	2.31
SSA (excl. SADC)	181,674	9.06	353,130	11.17
SADC	148,939	7.43	323,416	10.23
Other	119,575	5.97	663,359	20.99
SEAsia	17,240	0.86	291,123	9.21
South Asia	13,977	0.70	256,551	8.12
Oceania	7,249	0.36	121,625	3.85
South America	1,084	0.05	54,768	1.73
Mercosur	616	0.03	52,165	1.65

Source: TIPS/AusAID Southern African Trade Database

The EU was Mauritius' main trading partner both in terms of imports, with a 48% share of total imports, and exports, with a 66% share of total exports. As a member of the ACP group, Mauritius exported a number of its products to the EU under the Lomé Convention / Cotonou agreement (Sections 6 and 7 of this chapter have more details on the relationship between Mauritius and the EU).

Regional imports data show that the main regions from which Mauritius sources its imports are Asia, the EU, SADC, as well as other sub-Saharan African countries. The import pattern is driven by distinct comparative advantages. As noted earlier, one of Mauritius's main exports has been wearing apparel, and so the Mauritian clothing sector accounted for a large share of GDP – 6.6% in 2006 and 6.8 % in 2007 (Central Statistical Office: 2007). Yet the sector did not develop much.

Mauritius continued to import a large share of its textiles requirements, although the volume of imports of textile yarn, cotton fabrics and other textile fabrics declined. After 2003, the observed decline in the importation of textiles and fabrics was mainly due to the creation of two new cotton spinning mills. Prior to their establishment and operation, Mauritius imported all of its cotton yarn, most of which was sourced from Asia. Cotton yarn imports declined by almost 30% following the establishment of these two firms in 2003-2004. Currently, Mauritius' textile sector consists of four woollen yarn spinning mills, two cotton yarn spinning mills, two cotton-weaving mills and some 30 knitting fabrics producers.

4. Top export and import partners

Table 5: Exports by partner country: 2000-2006

		Value (US$m)		Growth	% share
		2000	2005	2000-06	2005
#	World	1,488.5	2,033.2	6.4	100.0
1	UK	432.8	649.7	8.5	32.0
2	France	304.2	297.8	-0.4	14.6
3	US	301.3	196.1	-8.2	9.6
4	UAE	1.9	174.9	146.2	8.6
5	Madagascar	76.3	116.0	8.7	5.7
6	Italy	58.5	114.9	14.5	5.7
7	Spain	33.6	56.6	11.0	2.8
8	Reunion	22.4	53.7	19.1	2.6
9	Belgium	34.7	53.4	9.0	2.6
10	Germany	56.4	36.6	-8.3	1.8
11	South Africa	9.0	27.3	24.8	1.3
12	The Nertherlands	25.1	24.8	-0.2	1.2
13	Switzerland	17.2	22.1	5.1	1.1
14	Portugal	14.5	18.5	5.0	0.9
15	Japan	6.8	17.4	20.7	0.9
16	Taiwan	0.6	16.5	92.0	0.8
17	Seychelles	5.6	14.3	20.8	0.7
18	Luxembourg	0.3	9.3	99.6	0.5
19	India	2.6	8.9	28.4	0.4
20	Singapore	3.5	7.5	16.4	0.4
Selected countries					
36	Tanzania	2.5	2.7	1.8	0.1
42	Zimbabwe	5.8	1.8	-20.9	0.1
49	Mozambique	1.0	1.3	6.2	0.1

Source: TIPS/AusAID Southern African Trade Database

European markets featured strongly in Mauritius' list of top export

destinations. As shown in Table 5, among the list of the top 20 destinations for Mauritian exports were eight countries from the EU. The UK and France accounted for a substantial share of Mauritius' total exports to Europe. The main goods that Mauritius exported to the UK were sugar (SITC 06), articles of apparel and clothing accessories (SITC 84) and fish (SITC 03), while its exports to France were mainly articles of apparel and clothing accessories (SITC 84). In 2005, France and the UK each received almost 28% of Mauritius' exports of wearing apparel.[5]

The NAFTA and SADC regions – respectively absorbing 9.8% and 7.4% of Mauritius' exports (see Table 4) – had smaller but important shares of the country's total exports.

Within the NAFTA region, the US was the market to which Mauritius exported mainly wearing apparel under the Africa Growth and Opportunity Act. Over 80% of Mauritius' exports to the US consist of 'textiles and apparel', a trade category that has remained relatively constant in recent years.

In January 2001, Mauritius qualified under the AGOA's wearing apparel provisions as one of the first AGOA-eligible sub-Saharan African countries. Significantly, Mauritius is not deemed a Lesser Developed Country (LDC), which means that it is unable to use non-qualifying third-country textile inputs in the manufacture of AGOA-eligible apparel exports. As a result, only 40% of Mauritius' exports in the textiles and apparel category actually qualified for AGOA benefits. In 2001, that amounted to only 16% of the total, but it still represented a significant increase from the previous year's share. That share is likely to increase further as Mauritius expands its use of qualifying regional textiles in its textile sourcing networks.[6] Other exports to the US are varied and emanate from a cross-section of different industry sectors.)

Next, focusing on other partners not discussed so far, it is worth mentioning that exports to the UAE have increased at an annual rate of 146% over the period 2000-2006. This made the UAE the fourth main destination (from 15th in the year 2000) for Mauritian goods – after the UK, France and the US. The main products that are exported to the UAE are cellular phones. This segment accounts for around 90% of total exports to UAE.

As already noted above, in the SADC region, the main export markets are Madagascar and South Africa. These partners absorbed 5.7% and 1.3%, respectively, of total Mauritian goods in 2005 (see Table 5).

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5 A 21% share of these products was exported to the US.

6 Southern African Trade Law Centre (TRALAC), http://www.agoa.info/?view=-country_info&country=mu# [Last accessed on 16/05/08].

Table 6: Imports by partner country, 2000-2006

		Value (US$m)		Growth	% share
		2000	2005	2000-06	2005
#	World	2,092.5	3,204.2	8.9	100.0
1	China	158.2	314.6	14.7	9.8
2	South Africa	312.3	274.6	-2.5	8.6
3	France	199.9	240.9	3.8	7.5
4	India	183.6	221.7	3.8	6.9
5	Bahrain	51.4	167.3	26.6	5.2
6	Finland	2.8	153.9	123.4	4.8
7	Germany	80.5	130.4	10.1	4.1
8	Saudi Arabia	33.4	124.2	30.1	3.9
9	UAE	24.5	123.1	38.1	3.8
10	Japan	85.9	114.6	5.9	3.6
11	Australia	72.3	92.6	5.1	2.9
12	Malaysia	64.2	91.6	7.4	2.9
13	UK	90.6	89.0	-0.4	2.8
14	Italy	69.1	82.5	3.6	2.6
15	Hungary	0.8	73.5	146.0	2.3
16	Indonesia	43.9	72.5	10.5	2.3
17	Spain	38.1	71.7	13.5	2.2
18	US	61.0	69.9	2.8	2.2
19	Taiwan	40.4	59.0	7.9	1.8
20	Singapore	41.1	54.4	5.8	1.7
Selected countries					
33	Mozambique	1.9	15.8	52.2	0.5
34	Madagascar	33.6	15.0	-14.9	0.5
39	Zambia	0.2	8.7	115.0	0.3
53	Zimbabwe	7.1	2.9	-16.6	0.1
54	Tanzania	1.0	2.7	22.0	0.1

Source: TIPS/AusAID Southern African Trade Database

As is shown in Table 6, China, South Africa, France and India were the four main sources of imports for Mauritius for the period 2000-2006. Prior to the year 2000, Mauritius relied primarily on France for its imports. After the formation of the SADC preferential trade area (PTA) in 2000, South Africa was, up until 2004, Mauritius's main import source. Since 2005, though, China has replaced South Africa as Mauritius' main source of imports.

Looking at what products were imported from those four main trade partners, the following are noted:

- From China, Mauritius imported textile yarn, fabrics, made-up articles not elsewhere specified (n.e.s.) and related products (SITC 65); telecommunications and sound-recording and reproducing apparatus and equipment (SITC 76); and office machines and automatic data-processing machines (SITC 75);

- From South Africa, iron and steel (SITC 67); coal, coke and briquettes (SITC 32); and petroleum, petroleum products and related materials (SITC 33) were imported;

- From France, fish (not marine mammals), crustaceans, molluscs, aquatic invertebrates and preparations thereof (STIC 03) were imported, along with cereals and cereal preparations (STIC 04) and medicinal and pharmaceutical products (STIC 54);

- From India, imports included textile yarn, fabrics, made-up articles n.e.s. and related products (SITC 65); petroleum, petroleum products and related materials (SITC 33); textile fibres (other than wool tops and other combed wool) and their wastes (not manufactured into yarn or fabric) (SITC 26).

As is evident from that description, most of Mauritius' imports were of products that were technically not feasible to manufacture locally.

Except for South Africa, no other SADC country was a major source of imports for Mauritius even though a SADC PTA was in place. Mauritius has a comparative disadvantage in the production of those products and goods that are not produced in the SADC region and which it must import from elsewhere.

Table 7: Fastest growing trade with partners, 2000-2005

Rank	Importing countries	Value US$m	Growth 2000-05	% share 2005	Exporting countries	Value US$m	Growth 2000-05	% share 2005
#	World	3,204.2	8.9	100.0	World	2,033.2	6.4	100.0
1	Hungary	73.5	146.0	2.3	Estonia	1.7	234.7	0.1
2	Finland	153.9	123.4	4.8	UAE	174.9	146.2	8.6
3	Zambia	8.7	115.0	0.3	Bangladesh	2.6	133.3	0.1
4	Philippines	19.9	68.4	0.6	Turkey	7.2	128.9	0.4
5	Seychelles	9.7	58.4	0.3	Hungary	2.0	124.2	0.1
6	Mozambique	15.8	52.2	0.5	Luxembourg	9.3	99.6	0.5
7	UAE	123.1	38.1	3.8	South Korea	2.8	93.3	0.1
8	Denmark	34.7	37.4	1.1	Taiwan	16.5	92.0	0.8
9	Brazil	13.5	36.8	0.4	Malaysia	3.6	65.7	0.2
10	Kenya	9.7	30.2	0.3	Poland	3.7	55.2	0.2
11	Saudi Arabia	124.2	30.1	3.9	Philippines	1.3	49.9	0.1
12	Turkey	6.6	29.1	0.2	Russia	2.0	43.1	0.1
13	Egypt	21.6	27.9	0.7	China	6.4	40.7	0.3
14	Bahrain	167.3	26.6	5.2	Comoros	3.8	33.5	0.2
15	China	314.6	14.7	9.8	India	8.9	28.4	0.4
16	New Zealand	28.2	14.4	0.9	South Africa	27.3	24.8	1.3
17	Spain	71.7	13.5	2.2	Thailand	3.5	22.6	0.2
18	Argentina	39.0	11.1	1.2	Seychelles	14.3	20.8	0.7
19	Thailand	52.6	10.8	1.6	Japan	17.4	20.7	0.9
20	Indonesia	72.5	10.5	2.3	Israel	1.7	20.3	0.1

Source: TIPS/AusAID Southern African Trade Database

In addition to identifying Mauritius' fastest growing trade partners, and because risk exists in how data are interpreted, it is important to discuss simultaneously the rate of growth and the share of trade. Consider, for example, that the growth rate of Zambian imports was 115%, implying that Zambia was a rapidly growing trade partner. Yet, the actual share of total and the value in absolute terms of those Zambian imports were very small.

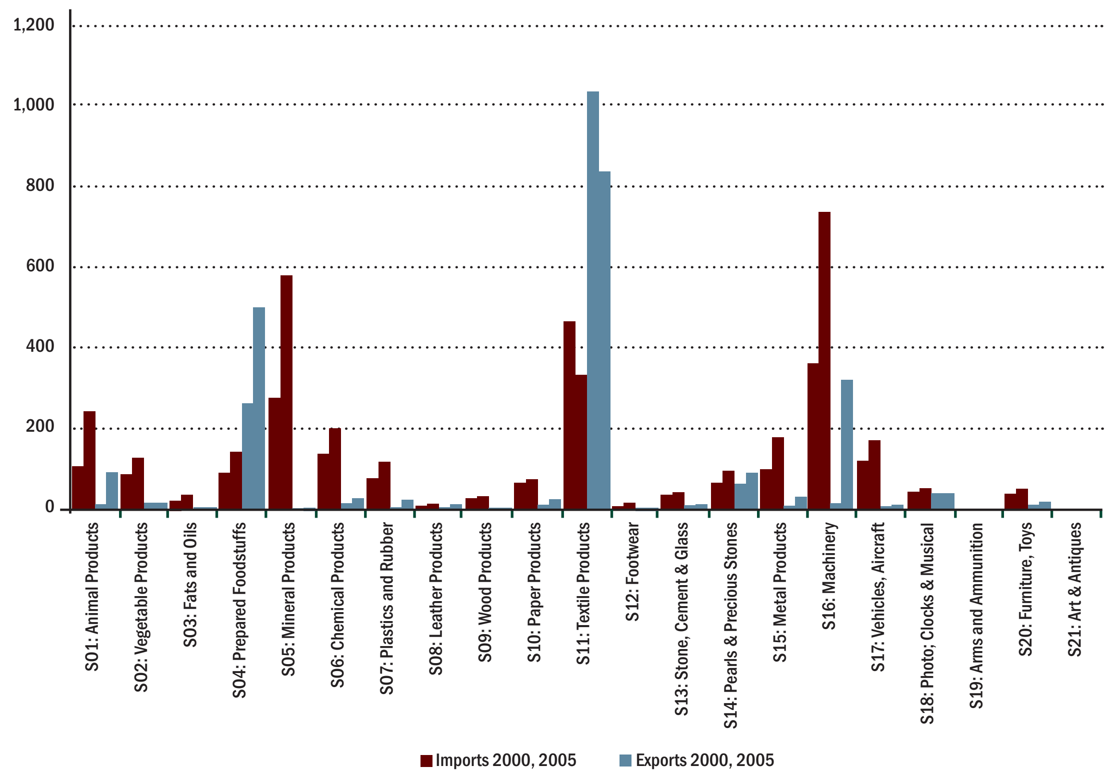
On the exports side, except for the UAE, none of the fastest growing trade partners were also among the list of Mauritius' major trading partners.

On the imports side, the situation was slightly different. The rates of growth of imports from China, Bahrain, the UAE and Finland were high and all of those markets were among the list of its main trading partners.

Zambia, Mozambique, Kenya and Egypt appeared on the list of the 10 fastest growing importers of Mauritian goods. Comoros, South Africa and Seychelles, as shown in Table 7, were the fastest growing African exporters from which Mauritius sourced products and goods.

5. Top export and import commodities

Figure 1: Trade by sector, 2000-2005



Source: TIPS/AusAID Southern African Trade Database

Figure 1 above presents Mauritius' trade performance at the chapter level for both export and imports for the years 2000 and 2005.

On the export side, the figure shows that, taking two period points as reflective of a trend, there has been an increase in exports of machinery, mineral products, prepared foodstuffs and animal products. There has been, in contrast, a decline in the exports of textile products. This is confirmed in Table 9 which provides a better sectoral picture of the pattern at hand; the decline in exports of textile products clearly coincides with the phasing out and ending of the ATC in 2005. (In parallel, wearing apparel exports from Mauritius declined from 2003, affecting the demand for textile products.) Moreover, as we have noted above, two new cotton spinning mills set up in Mauritius in the period.

Besides the imports of textile products there has been an increase in the imports of products from all sectors. Table 8 shows that a large increase in imports is observed in mineral products and machinery.

Table 8: Imports by sector, 2000-2005

	Imports (US$m)		Growth	% share	
Imports by Section	**2000**	**2005**	**2000-05**	**2000**	**2005**
S01: Animals and Animal Products	104.8	240.5	18.1	5.0	7.5
S02: Vegetable Products	86.5	124.3	7.5	4.1	3.9
S03: Fats and Oils (Animal or Vegetable)	20.5	33.1	10.1	1.0	1.0
S04: Prepared Foodstuffs, Beverages and Tobacco	88.5	140.3	9.6	4.2	4.4
S05: Mineral Products	274.1	575.5	16.0	13.1	18.0
S06: Chemical Products	135.6	201.3	8.2	6.5	6.3
S07: Plastics and Rubber	72.9	119.0	10.3	3.5	3.7
S08: Leather Products	7.3	11.1	8.8	0.3	0.3
S09: Wood Products	25.0	30.7	4.2	1.2	1.0
S10: Paper Products	60.1	72.1	3.7	2.9	2.3
S11: Textile Products	461.0	329.5	-6.5	22.0	10.3
S12: Footwear & Headgear	7.9	15.5	14.5	0.4	0.5
S13: Stone, Cement and Glass Products	35.1	43.8	4.5	1.7	1.4
S14: Pearls & Precious Stones	61.1	94.0	9.0	2.9	2.9
S15: Metal Products	95.8	176.6	13.0	4.6	5.5
S16: Machinery	357.8	730.4	15.3	17.1	22.8
S17: Vehicles, Aircraft and Vessels	117.7	167.9	7.4	5.6	5.2
S18: Photographic; Clocks; and Musical Instruments	41.0	50.0	4.1	2.0	1.6
S19: Arms and Ammunition	0.1	0.4	40.1	0.0	0.0
S20: Furniture, Toys and Other Products	39.9	48.3	3.9	1.9	1.5
S21: Works of Art & Antiques	0.1	0.1	-1.6	0.0	0.0
Total trade	2,092.5	3,204.2	8.9	100.0	100.0
Concentration index	0.1146	0.1172	2.57		

Source: TIPS/AusAID Southern African Trade Database

Table 9: Exports by sector, 2000-2005

	Exports (US$m)		Growth	% share	
Exports by Section	**2000**	**2005**	**2000-05**	**2000**	**2005**
S01: Animals and Animal Products	11.3	88.1	50.9	0.8	4.3
S02: Vegetable Products	12.6	13.9	1.9	0.8	0.7
S03: Fats and Oils (Animal or Vegetable)	0.8	1.2	6.8	0.1	0.1
S04: Prepared Foodstuffs, Beverages and Tobacco	257.4	492.3	13.8	17.3	24.2
S05: Mineral Products	0.3	2.7	50.4	0.0	0.1
S06: Chemical Products	12.8	25.0	14.3	0.9	1.2
S07: Plastics and Rubber	3.4	21.4	44.7	0.2	1.1
S08: Leather Products	3.7	8.8	18.7	0.3	0.4
S09: Wood Products	1.2	2.4	15.4	0.1	0.1
S10: Paper Products	9.6	21.6	17.6	0.6	1.1
S11: Textile Products	1,026.9	829.6	-4.2	69.0	40.8
S12: Footwear & Headgear	1.1	3.6	27.3	0.1	0.2
S13: Stone, Cement and Glass Products	6.8	11.1	10.4	0.5	0.5
S14: Pearls & Precious Stones	61.7	90.7	8.0	4.1	4.5
S15: Metal Products	8.5	31.8	30.3	0.6	1.6
S16: Machinery	15.4	319.8	83.4	1.0	15.7
S17: Vehicles, Aircraft and Vessels	5.8	12.2	16.3	0.4	0.6
S18: Photographic; Clocks; and Musical Instruments	37.9	39.6	0.9	2.5	1.9
S19: Arms and Ammunition	0.0	0.0	40.3	0.0	0.0
S20: Furniture, Toys and Other Products	11.2	16.9	8.5	0.8	0.8
S21: Works of Art & Antiques	0.0	0.4	65.6	0.0	0.0
Total trade	1,488.5	2,033.2	6.4	100.0	100.0
Concentration index	0.5087	0.2549	-12.907		

Source: TIPS/AusAID Southern African Trade Database

Table 10: Imports by chapter, 2000-2005

		Imports	Growth	% share
#	**Top imports by Chapter**	**(US$m)**	**2000-05**	**2005**
1	H27: Mineral fuels, oils	528.3	16.4	16.5
2	H85: Electrical, electronic equipment	428.5	26.2	13.4
3	H84: Nuclear reactors, boilers, machinery	301.9	6.2	9.4
4	H52: Cotton	163.8	-9.5	5.1
5	H87: Vehicles other than railway, tramway	149.4	5.8	4.7
6	H03: Fish, crustaceans, aquatic invertebrates	138.0	32.3	4.3
7	H39: Plastics and articles thereof	95.4	10.9	3.0
8	H71: Pearls & precious stones	94.0	9.0	2.9
9	H10: Cereals	76.3	7.9	2.4
10	H72: Iron and steel	63.4	14.7	2.0
11	H04: Dairy products, eggs, honey	62.3	8.9	1.9
12	H73: Articles of iron or steel	56.0	14.6	1.7
13	H48: Paper & articles of pulp, paper and board	54.9	3.0	1.7
14	H30: Pharmaceutical products	51.6	11.4	1.6
15	H25: Salt, stone, plaster, lime and cement	47.2	11.8	1.5
16	H90: Optical, technical, medical apparatus	34.4	5.2	1.1
17	H15: Animal,vegetable fats and oils	33.1	10.1	1.0
18	H38: Miscellaneous chemical products	32.4	6.1	1.0
19	H44: Wood and articles of wood	30.2	4.3	0.9
20	H62: Articles of apparel, not knit or crochet	27.8	17.4	0.9
	Fastest growing Chapters			
1	H86: Railway, tramway locomotives, equipment	0.07	58.8	0.0
2	H43: Furskins & artificial fur manufactures	0.03	41.3	0.0
3	H93: Arms and ammunition	0.38	40.1	0.0
4	H88: Aircraft, spacecraft, and parts thereof	16.80	32.5	0.5
5	H03: Fish, crustaceans, aquatic invertebrates	138.04	32.3	4.3
6	H24: Tobacco and tobacco substitutes	8.75	27.2	0.3
7	H85: Electrical, electronic equipment	428.51	26.2	13.4
8	H66: Umbrellas, walking-sticks, whips	0.82	24.8	0.0
9	H56: Wadding, felt, yarns, twine, cordage	5.92	24.6	0.2
10	H81: Other base metals, cermets	0.11	24.3	0.0

Source: TIPS/AusAID Southern African Trade Database

Table 11: Exports by chapte,: 2000-2005

#	Top exports by Chapter	Exports (US$m)	Growth 2000-05	% share 2005
1	H61: Articles of apparel, knit or crochet	540.1	1.5	26.6
2	H17: Sugars and sugar confectionery	355.8	10.8	17.5
3	H85: Electrical, electronic equipment	286.2	129.0	14.1
4	H62: Articles of apparel, accessories, not knit or crochet	209.2	-13.9	10.3
5	H16: Meat, fish and seafood food preparations	109.9	24.8	5.4
6	H71: Pearls, precious stones, metals, coins, etc	90.7	8.0	4.5
7	H03: Fish, crustaceans, aquatic invertebrates	56.3	123.1	2.8
8	H84: Nuclear reactors, boilers, machinery, etc	33.6	25.3	1.7
9	H52: Cotton	31.7	-7.4	1.6
10	H01: Live animals	30.2	25.2	1.5
11	H90: Optical, photo, technical, medical, etc apparatus	22.0	5.8	1.1
12	H39: Plastics and articles thereof	19.2	47.1	0.9
13	H91: Clocks and watches and parts thereof	17.6	-3.8	0.9
14	H51: Wool, animal hair, horsehair yarn and fabric thereof	14.8	9.3	0.7
15	H73: Articles of iron or steel	11.3	28.0	0.6
16	H23: Residues, wastes of food industry, animal fodder	11.2	19.5	0.5
17	H49: Printed books, newspapers, pictures etc	10.8	12.9	0.5
18	H48: Paper & paperboard, articles of pulp, paper and board	10.6	23.6	0.5
19	H60: Knitted or crocheted fabric	9.5	-14.3	0.5
20	H76: Aluminium and articles thereof	8.7	30.9	0.4
	Fastest growing Chapters			
1	H24: Tobacco and manufactured tobacco substitutes	2.49	474.8	0.1
2	H85: Electrical, electronic equipment	286.24	129.0	14.1
3	H03: Fish, crustaceans, aquatic invertebrates	56.28	123.1	2.8
4	H68: Stone, plaster, cement, asbestos, mica, etc articles	1.67	123.0	0.1
5	H66: Umbrellas, walking-sticks, seat-sticks, whips, etc	0.33	77.7	0.0
6	H02: Meat and edible meat offal	0.30	67.5	0.0
7	H34: Soaps, lubricants, waxes, candles, modelling pastes	5.08	67.0	0.2
8	H97: Works of art, collectors pieces and antiques	0.40	65.6	0.0
9	H27: Mineral fuels, oils, distillation products, etc	1.89	65.2	0.1
10	H57: Carpets and other textile floor coverings	3.98	49.9	0.2

Source: TIPS/AusAID Southern African Trade Database

Table 11 indicates that the Mauritian economy continues to diversify its exports; however, exports are still heavily concentrated around apparel and sugar. As mentioned earlier, Mauritius has taken advantage of the trade preferences granted by the EU and the US (the Cotonou Agreement and the AGOA) to export sugar at a guaranteed price well above the world price to the EU and wearing apparel duty-free to the EU and the US. With the EU fall in sugar prices, the export revenue from sugar will decline in coming years. The government, together with the private sector have therefore developed a restructuring strategy for this industry and have already started implementation.

As shown in Table 11, electrical and electronic equipment (within the HS85 category) was the third largest category of exports for Mauritius. Within this broad category, it was mostly cellular telephones that were exported to the UAE and Italy. Exports of those products accounted for 76% of all of Mauritius' electrical and electronic equipment exports. Around 80% of cellular phones are exported to the UAE and 20% to Italy. The value of exports (US$263.2m) of cellular telephones is not much different from the value of imports (US$255.6m, f.o.b and US$262.5m c.i.f[7]) of cellular phones. These cellular phones are principally imported from Finland and Hungary. Since Mauritius does not produce cellular phones, the pattern simply reflects re-exports of the products and limited value addition.

6. Changes in trade and industrial policies

Since 2000 and even earlier it was clear that the Mauritian economy needed to be restructured so that it could cope with the impacts of changes in external factors while also remaining competitive within the world market.

Among those external factors that had important consequences for Mauritius, the following were especially noteworthy:

- The ATC was gradually phased out and ended in 2005. This disrupted the pattern of textile and clothing production and trade.

- China's accession to the WTO in 2001. As China secured most favoured nation treatment this reduced the competitiveness of Mauritian products in the EU. This is even with Mauritius benefiting from some preferential arrangements in that market.

- Brazil and Australia challenged the EU sugar regime and this threatened the EU-ACP sugar protocol to which Mauritius is a party. This resulted in a reduction of 36% in EU guaranteed prices for sugar imports from the ACP countries (see Section 7 of this chapter for more detail).

- The increase in oil prices was rendering Mauritius exports more and more uncompetitive by increasing the costs of production in a remote location.

- In 2001, the EBA initiative between the EU and several LDCs was expected to come into force.[8] When the initiative did come into force it resulted in a reduction in the competitiveness of Mauritius' exports in the EU market.

[7] These are global shipping terms, which are used in international trade. CIF means Cost Insurance and Freight. That means the shipper/trader has to pay the cost of the shipment up to the ship, insurance cost of cargo and freight cost up to destination port. FOB stands for Free On Board, which means the shipper/trader pays only the costs up to the ship and insurance cost, with the freight charges paid by the buyer/consignee. Sourced from http://wiki.answers.com/Q/What_does_CIF_and_FOB_mean_in_shipping_terms [Last accessed on 13/05/08].

[8] There are transitional arrangements in place for bananas, sugar and rice until January 2006, July 2009 and September 2009, respectively.

The aforementioned external factors, in one way or another, led to a decrease in the competitiveness of products originating in Mauritius.

As part of the efforts to re-engineer the Mauritian economy and diversify away from its traditional and (still) dominant exports of sugar and textiles, Mauritius is nurturing other sectors and economic activities, including a seafood sector, the ICT sector, and the services and financial sectors while still encouraging increasing investment in its tourism sector.

At the level of bilateral agreements, Mauritius signed a new bilateral agreement with Pakistan and was negotiating and signing another one with India.

The Preferential Trade Agreement between Mauritius and Pakistan came into effect on 30 November 2007. Under that bilateral trade agreement, Mauritian companies secured benefits from tariff preferences when exporting products, such as garments, fresh fruit, canned tuna, soap and pasta, to Pakistan. Meanwhile, Pakistani firms benefited from tariff reductions on a number of products, such as fruit and vegetables, biscuits, handbags, carpets and floor coverings, which its producers exported to Mauritius.

Among the agreements signed between Mauritius and India in 2005, a Memorandum of Understanding committed both countries to increasing air services between the two countries by allowing airlines to operate services to carry passengers onward to third-country destinations. Air Mauritius, for instance, was permitted to extend its flights from India to Karachi, Shanghai and Beijing while Indian airlines were allowed to fly on to South Africa from Mauritius.

Being a member of the WTO, Mauritius recognises the importance of being compliant with WTO rules. To bring Mauritian legislation in line with the principles and obligations laid down in the WTO's trade-related aspects of intellectual property rights framework, TRIPS, new pieces of legislations were adopted in 2002. These included the Patent, Industrial Designs and Trademarks Act 2002, the Protection Against Unfair Practices (Industrial Property Rights) Act 2002, the Layout Designs (Topographies) of Integrated Circuits Act 2002 and the Geographical Indications Act 2002. In 2006, the government, in an attempt to increase FDI in the country, passed a new legislation that would be more business friendly – The Business Facilitation Act 2006. This framework allows businesses to start operations within three working days, on the basis of self-adherence to comprehensive and clear guidelines. The authorities check for compliance by exercising ex-post control. The Integrated Resort Scheme was announced in the 2006/07 budgets. This is basically a project for the construction and sale of luxury villas to foreigners (see Box 1) and the objective is to attract FDI to Mauritius.

7. Focusing on selected commodity groups and sectors

7.1 The sugar sector

Mauritius is synonymous with an African success story (World Bank, 1995b). The country has witnessed unprecedented socio-economic development during the last two decades, with an annual economic growth rate averaging 6%. This is the result of careful economic governance by successive administrations supported by a sound financial infrastructure with a reputation for reliability, efficiency and probity.

The export-led growth strategy has significantly changed the economic structure of Mauritius, with the manufacturing and service sectors now accounting for roughly two-thirds of GDP. Total foreign trade has more than doubled in the past 10 years and so has the level of foreign exchange reserves.

The country owes a major part of its success to preferential access to the EU and US market. Mauritius benefited to a large extent from the Lomé Convention and from the MFA.[9] Mauritius is a beneficiary of the Generalized System of Preferences (GSP) that offers tariff preferences or duty-free entry on the exports of a wide range of products to Australia, Austria, Canada, the EU, Japan, Norway and Switzerland. It is also a beneficiary of the AGOA with the US.

The principle of Europe granting trade preferences to ACP countries dates back to the 1957 Treaty of Rome. In line with this, the first agreement between the EEC and the ACP countries, the Yaoundé Convention, was signed in 1963.

The thrust of such an agreement was to promote economic cooperation between the Community and the ACP countries. Furthermore, the Convention was aimed at strengthening the economic independence of the associate states, promote their industrialisation and encouraging African regional integration.

After the UK joined the EEC, the Lomé I Agreement was signed and in effect between 1975 and 1980. It introduced trade preferences for most ACP exports to the EEC. Special trade protocols were introduced for sugar, bananas, beef and veal. These trade preferences and protocols were further extended under successive Lomé Conventions, namely Lomé II (1980-1985), Lomé III (1985-1990) and Lomé IV (1990-2000).

One of the principal provisions of all four Lomé Conventions was that of non-reciprocal trade preference, which allowed more than 90% of ACP exports, predominantly consisting of primary commodities, to

9 For a detailed analysis of this topic, readers are referred to Rojid S. and Ancharaz V. (2008).

enter the EU market on a duty-free basis. The EU argued that non-reciprocal preferences were incompatible with the WTO's rules in that it contravened a series of GATT's Articles. Therefore the Lomé Conventions had to be changed to a system that would not be non-reciprocal. This formed the basis of the Cotonou Agreement.

Under the Cotonou Agreement, the Lomé trade preferences were extended temporarily up until 31 December 2007. By that time, it was assumed that the ACP countries and the EU would already have negotiated a new framework for co-operation under the EU-ACP EPA. That did not happen. The deadline was missed, although an interim agreement between the EU and the ESA region was concluded. On 4 December 2007, Mauritius, which is a member of the ESA group, initialled the ESA-EPA framework agreement but added its own market schedule. Under that agreement, Mauritius set to liberalise 95.6 % of its imports from the EU by 2022. The agreement was concluded as a package and contained provisions on trade, fisheries and economic development cooperation. With regard to the trade provisions, the EU will grant duty-free quota-free (DFQF) market access to all goods exported by the ESA states, except for sugar and rice, which are subject to short, transitional arrangements.

The ESA states that have initialled the agreement have also secured an additional quota of 75,000 tons for sugar that will be available from the 2008 marketing season. On fisheries, the ESA states which have initialed have obtained an automatic derogation on tuna and tuna loins exports of 10,000 tons[10]. On textile and clothing the EU agreed to provide the single transformation rule of origin[11]. ESA states have agreed to gradually liberalise their imports from the EU covering mainly capital, raw material and intermediate products, mostly over 15 years with an initial five-year preparatory period. The negotiations will continue in 2008 on outstanding issues – agriculture, trade-related issues and trade in services.

Under the sugar protocol, the EEC undertook to purchase a fixed quantity of sugar from ACP producers at its internal sugar price. The sugar protocol gave free access to specific quantities of sugar at guaranteed prices[12]. Mauritius' allocation under the Special Preferential Sugar Agreement over the 1995-2001 period was about 65,000 tons per year.

However, this policy of the EU was challenged by Australia and Brazil, and it is almost certain that the guaranteed price will no longer prevail in the future. This will have a major impact on the revenue from exports of sugar (Rojid, 2007). On 24 November 2005, the EU announced an unprecedented 36% reduction in its guaranteed prices for sugar imports from the ACP countries. Under the new EU sugar

[10] These products can be exported to the EU irrespective of the origin of the fish.

[11] This means that Mauritian clothing companies can now source fabrics from anywhere in the world, transform them and export them to the EU duty-free quota-free.

[12] This guaranteed price is higher than the world price.

regime, which will last from July 2006 to July 2015, the guaranteed price obtained under the Sugar Protocol will undergo a 36% cut by 2009/2010 and will be staged as follows:

Table 12: Changes in prices for ACP raw sugar

Year	Decrease in price	Price c.i.f. per ton
Up to July 2006	0%	€523.7
2006/2007	5.1%	€496.8
2007/2008	5.1%	€496.8
2008/2009	17.1%	€434
2009/2010	36%	€335.2

Source: Agritrade-CTA (2008)

The decision by the EU to reduce its sugar price is directly related to the WTO ruling that as much as half of its sugar exports are illegal and that it contravened some of GATT's foundation articles. Since then, the EU had been under intense pressure to radically reform its sugar commitments and ensure that its sugar rules are in line with the global (WTO) framework.

As per the sugar protocols, the EU was paying its suppliers three times the world price. With the reduction in prices, it is expected that the price charged for ACP sugar imports would decrease to twice the world price. It is generally expected that sugar would be fully liberalised and integrated within the WTO framework by the end of the year 2015. Whilst all parties, following the outcome of the Cotonou Agreement in 2000, expected such a reduction in prices, the suddenness of the decision is somewhat baffling. The impact of such a decision on the Mauritian economy is expected to be far-reaching.

Sugar cane has been grown in Mauritius for nearly three centuries. The sugar sector continued to be an important sector throughout the 1980s even though that was a period during which the country became increasingly industrialised. As export processing zones were established and the Mauritian tourism sector expanded, sugar remained an important foreign exchange earner and a vital source of income for workers and small landowners (Deepchand, 2004). As a member of the ACP group, Mauritius has been able to use the Lomé and Cotonou Agreements to export its sugar to the EU. Relying heavily on the income generated from its sugar exports, Mauritius was transformed from a mono-crop agricultural producer into a relatively diversified economy. Mauritius did not diversify into other agricultural products but rather into manufacturing products. As far as agriculture is concerned, Mauritius remained a mono-crop country.

Once dependent on the sugar industry, which accounted for more than 50% of its export receipts during the 1970s, Mauritius expanded into textiles, clothing, tourism and offshore banking. By 1995, textiles accounted for more than 60% of total exports, while sugar contributed only 23%. In 1999, the Mauritius Export Processing Zone accounted for 12.7% of GDP at factor cost, while sugar accounted for only 4.3% (Central Statistical Office data, 2000). Nevertheless, despite the emergence of other non-primary sectors, the sugar industry continues to play a pivotal role in the Mauritian economy.

Given its fertile soils and a climate that is conducive to good growing conditions, it is not surprising that Mauritius is still a large producer of agricultural products. What is remarkable, though, is the manner in which in which just one crop – sugar – dominates the output of this sector to such an extent that in many respects Mauritius relies heavily on the production and export of sugar. Despite the significant restructuring of the industry with the centralisation of milling processes and the establishment of the Voluntary Retirement Scheme for a significant number of employees, the importance of the sugar sector, both as an important employer and as a major source of exports, should not be underestimated.

Being a former British and French colony, Mauritius had over the years extensively used such close ties to benefit from preferential access to the EU markets, which have led to overdependence on these markets for its exports. As a result, the potential negative impact of the reduction in sugar prices may be extremely significant.[13] Some estimates show that Mauritius is expected to lose revenue approximating €175m for the period 2006-2010 and €103m annually thereafter.[14] Furthermore, some 40,000 workers are expected to become redundant.[15]

Finally, while European farmers will get compensation running into the billions of euros, farmers in the ACP countries who have enjoyed favourable access to the EU market for their sugar will only get €40m for 2006.

In their study on the impact of full trade liberalisation in relation to ACP sugar, Williams and Ruffer (2003) contended that Mauritian sugar would have been potentially competitive if the envisaged restructuring plan was conducted accordingly. Yet, with the expected loss in revenue following the sharp decrease in prices, whether such reforms will take place as planned remains to be seen. There are few literature studies that empirically assess the impact of the fall of sugar prices on ACP countries. The key findings of two studies on Mauritius are as follows: Alexandraki and Lankes (2004) claimed that Mauritius would be one of the biggest losers if guaranteed sugar prices fell by 40%; Rojid, Sannassee, Fowdur and Seetanah (unpublished) argued that the change

[13] Milner et al. (2004) contended that any reforms in the EU sugar commitments will have a negative impact on the Mauritian economy given the latter's high level of dependence on the EU market.

[14] http://www.lexpress.mu/display_search_result.php?news_id=55447 [Last accessed on 16/05/08]. Lexpress is a daily newspaper in Mauritius. This sentence is a translation from French into English of an interview with the Ministry of Agro-Industry, "Le manque à gagner cumulatif pour 2006-2010 sera de 175 millions d'euros et, ensuite, de 103 millions d'euros chaque année".

[15] Currently, the sugar industry employs approximately 70,000 people, which account for both direct and indirect employment.

in sugar prices would result in a real GDP change of -3.21 %. While the policy would lead to a global welfare increase of US$910.79m, Mauritius will experience a decrease in welfare of -US$45.2m. That made it the highest loss in the researchers' analysis.

The fact that Mauritius' GDP is set to be adversely affected by a change to the sugar regime is not surprising given that Mauritius' exports account for almost 25% of the EU's imported sugar. Mauritius' current production cost per pound of sugar is approximately US$0.18 while the average world sugar price is in the US$0.12 to US$0.13 range. Furthermore, with the elimination of barriers to trade, Mauritius will have to compete with countries like Brazil and Australia which have costs of production of around six to seven cents per pound of sugar.

As a result, the Mauritian authorities have urged more gradual cuts and much larger compensation packages. They have argued that the alacrity and scale of the price cuts will have severe socio-economic consequences because of the limited time available to proceed with restructuring of the local sugar industry. It was widely expected, in view of the reforms undertaken within the sugar industry, that the local cost of production per pound of sugar would have been brought down to 11 cents; this level would have entailed that Mauritian sugar would have become competitive against some alternative suppliers.

To mitigate the effects of the reform of the EU's sugar regime and the drastic 36% price cut, the EU Council of Ministers decided to grant accompanying measures to those ACP countries affected by the reform to help them to adjust their respective sugar industries. For the year 2006/2007, €40m was granted to ACP Sugar Protocol quota holders of which €6.5m was to Mauritius. This amount has been topped up by an extra €4.5m from de-committed funds from the 9th European Development Fund (EDF), taking the total to €11m. It is also to be noted that the EU has decided to cap the amount of money to a maximum of 15% of the total accompanying measures available. The disbursements for the years 2007/2008 to 2013/2014 were yet to be agreed at the time of writing of this report.

Mauritius has embarked on a deep restructuring of its sugar sector to turn it into a sugar cane industry. The 2006-2015 MAAS, which, as mentioned above, was prepared in consultation with all the industry stakeholders, defines the strategic orientations and key measures that need to be undertaken. In December 2007, an agreement between Government and the MSPA was reached.

The MSPA is giving land, through the Empowerment Programme, to the government of an extent of some 2000 arpents, which should enable government to facilitate the social acceptability of the economic reforms. Also in this agreement, sugar planters and employees of the sugar industry would have the opportunity to be shareholders of the sugar milling industry – a share of 35% maximum for these planters and employees. The same share ratio will apply across all activities in the value chain, refineries and distilleries.

As provided for in the MAAS, the financing of 75% of the cost of factory closures according to the blueprint on centralisation and of 70% of early retirement schemes (ERS) and the second voluntary retirement schemes (VRS 2) will be met from the EU accompanying measures.[16] In parallel, government has committed to underwrite the bridging loan that the MSPA members would seek to obtain from commercial banks to finance the above costs to be met from the EU accompanying measures. This is the loan that would have to be taken pending the disbursement of these funds from the EU. Following the successful conclusion between government and the MSPA, the government has been seeking to secure EU grants worth €58m in financial year 2007/2008. €36m has already been secured.

7.2. The textile sector

For two decades, the Mauritian clothing sector has played an important economic role in terms of employment, foreign exchange earnings and share of GDP. According to 2007 statistics, the textile and clothing sector in Mauritius accounted for 35% of goods exported that year, contributed around 6.8% of GDP, which was lower than its 8.1% share in 2004, and employed 10.5% of all employed workers, which was lower than its 17% level in 2000.

In the 1970s, Mauritius successfully launched an Export Processing Zone. This was a stepping stone for the development of a strong textile and clothing industry and it attracted investors from Hong Kong and Taiwan. It also permitted the industry to absorb a significant amount of labour.

With the availability of preferential trade agreements that opened up access to large markets in Europe and the US, the Mauritian textile and clothing industry remained strong and successful for almost two decades. Moreover, successive governments ensured continuity in the sector by creating the necessary economic and institutional environment to support it. That trend of steady, upward progression continued until 2000. However, after the year 2000, especially during late 2002 and early 2003 onwards, the number of employees in the sector started to decline. Table 13 shows the evolution of the number of firms and employment in the textile and clothing sector over the last few years.

[16] These are schemes to facilitate the retirement of employees in a sugar factory that would not close down, but may still need to right-size its labour force. On retirement the workers get around 6 to 7 acres of land and some cash (depending on the number of years they have worked in the sugar factory).

Table 13: Employment (number and share) and number of enterprises in the textile and clothing sector, 2000-2007

	1995	2000	2004	2005	2006	2007
Textile yarn & fabrics	4,659	5,557	7,681	5,382	5,454	5,283
Wearing apparel	66,808	73881	57,564	50,152	48,654	50,040
Total textile and apparel sector	73,462	81,438	67,249	55,984	54,108	55,323
Share in total employment		16.8%	13.4%	11.1%	10.5%	10.5%
Number of enterprises (EPZ)		286	265	257	240	217

Source: CSO data

It is interesting to examine the evolution of the industry around 2005 because of the phasing out and then end of the ATC. It is clear that between 2000 and 2004, some firms had already anticipated that it would be more profitable to relocate to other parts of the world. Because of the quota on exports from China, it was profitable for the firms in Mauritius (in fact not only in Mauritius but all around the world) to export to the EU and the US even though they were less competitive than the firms in China. Although the number of firms continues to decrease, the number of those employed in the sector has stabilised at around 55,000 (from a peak of 87,438 in 2000).

Over the review period, Mauritius imported a large share of its textiles requirements but the volume of imports of textile yarn, cotton fabrics and other textile fabrics has declined. Cotton yarn imports, for example, declined by almost 30% following the establishment of two cotton-spinning mills in 2003-2004. In order to enhance competitiveness, some firms, like the Compagnie Mauricienne de Textile Ltee (CMT), are investing heavily and as such integrating the production process backwards in the supply chain.[17]

The main destinations for textile and clothing products originating in Mauritius have been the EU and the US. Under the Cotonou Agreement, Mauritius exported clothing products to the EU on a duty-free basis. Mauritius exported mainly wearing apparel to the US under the AGOA. Over 80% of Mauritius' exports to that market consisted of textiles and apparel. However, that trade category has remained relatively constant in recent years.

[17] Textile and clothing firms in Mauritius produce wearing apparel and buy textile (like cloth) products that are used as raw materials in the production of such wearing apparel. Integrating backwards would mean that the firms are investing in the production of those textile products.

8. Conclusion

Mauritius is at a crossroads. While the trade preferences granted by developed countries have permitted Mauritius to become a successful economy and represent a model for African economies, these same preferences have also resulted in the island's concentration of its exports in a few sectors, namely sugar and textiles. These sectors are being brought under the multilateral trade principles. While the impact of the MFA phase out has already been felt and the economy is still recovering from the negative consequences stemming from this (some small firms have closed recently and a few have expressed the possibility of closure), it is not yet fully hit by the gradual fall in sugar prices. However, the government together with the private sector has already started a mechanism for restructuring the sector for the betterment of the economy. Mauritius is diversifying more towards the services sector (financial services and tourism).

In relation particularly to its trade with the SADC region, we can see that both imports from and exports to SADC are marginal compared to exports to the EU and the US. Again this phenomenon is explained by the preferential trading arrangements that exist with these respective countries. The Mauritius economy concentrated more towards supplying existing customers in the EU and the US rather than exploiting the African market. The only country which is a large trading partner in the SADC region for Mauritius is South Africa, to which it exported clothing as well as industrialised diamonds.

Some diversification in relation to its export partners is apparent, however. Trade with Madagascar, for example, is increasing rapidly, especially in cereals. Madagascar was a destination for Mauritius's textile yarn, fabrics, made-up articles and related products as well as feeding stuff for animals (not including unmilled cereals). To South Africa, Mauritius exported articles of apparels and clothing accessories and non-industrial diamonds, worked but not mounted or set (SITC 66).

Given that the global trading rules are continuously changing towards more WTO-oriented rules, and in particular trade without discrimination, Mauritius is facing a reduction in the preferences from developed countries. In light of this, Mauritius is proactively working towards exploiting new markets in the SADC region. In this regard, Enterprise Mauritius[18] has been very active in promoting exports to the SADC and COMESA region. Key activities undertaken by Enterprise Mauritius have included:

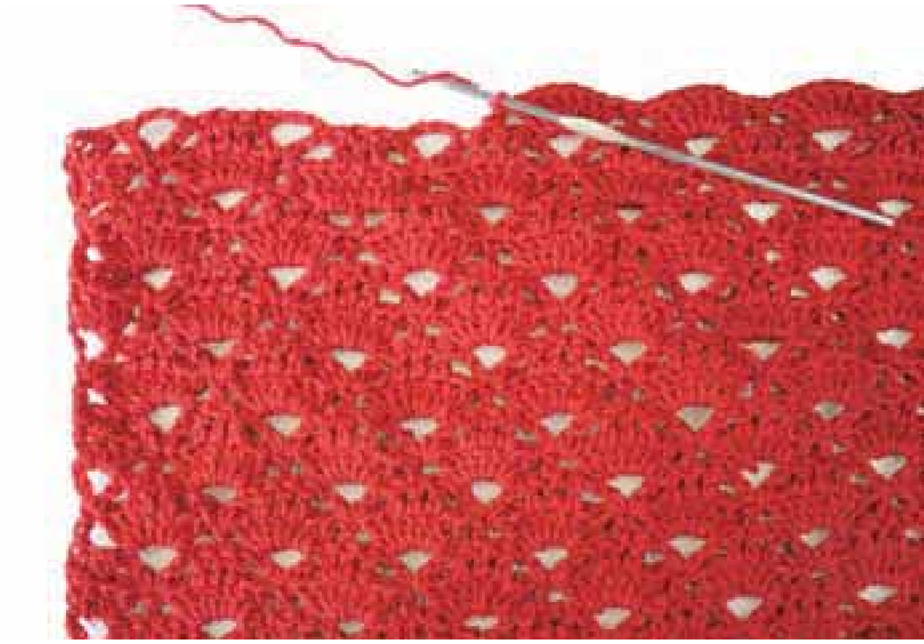
[18] Enterprise Mauritius is a collaborative partnership between industry and government that aims to help business in Mauritius expand into regional and international markets and at the same time develop their internal capability to meet the challenges of international competition. The key areas of focus are promotion of exports, supporting enterprise development and providing competitive intelligence.

- Holding a Mauritian fair in Antananarivo (Madagascar) from 15-18 November 2007. The main objective was to increase trade between these two countries.

- Conducting market surveys in three African countries – Kenya, South Africa and Tanzania – in 2007. These surveys provided a picture of production, consumption, exports and imports of these countries. Together with these data, the surveys report a number of issues, including the source of products that are imported by these countries at a very disaggregated level; the tariff rates for exporters within the regional trade blocs and outside the regional blocs; and the procedures that have to be complied with while exporting to these countries.

- Planning to hold a Mauritian fair in Reunion Island at the end of May 2008 to promote products originated from Mauritius to the people of Reunion Island.

These activities and developments demonstrate the willingness of the government of Mauritius to explore the African market, in particular the SADC market, and further diversify both its basket of trade goods and services, as well as its trading partners.



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