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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org

13808
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MAURITIUS INDUSTRIAL

POLICY STUDY

VOLUME I

SUMMARY PEPORT

Prepared for:

THE UNITED NATIONS
INDUSTRIAL DEVELOPMENT
ORGANISATION

June 1984

MAURITIUS INDUSTRIAL POLICY STUDY

SUMMARY REPORT

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MAURITIUS INDUSTRIAL POLICY STUDY

SUMMARY REPORT

1. INTRODUCTION

Maxwell Stamp Associates Limited (MSA) was commissioned by the United Nations Industrial Development Organisation (UNIDO) in September 1983 to carry out this study of industrial policy in Mauritius, on behalf of the Government of Mauritius. MSA, in response to an initial invitation from UNIDO, had submitted detailed proposals, in June 1983, for the conduct of the study and had been selected by UNIDO on the basis of those proposals.

MSA commenced work on the study in Mauritius on 3 October 1983, following an initial briefing with UNIDO in Vienna; field work in Mauritius was completed on 4 November 1983. Simultaneously, a one-month comparative analysis of industrial policy in key Far Eastern countries was carried out by a member of the MSA team. In total, some 13 man-weeks of work was carried out in Mauritius, including five man-weeks of specialist input by Mr. David Greenaway and Mr. Christopher Milner, advisers to the MSA team.

The study team returned to MSA's London head office at the end of the field research phase to prepare this report. A progress report was prepared at the end of the field research and submitted to UNIDO in December 1983.

1.1 Report Layout

The remainder of this summary report is set out under the following main headings:

2. Objectives of the Study.

3. Work Done.

4. Principal Findings.

5. Recommendations.

6. Implementation.

Annexure: Key Issues and Rationale

The purpose of this summary report is to provide a concise presentation of all the important findings and recommendations arising from the work. It is clearly impossible in a complex study of this nature to include all the detail of the research in a summary document. This detail has been presented in a comprehensive fashion in a series of technical appendices under separate cover which are laid out as follows:

Appendix 1: Policy Framework
Appendix 2: Effective Protection in Mauritius
Appendix 3: The Incidence of Trade Policies
Appendix 4: Commercial Policy in Mauritius
Appendix 5: Private Sector Survey
Appendix 6: Far Eastern Comparative Analysis
Appendix 7: A Critique of Policy Administration
Appendix 8: Investment and Export Promotion
Appendix 9: Comparative Advantage
Appendix 10: Recommendations
Appendix 11: Terms of Reference, and Project Contacts

1.2 Acknowledgements

During the course of the field work in Mauritius, the MSA team received an outstanding degree of support and assistance from the Mauritius Government which greatly contributed to the successful execution of the research programme. In our experience, the logistical support received could not have been more comprehensive and we should like to express our gratitude to all those who helped us and gave their time during our stay.

In particular, our thanks go to the Hon. R.C. Pillay, Minister of Industry and Co-operatives for his encouragement and the active interest he displayed in the progress of our work. The Liaison Officer appointed to our team by the Ministry, Mr. Ajit Lutchman, made an outstanding contribution to our work and was always ready to assist us at any time during our stay. His day-to-day assistance was the key to the success of our visit and we are very grateful to him. Also, the Permanent Secretary, Mr. P. Chan Kin, and the Secretary for Industrial Development, Mr. P. Mohith, were always encouraging and ready to meet us whenever we requested; we greatly appreciate their co-operation.

We should also like to make specific mention of Mr. D. Zamanay, Director of the Central Statistical Office, for his ready support and willingness to devote considerable resources to securing for us the detailed data we required, without which the quantitative analysis could not have been successfully carried out.

Finally, our thanks also go to Mr. B. Danisman, United Nations Development Programme Resident Representative, for his guidance and support during our visit.

A full list of those with whom we spoke is presented in Appendix 11.

2. OBJECTIVES OF THE STUDY

The terms of reference for this study are reproduced in full in Appendix 11.

The prime objective of the study was defined by UNIDO as being "to examine the structure of industrial promotion and incentive policies in the context of the Government's on-going structural adjustment programme with a view to revising the industrial development strategy and its implementation so as to stimulate a resumption of growth of industrial production and exports".

The consultants were charged, within the overall execution of the study, to address a number of specific issues, namely:

- the structure of industrial incentives;
- current industrial policy, legislation and administrative procedures;
- the administration of policy;
- the promotion of investment in Mauritius and of Mauritius' industrial exports;
- the processing of investors' applications; and
- the administration of industrial estates.

In the light of this analysis, the consultants were required to prepare a report and recommendations on the full range of Mauritian industrial policy, and specifically to comment on:

- the duty drawback scheme;
- import licensing procedures;

- protection of Development Certificate companies' products from competing imports;

- whether quotas should be replaced by tariffs;

- whether the Customs tariff should be revised;

- what provisions should be made to promote indirect exports; and

- whether export industries should be permitted to serve the domestic market.

Finally, the consultants were required to prepare recommendations on how policy amendments and their effects could be systematically monitored following implementation.

In essence, the terms of reference called for, and MSA interpreted the study brief as requiring, a comprehensive review of Mauritian industrial policy based upon both quantitative and qualitative analysis. In our experience, this study is especially relevant to Mauritius' immediate needs and addresses the full range of industrial policy at a particularly timely moment in the country's development. We have attempted to give full coverage to all the aspects of the comprehensive terms of reference: to that extent, our report may be regarded as offering a blueprint for industrial strategy in Mauritius for the future.

3. WORK DONE

The research phase of the study consisted of a number of distinct though inter-related tasks, which may be summarised as follows:

(a) Quantitative Analysis The primary task here was to collect, analyse and test the price indices data required for the general equilibrium approach to the measurement of effective protection described in our proposal and dealt with extensively in Appendices 2, 3 and 4. With the willing assistance of the Director of Statistics, this work commenced immediately upon the arrival of the team in Mauritius and formed the central task of the MSA specialist advisers during their stay. In broad terms, the objective was to derive comprehensive price indices for key sectors of the economy (importables, exportables, and domestic non-traded goods) at an industry or product specific level over a time period of sufficient length to permit rigorous analysis. In the event, it proved possible to extract data of excellent quality for the period 1969-1982 (divided into two sub-periods 1969-1976, and 1976-1982) and, with the aid of the MSA team's micro-computer, to carry out a substantial test analysis on this data in Mauritius during the field research phase. This preliminary work on the statistical analysis of historic price data laid the foundation for the measurement of effective protection, the estimation of the incidence of protection and the formulation of recommended policy changes. Most importantly, it gave a basis for comparison with the results of the qualitative work (described in the next paragraph) while the team was still in Mauritius, and greatly assisted the interview programme during the latter stages of the Mauritius-based work.

(b) Qualitative Analysis As foreseen in our proposal, the team devoted considerable efforts to two aspects of an interview programme:

(i) a private sector survey was carried out during which some 27 in-depth interviews were conducted with companies holding EPZ (Export Processing Zone) or DC (Development Certificate - i.e. import substitution industries) status in Mauritius. The prime objective of this programme was to secure a representative sample of views and operating experience from those companies actually operating under the structure of incentives and protection which was simultaneously being analysed by MSA in the quantitative work. Of most impact during the field research was the early discovery that the qualitative and quantitative work were independently producing comparable and consistent results.

(ii) A detailed programme of public and institutional interviews was also carried out, in which the MSA team set out to obtain the most comprehensive picture possible in the time available of the administration of existing policy, and, more generally, the role of both public and private bodies in promoting and managing Mauritius' industrial development effort.

Parallel to this field work, a member of the MSA team visited four key Far Eastern countries - Sri Lanka, Singapore, Philippines and Hong Kong - to collect at first hand comparative information on incentives and related industrial policy in these countries. The purpose of this visit was twofold: (a) to see what lessons Mauritius might learn from such well-established areas as Hong Kong, and (b) to assess, in a general way, Mauritius' apparent comparative advantage as a location for internationally mobile industrial investment.

The results of the field work have been extensively analysed and written up in London, and are reflected throughout this report and accompanying appendices. Particular reference should be made to Appendices 2, 3 and 4 for the results of the quantitative work, to Appendix 6 for a catalogue of Mauritius' position vis-a-vis the Far Eastern "competitors", and to Appendix 7, which contains the detailed critique of current policy administration in Mauritius.

4. FINDINGS

It is convenient to present the principal findings of this study under a number of sub-headings which broadly reflect the description in the preceding paragraphs of the work carried out in Mauritius.

4.1 Quantitative Analysis

Two central issues arose during the quantitative analysis:

(i) the measurement of effective rates of protection compared with nominal rates/i.e. to what extent do the actual rates of protection afforded to Mauritius' industries vary from the intended rates as expressed by published tariff levels, quota restrictions etc; and

(ii) the execution of the shift analysis, which, in brief, seeks to measure the extent to which the direct and indirect costs of protecting the import-substitution sector are borne by (i.e. "shifted" on to) other sectors of the Mauritius economy.

As we have described in Section 3, the price data upon which the quantitative analysis was based related to the period 1969-1982, and for purposes of the analysis itself, was divided into two sub-periods, 1969-1976 and 1976-1982. The main findings of the quantitative work are set out below.

4.1.1 Effective Protection in Mauritius

In considering effective protection in the Mauritius economy, the objective was to gain some indication of the extent to which domestic value added can be raised/influenced as a consequence of the tariff structure. Put simply, the analysis seeks to measure the actual rate of protection afforded to specific industry groups (effective protection) compared with the apparent rate of protection as indicated by published tariff and quota impositions upon those groups (nominal protection).

The methodology used in this analysis relies upon three types of data:

- Domestic value-added (i.e. behind Mauritius' protective structure);
- Value-added under free trade conditions;
- Mauritian tariff levels on final output.

The analytical methods, fully described in Appendix 2, seek to compare Mauritian levels of value-added with those of the (unprotected) free world market, identify the effects of Mauritius' existing tariff structure, and thereby arrive at estimates of effective protection for the industrial groups chosen.

In this study, data availability permitted the analysis of 22 industrial product groups. The following table sets out the results of this analysis based upon two alternative measures of protection in Mauritius:

Column A takes as its base the "visible" protection as provided by fiscal and customs duties only: i.e. it takes into account only the basic structure of tariffs.

Column B includes all ad valorem charges: i.e. fiscal and customs duties, plus import surcharges, special levies, etc which de facto operate in a fashion identical to the basic duties. Column B is the more meaningful measure and the analysis and conclusions are based upon these results.

NOMINAL AND EFFECTIVE TARIFFS IN MAURITIUS, 1980

Degree of Effective Protection	Activity	COLUMN A Nominal Tariff	COLUMN A Effective Tariff	COLUMN B Nominal Tariff	COLUMN B Effective Tariff
		%	%	%	%
"High"	Leather Products	75	212	107	269
	Watches and Lenses	37	197	69	266
	Lime and Stone	21	151	53	218
	Wood Products	25	132	57	191
	Electrical Machinery	41	157	53	179
	Beverages	188	140	220	161
	Footwear	50	113	82	158
"Medium"	Fabricated Metals	32	106	64	156
	Base Metals	2	94	34	154
	Paper Products	40	88	72	131
	Furniture	88	97	120	130
	Rubber	53	86	85	125
	Wearing Apparel	48	64	80	99
	Tobacco	300	80	332	94
	Plastic	20	49	52	89
"Low"	Glass	40	44	72	77
	Textiles	13	38	45	77
	Printing	16	37	48	75
	Non-Electrical Machinery	19	28	51	62
	Basic Chemicals	5	15	37	50
	Other Chemicals	29	0	62	26
	Transport Equipment	70	4	102	23
	Arithmetic Mean	55.1	87.8	86.2	128.2
	Standard Deviation	65.8	58.2	66.0	67.7

In summary, the results show that the average rate of effective protection (based on Column B) is no less than 128%, compared with the average nominal rate of 86%. To place this in perspective, Gusinger estimated the average effective rate for the highly protected Pakistan economy in 1970 at 95%. Two key features should be emphasised in the case of Mauritius:

(a) because of the pervasive application of quantitative restrictions (i.e. quotas) on imports, it is more likely that effective protection in Mauritius has been under-estimated than over-estimated in our analysis, and

(b) in a high proportion of cases (12 out of 22) effective protection for specific groups exceeds 100% (the comparable figure in Gusinger's analysis was 10 out of 32).

A number of consequences stem from these high levels of effective protection. As we argue in detail in Appendix 2, high levels of effective protection:

- encourage circumstances in which excess profits can be made, and therefore directly affect domestic resource allocation;

- encourage relatively high wage costs in highly protected industries;

- encourage the imposition of quotas and thereby falsely inflate domestic value added; and

- discourage the seeking out of least-cost sources of supply, and encourage the use of local inputs whose costs may be inflated (inter alia, by protection) compared to world market inputs.

In broad terms, the further analysis of data in Appendix 2 confirms that, in most cases, these theoretical consequences of high rates of effective protection currently hold true in Mauritius.

There are a number of important conclusions to be drawn. Clearly, the average rate of effective protection greatly exceeds the nominal rate, and is absolutely high by international standards. This creates the conditions conducive to a significant misallocation of resources within Mauritius' industrial sector. Specifically, it encourages investment in price and cost-distorted domestic industry rather than in the export sector which is the prime objective of policy.

In two areas, key conclusions are drawn (see Appendix 2) which have important implications for this study:

(a) If the objective of import substitution policy is to foster infant industries, it is difficult to see how such an objective can have much hope of success with such high effective rates of protection - rates which are likely to insulate domestic industry from any competitive pressure whatsoever.

(b) If one of the objectives of industrial policy is to foster the development of exportable manufactures, it is unlikely that conferring substantial protection on intermediate production will assist, since it simply serves to raise the cost of inputs to domestic producers and thereby diminish their chances of competing in world markets.

4.1.2 The Incidence of Trade Policies

The wider implications of this analysis in terms of their effects upon trade policy are given extensive treatment in Appendix 3. Here, the analysis moves on from the point at which we have established the high level of effective protection to consider how this impacts upon key sectors of the economy. In particular, the objective is to measure the effects which a highly-protected import substitution sector has on the key area of export industries. In this analysis, the need is to examine the impact of trade policies within a general equilibrium framework that captures relative, rather than absolute, price changes. This approach is described in detail in Appendix 3.

At the heart of this analysis lies the inescapable fact that protection of one sector or group of activities "disprotects" another, the extent of this "disprotection" depending upon substitutional relationships between key sectors (in this case, importables, exportables and non-traded goods). Put another way, protection in itself cannot increase the quantum of resources available to the economy, and therefore such resources have to be pulled out of other activities, including those where the economy may have an international comparative advantage. The analysis of this transfer of resources can be seen in the light of the penalties which protection imposes upon the sector from which these resources are pulled, and which is manifested in a decline in real income or a reduction in domestic purchasing power. The imposition of this penalty is estimated by the "shift analysis": our particular concern in Mauritius is to estimate the extent to which the costs of protecting the import substitution sector are shifted on to the export sector.

In considering the results of the shift analysis, it is important to emphasise that the relevance of this analysis relates primarily to the question of domestic resource allocation. The analysis seeks to measure the extent to which the costs of providing protection to import substitution activities are shifted to other sectors: in the case of Mauritius, we are especially concerned with the extent to which the export sector bears these costs. Thus, the argument is about the relative attractiveness of investing in import substitution as opposed to export manufacturing. While it is always possible that a foreign investor would look at the import substitution sector of Mauritius as a potentially rewarding investment opportunity, the size of the domestic market makes this unlikely in most cases. But it clearly is of relevance to the Mauritian investor, who will put resources into whatever sector of activity appears to offer the most attractive potential return.

The main findings of the analysis were:

(a) For both sub-periods, the data show that approximately two-thirds of the cost of protection were shifted to the export sector of the Mauritius economy. Allowing for statistical analysis as to the robustness of the results, between 59% and 66% of the cost of protection in Mauritius (i.e. protection afforded to import substituting domestically-based industry) is shifted on to the non-traditional export sector (i.e. that sector of the economy producing manufactured goods for export; the very sector that the entire EPZ legislation is designed to stimulate and encourage). <u>The prime conclusion of the analysis is that the process of protecting import substitution activities in Mauritius against the effects of imported competition imposes a significant burden on the export sector</u>.

(b) The extent of this burden (the "shift"), calculated as approximately 66% on a national basis, may be as high as 100% for exports of traditional items, such as sugar and tea.

(c) Where the manufacturing (non-traditional) sector is concerned, this burden appears to have increased through time, from just under 50% in the first half of the 1970s to up to 66% in recent years.

(d) Incentives provided to producers of manufactured goods for export (i.e. the EPZ legislation) only served in the past to offset in part the disincentives to the export sector posed by requiring the burden of protection to imports to be substantially carried by the export sector.

(e) Given the magnitude of the estimated shift co-efficients it is inevitable that industrialisation through development of the export sector is being adversely affected by a highly protected import substitution sector.

A variety of incentives is provided as an inducement to potential investors in the export sector, both to encourage Mauritian investors and to attract foreign investors. As far as Mauritian investors are concerned, (who may contemplate investing in import substitution, export industries, investments overseas or simply placing investment funds on deposit), it appears that in practice these incentives do little more than offset to some extent the disincentives to invest in the export sector which are the result of the level of protection afforded to the import substitution sector. Furthermore, the incentives to exporters have remained substantially unchanged for a considerable period of time whilst the protection conferred on the import substitution sector (and hence the incentive to invest in that sector compared to the disincentive to invest in exporting) has increased. We conclude that the net effect of this has probably been to induce resources into competing domestic activities rather than into exporting activities. This results not only in a misallocation of resources in a static sense, but also in a dynamic context it provides limited opportunities for further industrialisation. Further, it goes a long way to explaining the failure of the Mauritian export sector to continue in recent years the rapid growth experienced in the early 1970s.

4.1.3 The Incidence of Commercial Policies

The quantitative analysis in Appendix 2 and 3 demonstrates a basic inconsistency in the current structure of industrial policies in Mauritius. With the creation of Development Certificate status, Mauritius modern industrial policy commenced with an "inward looking" strategy based upon import substitution and the small domestic market. Ten years later, an "outward looking" strategy was added - in the form of EPZ legislation and an attempt to encourage export industry. In the short-term, this latter element had considerable success, but by the mid-1970s the rate of expansion in the export sector slowed down, and relatively little advancement has been achieved in recent years.

The experience of recent years and the analysis carried out in this study have shown that Mauritius cannot achieve growth in the import and export sectors simultaneously on the basis of the mixed strategy now in force. In short, the Government has to make a choice and to base future commercial policy on a clear strategy. Promotion of the import substitution sector could be more effectively carried out if promotion (ie incentives) of the export sector were reduced: equally, a reduction in promotion of the import substitution sector would enhance the effectiveness of promoting the export sector.

In Appendix 4, we argue that the prospects for industrial growth and development are better in the export sector than in import substitution, and that therefore it is the export sector which should be given preference in future. This is for a number of reasons. Dealing first with the promotion of the import substitution sector, the evidence suggests that the protection awarded to DC companies has included more capital-intensive/labour-saving investment than may be thought desirable, and that the DC sector does not have the economic linkages and employment diffusion effects that might have been seen as a prime aim of industrial development strategy. Conversely, the case for promoting the export sector seems much stronger: better linkages and diffusion effects seem likely to arise, and generally it seems much more likely that industrial development, training, skills, infrastructure and diversity are more likely to be stimulated within Mauritius by developing the export sector.

We argue, therefore, that the case for an active and consistent industrial strategy based on the export sector is strong, and that a new regime is needed to encourage development and commercial risk taking which will benefit all Mauritians. We believe the policy of recent years to have inhibited growth prospects and to have channelled benefits to small minorities rather than the population at large.

The means of achieving the re-orientation of policy to meet these ends are covered in section 5 of this summary and extensively in Appendix 10. In the area of trade/commercial policy, we argue in Appendix 4 that an immediate start can be made on simplifying the existing tariff structure (for example, combining into one tariff the existing tariffs, levies, special charges etc) which affect some commodities.

In the longer-term, the key area requiring amendment is that relating to quotas. Broadly we propose that quotas should be reduced and eliminated as soon as possible, and we suggest according to a pre-published timetable. The main reason for this is that quotas are less effective than tariffs, and do not help to raise Government revenue. There are two possible ways of moving towards this adjustment:

(a) liberalisation, whereby quotas are reduced progressively and eventually abolished, and this process is accompanied by an opening up of the domestic market to international competition; and

(b) constant protection, whereby the tariff equivalents of current quotas are calculated and tariffs are imposed as quotas are removed.

The advantage of (b) is that Government revenue is increased, in the short-term at least, but the disadvantage is that such a policy does nothing to change the balance of relative incentives towards the export sector. The disadvantage of (a) is that in the short-run costs of adjustment may arise (e.g. some DC companies may go to the wall) although in the long-term, provided that such a move is part of a coherent long-term strategy, this may not prove to be a major problem. The advantage of (a) and in our opinion the key factor influencing the choice of approach is that it enables a clear strategy aimed at export development to be announced in advance and would provide the cornerstone for a change in relative incentives and for the re-alignment of industrial policy. The recommendations on tariff and quota reform are set out in section 5.2 and presented in detail in Appendix 10.

4.2 Survey Results

Appendix 5 gives detailed results of the interview programme carried out amongst private companies: these results are summarised below.

4.2.1 Private Sector Interview Survey

In the early stages of the field work, we carried out 27 in-depth interviews with private companies, 13 of which held Development Certificates and 14 of which had EPZ status. In both cases, we made attempts to ensure that a cross-section of companies by age, size and type of product was included in the sample.

The main findings to emerge from this close examination of companies' operating experiences may be summarised separately for DC and EPZ companies.

4.2.1.1 DC Companies

An overview of each company's operations revealed that:

(i) Capacity utilisation was very low at an average of 44%. We concluded that this reflected the small market size in Mauritius, and limited management capacity to diversify, as well as the characteristics of highly protected industries identified in 4.1.1 above. The effects upon the consumer include an obligation to pay high prices for domestically produced protected goods.

(ii) A substantial delay usually occurs in granting DC status - in our sample, the "typical" figure was in excess of 12 months.

The principal concern of DC companies relates overwhelmingly to the complicated import procedures: typically, the whole procedure takes about 1 month, (plus transit times for goods,) and the authorities are found by private industry to be inflexible in their operation of the import system. There is also widespread concern about the ways in which incremental import taxes and duties have progressively been applied in recent years. It is clear that the operation of the duty drawback scheme for exports of products produced by DC companies, based upon the experience of our sample, has been a failure.

DC companies were also vocal in their criticism of the Development Bank and in particular the practice of passing on to borrowers all the exchange risk involved in servicing loans made, compulsorily by the DBM, in hard currency. Of major concern to some DC companies is the system of price control.

In calling for revisions to existing policy, the concern of DC companies focuses upon two areas:

(i) taxation: about half of those companies interviewed wanted changes in the taxation system, especially in the area of simplifying the tax regime;

(ii) some 50% of companies requested urgent revisions to <u>import procedures</u>, in particular the need to introduce streamlining and flexibility into the system.

4.2.1.2 <u>EPZ Companies</u>

Some of the findings of our survey of DC companies were also evident in our discussions with the EPZ companies.

In operating terms, 2 features of EPZ companies were noticeable:

(i) Over 70% of the EPZ companies we interviewed concentrate upon the EEC as their main market;

(ii) Local investment in export companies is high and, partly as a result, 70% of those interviewed had not considered an alternative location to Mauritius.

Four features of the incentive package stand out as being attractive in the minds of EPZ companies:

(i) tax holidays, (though only one EPZ company has so far started paying tax, and there is some evidence to suggest that EPZ companies take steps effectively to pay no tax at all on a permanent basis);

(ii) low labour costs, (not an incentive as such);

(iii) good labour productivity, dexterity and literacy, (also, a feature of Mauritius rather than an incentive as such);

(iv) dividend repatriation, for any overseas investor, guarantees of free repatriation of dividends are an essential precondition to such investment taking place.

Of concern to EPZ companies were a number of detailed aspects of current policy which reflected individual company's areas of activity. In particular, EPZ companies mirrored the concern of DC companies over import procedures, and many also expressed concern over the labour laws, claiming, inter alia, that Mauritian workers are over-protected.

In considering desirable policy changes, EPZ companies were mainly concerned to streamline and simplify administrative procedures, and to see more Government support for the substantial efforts needed to promote Mauritian products in distant export markets.

4.3 Review of Government Policy and Procedures

To gain the understanding required by the terms of reference of the ways in which Mauritius' industrial policy is administered, MSA undertook an extensive programme of discussions with the public sector - Ministries, autonomous public agencies and other public sector organisations - and representatives of the private sector. This covered a wide and complex area, and has given rise to a detailed critique of policy administration in Appendix 7, the principal findings of which it is the job of this section to summarise.

Before doing so, however, there are a number of important general points to be made which have a significant impact upon the formulation of our recommendations. In summary, we found that:

(a) policy administration and conventions in Mauritius have grown up in the same piecemeal way as policy itself; often short-term expedient has been preferred to long-term strategy;

(b) a deep-seated and disturbing lack of trust is in evidence between the public and private sector; we believe this has damaged Mauritius' growth potencial in the past;

(c) over the years, the Mauritius' Government has become excessively interventionist, and as a result has stifled initiative in some areas;

(d) an important function of this study is to establish the principle that Government's role in Mauritius should be an enabling one: the private sector should take action in response to a favourable policy environment which it is Government's responsibility to create;

(e) general principles which have guided MSA's critique of policy and preparation of recommendations have included:

- minimising scope for discretion and therefore inconsistency in the application of policy;

- improvement of communications between Government and the private sector;

- liberalisation of Government's approach to the private sector, and increased responsibility for the private sector to police itself; and

- restricting Government's role to tasks which are clearly necessary and/or within Government's competence, abandoning unnecessary or ineffective procedures.

Appendix 7 deals with the critique of policy under four principal subject headings which will be reflected in this summary. These are:

- Dealing with New Investment;

- Managing the Existing Industrial Structure;

- General Policy Aspects; and

- Institutional Aspects.

4.3.1 Dealing with New Investment

Applications for privileged industrial status (EPZ, DC, or recently, ESC - Export Service Certificates) when submitted to Government show two particularly noticeable features:

(a) very considerable detail is required of the potential investor, and the onus is on him to provide it, to explain his project and support his claim for special status; and

(b) the Government assumes that it is obliged to carry out a detailed technical appraisal of applications prior to granting a certificate.

Not only does the investor have to complete a very detailed application, but once the application is granted, he has to secure a highly complex series of operating licences before he can start his business. Again, the onus is upon the investor to do this - no positive help is offered by Government. (A full description of pre-investment procedures is to be found in Appendix 1.)

As a result, we find that pre-investment procedures in Mauritius are slow and complex in comparison with the Far Eastern countries visited (see Appendix 6). While this may not be of great concern to the Government as far as Mauritian investors are concerned, it clearly is of concern from the foreign investor's point of view. There is a risk that investors will be put off by over-complex and ponderous systems.

We do not believe that it is necessary for the Government to carry out technical appraisals of projects; this is not an area where many Governments are competent, and the risk of inconsistencies arising is substantial. We have suggested (Appendix 7, Section 7.2.1) that new investment proposals are put against 3 set criteria - employment created, balance of payments effects, and total local/foreign currency investment - and that all proposals should be given the requested status or refused within 30 days of the application being submitted.

For EPZ companies, we found that on the basis of international comparisons, the ability to freely repatriate dividends, to secure work permits for expatriate specialist staff, and the existence of cast-iron guarantees against nationalisation were all of importance.

The newly-created Industrial Co-ordination Unit (ICU) therefore has an urgent role to fulfil in streamlining and "professionalising" Mauritius' pre-investment procedures. We have put forward recommendations on the ICU - see Appendix 10 and paragraph 5.4.3 below.

4.3.2 Managing the Existing Industrial Structure

Our findings cover three important areas under this general heading:

(i) Price control (see Appendix 7, Section 7.2.2.1). We found that the price control system does not work well, is bureaucratically very expensive to operate, and is inconsistent in its results. It has three unplanned effects: it raises prices to consumers, incurs very significant administrative costs, and distorts relative prices. The economic case in favour of price control is weak and, with necessary safeguards against dumping and monopoly pricing, we found no case for continuing with this system.

(ii) Import licensing/foreign exchange (see Appendix 7, Section 7.2.2.2). Just as foreign exchange shortages are a fact of life in Mauritius, so too are the delays and costs associated with importing under the present system. We found a clear need to simplify and streamline the import system, which we believe could be achieved by:

- a lump sum allocation system for foreign currency to importers, or

- a bidding system for foreign exchange.

Combined with increased flexibility on the part of officialdom, and a readiness to accept small consignment variations, much could be done to ease the system's workings.

(iii) Duty-drawback scheme (see Appendix 7, Section 7.2.2.3). Bluntly, this scheme does not work as intended. Its effect has been, in some instances, to dissuade domestic producers from exporting, or make it impossible for them to secure orders because their prices are uncompetitive. Liaison between the Customs Department and the Ministry of Finance appears to be inadequate to make the system function. We found concrete examples of repayments due in sums of more than Rs 1 million, overdue more than 12 months. In some cases, large companies have managed to negotiate workable arrangements, but in our judgement this is mostly beyond the capacity of the small company. In any case, it should be that Government takes the initiative in making the system work: in practice, the entire onus lies upon private companies and the bureaucratic machine is positively obstructive.

4.3.3 General Policy Aspects

Three important issues are raised here:

(i) Tariff Reform Amendments to the tariff structure are recommended in Appendix 10 and summarised in paragraph 5.2 below.

Our view of the current position found that even if the existing system were to be maintained, it could be administered in a much more efficient and effective way.

There are at present customs duties, fiscal duties, stamp duty, an import surcharge and a special import levy. The latter three have been introduced relatively recently and are, de facto, tariffs. Therefore, a specific consignment may pay up to 5 tariffs, undergo 5 calculations, and in fact end up paying 1 lump sum which effectively represents the import tariff on that item at the date. The effects of this system have been to increase the costs of compliance on the trader's part, and increase the costs of collection on the Government's part. In both cases, the clarity of the system and its ease of understanding has been diminished, and, almost certainly, the exchequer's net yield reduced. As an interim to the longer-term reforms we recommend, steps should be taken to simplify the existing system as rapidly a possible.

(ii) Taxation In Appendix 7 (Section 7.2.3.2) we identify two main areas where taxation regimes currently impact directly upon the industrial structure.

Firstly, corporation tax and the tax holiday system, though perceived by most companies, especially EPZ companies, as an important incentive, has so far not proved to be so in our view. This is because, (in addition to the fact, already noted, that EPZ incentives at best only offset the disincentives to invest in the export sector caused by the costs of protection), it takes many years before an EPZ company becomes profitable, and there is some evidence to suggest that absolute profitability levels are low in the EPZ sector. An additional reason is because it has become common practice to restructure EPZ companies after the 10 year holiday to ensure that no taxes are paid at all. As to DC companies, very few make any profits in the first 5 years of operation, (the DC tax holiday period), and therefore the incentive is in practical terms worthless. Also, a massive jump in tax liability takes place in year 6 which few DC companies appear able to sustain.

Our recommendations in Appendix 10 contain a radical proposed realignment of the tax system as part of a new investment incentive package which we believe will solve these existing anomalies.

In the area of personal (income) tax, we found a need to stimulate equity/risk capital investment in new ventures. We have proposed the introduction of measures to give personal tax relief on such investment.

(iii) Communications We found a widespread ignorance in the private sector as to the official rules and regulations which companies should be following. This is due partly to the complexity of some Government needs, and partly to the mistrust between the private and public sectors referred to earlier. We propose, as a short-term action to help matters before more fundamental policy change can be executed, that Government should set up an information service to industry, should set up a telephone "Helpline" to advise firms on problems, and should take the initiative in being helpful to private companies. More details are given in Appendix 7, Section 7.2.3.3.

4.3.4 Institutional Aspects

Although time on this study permitted no detailed examination of the way in which institutions function which also have a direct impact upon industrial development, the MSA team made some enquiries and observations in a number of important areas.

(i) Ministry of Industry and Co-operatives Our main impression is that this Ministry, having only recently been separated from the former Ministry of Commerce and Industry, Prices and Consumer Protection, is under-staffed and under-resourced. However, we believe that the Ministry should seek to reduce the tasks it does rather than increase its staff to cope with them. For example, we have argued that project appraisal should be greatly simplified.

New structures within the Ministry or within the compass of industrial development, are dealt with elsewhere in this report (see Appendix 7). The Industrial Promotion Unit is discussed in Appendix 8. Proposals for the new Mauritius Export Development and Investment Authority (MEDIA) are developed in detail in Appendix 10, as also is a revised Small Industries Development Organisation in the form of a Mauritian Enterprise Agency..

(ii) Ministry of Trade and Shipping

Although the industry portfolio has been separated from Commerce and Trade, the resulting organisational structure is likely to result in communication difficulties and a conflict of responsibilities. As it stands there appears to be three areas of overlapping interest:

a) import licensing of industrial products
b) export promotion; and
c) the Freight Study Unit

We consider that unless the changes in structure proposed in Appendix 10, and summarised in section 5.4.1 of this Summary Report, are implemented, industrial growth could be adversely affected and the effectiveness of MEDIA significantly inhibited.

(iii) Development Bank of Mauritius

The Development Bank of Mauritius (DBM) was the subject of substantial criticism from the private sector during our interview programme. We found that some of this criticism, which in the main related to the highly-conservative lending policy of the DBM, was justified if the view is taken that a development bank should act as a catalytic risk-taker in stimulating industrial investment. In Mauritius, the DBM does not do that and, in our view, the development function implied in its title is a misnomer.

It is for the DBM Board to decide upon the operating policy to be pursued. If it is decided to adopt a more developmental role, the areas where the most immediate impact could be made are:

- accepting some or all of the exchange rate risk by lending less in foreign currency and more in rupees;

- offering more genuinely concessionary lending rates to qualifying companies;

- operating a less stringent export credit guarantee scheme;

- operating the new Equity Loan Fund in a genuinely risk-taking entrepreneurial way, and encouraging new ventures rather than rescuing insolvent companies.

(iv) Industrial Estates

The development and management of industrial estates in Mauritius has so far been under the control of the DBM, which created and managed the two public estates at Coromandel and Plaine Lauzun jointly with IBRD funds. It is now proposed that MEDIA take over this responsibility, and SIDO also have expressed a desire to build "mini-estates" as part of their service to small firms.

We found that:

- the DBM recognise that the design of the existing estates was not optimal, and that empty space in these estates does not mean that there is a lack of demand potential for space of better quality;

- there is a growing recognition that the development of industrial estates requires more specialised knowledge than has so far been applied; and

- the provision of good quality advance factories is a vital feature in attracting overseas investors, and the absence of such facilities certainly puts Mauritius at a disadvantage compared to the Far Eastern countries that we visited.

Recommendations on industrial estates are therefore given in Appendix 10.

(v) Mauritius Standards Bureau (MSB)

The Mauritius Standards Bureau has recently been brought within the portfolio of the Ministry of Industry. In 1982 revenue for services covered 13% of recurrent expenditure, the balance being financed by the Government.

The activities of the MSB, particularly the MAURICERT and associated programmes such as the preshipment inspection scheme, are clearly an important element of overall Government industry and trade policy. Greater standardisation is of considerable significance for the marketing of products. In so far as standards are aligned internationally, they tend to stimulate trade and free competition. To the extent that they raise quality - one of the key non-price elements of a product's appeal to the buyer - they should confer a comparative advantage, discouraging cheap but inferior imports, but assisting exporters to gain increased brand awareness and generally enhance sales value by trading up on quality consciousness.

Another reason for extending and enhancing the status' of Mauritian product standards is to strengthen national and, more generally, developing country presence on international committees concerned with product standardisation. Involvement on the latter is important in order to counteract protectionist policies either overt or covert e.g. US system specification in basic electrical products.

4.4 Investment and Export Promotion

The responsibility for export and investment promotion is divided between the Government and the private sector. As might be expected export companies take principal responsibility for developing exports; the Government assume a supportive role by arranging for Mauritian representation at international trade fairs, and occasionally commissioning studies of new regional markets. Responsibility for investment promotion on the other hand is principally in the hands of the Government, who employ three firms of European consultants to induce investors to locate in Mauritius. The private sector does not actively participate in these activities as by and large the attraction of new companies to Mauritius is not in their interests. Our examination in both instances centred on the Government promotion initiatives.

The current Government programme of promotional inititives is heavily influenced by five features:

(i) Most of the initiatives are predominantly concerned with short term results, emphasis is given to increasing the immediate volume of exports and investments, little attention is given to the longer term potential through diversification of products and markets.

(ii) Over the last ten years Government initiatives have been undertaken within extremely tight financial limits, which compared to international standards are minimal.

(iii) The initiatives have also been inhibited because of an insufficiency of properly qualified and experienced personnel devoted to promotion, which can partly be attributed to promotion having a low priority and thus low numbers of staff, but also partly because of the sparsity of sophisticated promotion, marketing and communication skills within the indigenous population.

(iv) Very little attention has been given to planning and research, to examining which projects are most beneficial to Mauritius, which new markets offer greatest potential, and in which regions should investment promotion initiatives be focused. Consequently very little guidance or coordination is given to the authorities in terms of selectivity.

(v) There appears to be a distinct lack of understanding or appreciation of the role and potential effectiveness of the communications industry in promotion, and consequently promotional initiatives have suffered.

As a result of these features the current Government initiatives are substantially reduced in effectiveness and on the whole tend to reinforce the status quo:

- trade fairs are concentrated in the major European markets;

- little guidance is given to the consultants as to on which industries efforts should concentrate;
- market research is sporadic and tends to be based on intuitive rather than objective enquiry.

The combined effects have been to aggravate the growing market and product concentration of exports and comparatively poor performance of Mauritius in international promotional efforts.

4.5 Summary

Bringing together the key features of our findings on Mauritius' industrial policy, we find a number of important strands running through this report which serve as a useful backdrop to the recommendations we put forward.

Firstly, and perhaps of most immediate importance, we find that the dual planks of Mauritian industrial policy - protection for import substitution industry, and incentives for investment in the export sector - are not having the desired effects. Protection for import substitution is in some cases excessive, in some cases distorting and in some cases redundant. Most seriously, the bulk of the costs of protection is borne by the export sector. Thus, for the Mauritian investor at least, it has become more attractive to invest in the local market than in the export sector. Also, at best, the incentives to invest in the export sector only cancel out the disincentives imposed by the costs of protecting import substitution industries.

Second, there is a need for greater clarity in defining the principal objectives of industrial policy. This is well illustrated by highlighting the distinction between the local investor and the external investor. Much of Mauritius' policy has been aimed at preventing local investors from avoiding Government rules and ensuring that Government's revenue base is maintained. As we have seen, the intentions of policy are not always reflected in its reality. But it should also be pointed out that the role of the overseas investor has been substantially under-emphasised, if not ignored. We have seen that few resources have been devoted to effective promotion - similarly, scant attention has been paid to Mauritius' international competitive position as it affects its location for mobile investment. In our judgement if the primary policy objective in the industrial sphere is to stimulate the export sector as representing Mauritius' best hope for future growth in employment, national income and foreign exchange, then an important aspect of policy must be to ensure that the foreign investor in Mauritius is well-served.

Third, (and deriving in part from the preceding argument), we find a disturbing mistrust between the public and the private sectors. The effects of this are to minimise the chances of both sectors pursuing the same policy objective - and in our view directly contributing to a slowing of industrial development - and to create a climate of suspicion and often obstruction, in place of a positive atmosphere of help. In Government's case, this has developed over the years into excessive intervention and an instinctive reluctance to release the reins of control. In the private sector's case, it is manifested in a lack of co-operation with Government, an assumption that Government is generally incompetent, and a constant attempt to circumvent Government's rules.

5. RECOMMENDATIONS

5.1 Background and Objectives

In summarising the recommendations arising from this study it is necessary to set out a general definition of where we believe this policy should lead and what should be its broad objectives.

The overall objective is to construct a new and appropriate package of industrial incentives, policies and mechanisms which will encourage growth, especially in the export sector. The benefits to Mauritius from such growth will accrue in three areas: (i) the creation of viable, stable employment; (ii) incremental growth in national output and therefore national income, and (iii) a positive contribution to the balance of payments.

To achieve this objective, there are three broad areas of policy change which need to be undertaken. First, trade policy has to be amended to provide a structure appropriate to the encouragement of the export sector: this essentially means wide ranging revisions of and reductions in tariff levels and the progressive abolition of quotas. The primary aim here would be to introduce protection to import substitution industries <u>only</u> on a level which is justified in economic terms. In practice, this implies a willingness on the part of the Mauritius Government to see some existing DC companies go to the wall.

Second, there is a need to revise the structure of industrial investment incentives to achieve a number of objectives: (i) positive discrimination in favour of export-oriented investment; (ii) protection of Government's revenue base; (iii) attraction to Mauritius of stable - in some cases this may mean relatively capital-intensive - investment and the concomitant avoidance of footloose industries; (iv) marketing Mauritius on the basis of its comparative advantages, not only reflecting relative factor cost advantages, but also the geographical advantages and limitations from the point of view of main markets.

Third, to support the new structure institutional and procedural reform has to take place in order to achieve the broad objectives outlined. This essentially means that Government should seek to create a positively helpful environment which encourages things to happen, which safeguards the public interest, and which gives the private sector the maximum degree of operational freedom. One of the main features of such a general policy stance would be that the Government of Mauritius becomes less interventionist and seeks to secure its revenue base from the results (i.e. profits) of a successful private sector rather than seeking to tax and/or raise revenue by other means from pre-production activities. Government's prime role is therefore an enabling one: i.e. it should create a helpful policy environment in which the private sector is encouraged to take action; Government should not interfere unnecessarily with the private sector, and should not assume an executive function where private interests can do it better.

For its part, the private sector must accept, in return for a significant measure of freedom, increased responsibility and a recognition that it has a direct contribution to make to Government revenue and thereby to social and economic stability. The private sector should be encouraged to act as its own watchdog wherever possible.

In formulating these recommendations we thus have to face the fact that we are proposing changes on a very wide front, and that the package of changes put forward will require some years to implement fully. In the process, it is likely that some structural changes will arise.

The recommendations address the whole industrial environment in Mauritius. The schematic presentation of this environment on the next page is helpful in picturing the context of our recommendations and the logic which they follow.

MAURITIUS INDUSTRIAL ENVIRONMENT: SCHEMATIC PRESENTATION

INDUSTRIAL POLICY
IN MAURITIUS
(consists of
4 main facets)

1. TRADE POLICY
   - Tariffs (To be revised and reduced)
   - Quotas (To be abolished)

2. INCENTIVES
   - Taxation (The heart of the matter: radical new system proposed)
   - Other
     - Dividend/ Profit Repatriation
     - Work Permits
     - Duty Free Imports
     - Industrial Estates
     - Development Finance

3. INSTITUTIONS
   - Key Ministries
     - "SIDO/ Small Businesses
     - Industrial Co-ordination Unit
     - Policy Review Board/ Monitoring
     - DBM

4. SYSTEMS AND PROCEDURES
   - Promotion and Communications
     - MEDIA
   - Licences
     - Imports/ Exports Foreign Exchange
     - Customs Procedures
     - Duty Drawback Scheme
     - Handling New Investors

Thus we deal with four principal areas:

- trade policy;
- incentives;
- institutions; and
- systems and procedures

The first priority, as we have shown in this summary report, is to correct deficiencies in trade policy. Unless protection can be made more suitable in its incidence and effectiveness, there is little point in amending other areas of the environment. We therefore commence with recommendations on tariffs and quotas.

Given an appropriate tariff policy, the industrial incentive structure can then be designed to act as a real set of incentives and to encourage those sectors which one wants to encourage - in this case, export manufacturing.

Clearly, having designed an appropriate incentives package, (based upon radical proposals for a new corporate tax policy), it is essential that Mauritius' institutions are in a position to respond to and administer the policy environment, and that the systems and procedures which they administer are designed appropriately. These aspects form the final sections of our recommendations.

5.2 Tariff and Quota Reform

Our work has shown that there are wide disparities in effective protection between industries and that, as a result, the export sector carries a substantial burden of the costs of protection. Our recommendations for changes to trade policy are based on the contention that relative investment incentives must be altered to encourage greater orientation towards exporting.

The strategy does not envisage complete trade liberalisation but centres on a movement away from quotas to tariff protection and ultimately to a complete revision and rationalisation of the tariff system.

There are three distinct phases to our recommendations:

1. a) The rationalisation of the tariff structure by replacing the mixture of duties and surcharges with a single tariff equivalent;

   b) the announcement of a programme for the planned elimination of quotas over a 4-year period.

2. The design of a rationalised tariff structure aimed at:

   a) reducing the spread of effective rates of protection across industries;
   b) conferring, (where proven justifiable by research into the comparative advantage of Mauritius) temporary protection to infant industries; and
   c) increasing the level of competition in home markets and thereby shifting investment incentives to the export sector.

3. a) implementing the new tariff structure;
   b) implementing safeguard provisions against, for example, dumping by foreign suppliers.

We understand that product specific rates of effective protection are being estimated together with tariff equivalents of existing quotas as a result of a large World Bank financed study of protection being carried out over the next 12 months. We would anticipate that, together with the results of the detailed study on comparative advantage that is proposed in Appendix 10, the results of this study could form part of the input into the proposed tariff rationalisation work.

5.3 Incentives

5.3.1 Taxation

At the heart of Mauritius' current incentives to industrial investment is a tax holiday - for 10 years in the case of EPZ companies with partial tax exemption extending to a further 10 years, and for 5 years in the case of DC companies.

In Appendix 10 we have argued that this system should be changed, because (i) given current levels of protection for import substitution industries, incentives to exporters are ineffective; (ii) in any case, experience has shown that companies take so long to achieve profitability that even under favourable conditions the incentive is less effective than it should be and (iii) EPZ companies have developed ways of avoiding taxation on profits which appear to be permanent.

We propose that the tax holiday system should be abolished, that the basic rate of corporation tax should be lowered from its current level, high by international standards, of 65%, to a less penal level, and that tax incentives should be based upon one simple criterion - the value of sales, based on ex-factory prices, which are made to export markets. This system (which for its logic depends upon the rationalisation of trade policies proposed above) would be designed to encourage:

(a) *industrial activity in general, by reducing corporation tax to a level* seen as concessionary in contrast to its present level, and specifically

(b) export industries wherein lie, by common consent, Mauritius' best chances of significant growth in the industrial sector.

It is clearly for the Mauritius' Government to select the most appropriate rate of corporation tax. As an illustration of the principles we are proposing, we have selected 2 basic tax regimes and, to calculate hypothetical tax liabilities, 3 types of company:

Scheme A: Basic tax rate 40%

Tax on profits from exports: 0%

Scheme B: Basic tax rate 50%

Tax on profits from exports: 10%

All companies have an annual value of ex-factory sales of Rs 50 million, and a gross profit margin of 20%.

Company 1: Exports 90% of sales: sells 10% locally
Company 2: Exports 50% of sales: sells 50% locally
Company 3: Exports 10% of sales: sells 90% locally

	Scheme A Value (Rs mn) of: Profits	Tax	Tax Rate	Scheme B Value (Rs mn) of: Profits	Tax	Tax Rate
Company 1						
- local sales	1.0	0.4	40%	1.0	0.5	50%
- export sales	9.0	-	0%	9.0	0.9	10%
TOTAL	10.0	0.4	4%	10.0	1.4	14%
Company 2						
- local sales	5.0	2.0	40%	5.0	2.5	50%
- export sales	5.0	-	0%	5.0	0.5	10%
TOTAL	10.0	2.0	20%	10.0	3.0	30%
Company 3						
- local sales	9.0	3.6	40%	9.0	4.5	50%
- export sales	1.0	-	0%	1.0	0.1	10%
TOTAL	10.0	3.6	36%	10.0	4.6	46%

Companies' tax burden is therefore related inversely to export sales: the more overseas sales are achieved, the lower the average rate of corporation tax.

Our discussions in Mauritius suggest a maximum rate of tax on the proportion of profit attributed to export earnings of 5% and the balance taxable at 40% would satisfy both revenue and incentive considerations.

The status of DC, EPZ and ESC would be superfluous under this system and yet the effective status would remain. Thus, under Scheme A, an "EPZ" company exporting 100% of its output would pay no corporation tax (and would pay only 10% under Scheme B), while a "DC" company selling entirely in Mauritius would pay the full rate of tax - 40% in Scheme A and 50% in Scheme B. But even at these rates, the tax system would be designed to be realistic and to allow sufficient retention of earnings to maintain the incentive to invest in industrial capacity in the first place. Given a revised protective regime, resource allocation would therefore be substantially improved, and a permanent incentive given to the export sector.

A wider discussion of this proposed system is given in Appendix 10.

5.3.2 <u>Other</u>

In support of the proposed new tax system, we also present in Appendix 10 a number of recommendations on other aspects of the incentive "package". In summary, these are:

(a) <u>Duty-free imports</u> As far as EPZ companies are concerned, this system appears to work quite well for most imported items. We recommend that duty-free imports should continue and that the underlying principle should reflect that proposed for the tax system. In other words, companies should be permitted duty-free importation in the same proportion as their export sales in relation to total sales. The main problem arises in the distinction between those companies that can indicate in advance that a given proportion of their imports are destined for exportable products (in which case the current system can continue to apply) and those which cannot. In the latter case, we propose a tax (i.e. "duty") credit system: this is elaborated in section 5.5 below.

For capital equipment we are recommending that manufacturing companies be allowed to import it free of all duties. For replacement parts we do not think an average rate of duty of 10% would unduly affect maintenance programmes, but would make a significant contribution to the budget revenue.

(b) Repatriation provisions In the case of the non-Mauritian investor, we are convinced of the need to ensure that dividend and profit repatriation guarantees are given to external investors: in the absence of such guarantees, the attraction of external investment will be much more difficult and we recommend that these guarantees should be given.

(c) Work and residence permits It is fully understood that Mauritius needs to maintain strict control over in-migration, but it is also clear that some in-coming investors see the need to bring with them their own technical and management staff as part of their setting up process in Mauritius. We recommend that in cases where the investor can demonstrate a clear need for such staff, the Mauritius Government should consider extending the validity of work and residence permits from 1 year to 2 years. We also propose an automatic short term work permit of 6 months.

(d) Industrial estates We believe that the ability to provide advance factory units may legitimately be regarded as part of the incentive package. It is increasingly recognised in Mauritius that the design of the existing estates at Plaine Lauzun and Coromandel has not been optimal, and that there are no prestigious units available for the new investor, a factor which is especially relevant for those investors coming from overseas. It is proposed that MEDIA takes over this role: subject to certain conditions being fulfilled (most of which relate to the fundamentally different skills required to develop industrial estates compared to MEDIA's main role), we support the notion of MEDIA undertaking this task. We also recommend that a short-term consultancy be sought under aid terms - (for example, from a representative of English Industrial Estates) - to advise on industrial estate planning, layout and location. Such expertise has so far been lacking in Mauritius. We finally recommend that MEDIA should not concern itself with very small (less than 2500 sq.ft) units: this should more appropriately be carried out by the Small Industries Development Organisation (SIDO), separate recommendations for which are presented in section 5.4 below.

(e) Development Finance For the new investor, the availability of development finance may also be viewed as part of the incentive package. We have considered this aspect mainly under the Development Bank of Mauritius (see 5.4 below): suffice to say at this point that we recommend a more flexible credit policy to the new investors, and also greater availability of risk capital in the form of equity than has been in evidence so far.

5.4 Institutions

Mauritius has adopted a disaggregated approach to industrial development and promotion. Whereas many countries group promotion, industrial estates, project identification, development finance and the administration of incentives under a single body (e.g. a development corporation or development finance corporation), Mauritius has chosen a route whereby those functions are discharged by various ministries and institutions separately. There are sound reasons for adopting either of these approaches. In Mauritius, we believe that the adoption of a single body some years ago would have had substantial attractions. But we also recognise that, attractive as the notion of a "Mauritius Development Corporation" may be, it is not a practical possibility at present. We have recommended that the prospects of such a body being formed in future should be kept under review.

The institutional aspects in this report therefore relate to the recommendations we have made on the key ministries and organisations involved in the industrial development effort. These recommendations may be summarised as follows:

5.4.1 Key Ministries

The review of the two Ministries concerned with industrial development suggested a number of organisational and operational changes.

(i) We do not consider that the Ministry of Industry has the expertise at present or indeed the need to undertake technical feasibility studies of potential industrial projects. What is required is a brief screening process to ensure projects meet certain broad strategic criteria which might include:

(1) the initial and ultimate employment, by nationality;
(2) the net balance of payments effect;
(3) the funding of projects, particularly the proportion financed locally;
(4) the ownership of the project.

Given as reported recently by the Centre for Transnational Corporations, and substantiated by ourselves, that technical feasibility studies are not carried out at present, to change to our proposed system would not lead to loss of control.

We further recommend that in line with international standards a 30 day time limit is imposed on the screening procedures.

(ii) In discussions with the Minister of Industry we have already suggested that the portfolio for Cooperatives be separated from that for Industry. We maintain this position.

(iii) We do not consider that the Ministry of Industry has adequate technical expertise at present to carry through the implementation stages of this project. We are therefore recommending a short term technical specialist be appointed as adviser to the Minister to oversee, orchestrate and fine tune the implementation programme. Thereafter the specialist may possibly assume the role of visiting/occasional adviser.

(iv) We consider the separation of the executive responsibility for investment and export promotion between the Ministry of Industry and Cooperatives and the Ministry of Trade and Shipping will lead to a reduced effectiveness of MEDIA as a result of a triangulated line of communications. We argue that responsibility for export promotion be transferred to the Ministry of Industry.

(v) Given the potentially important contribution that the Freight Study Unit could make to industrial development, we recommend that its members have direct access to the Industry Ministry staff and that it is fully represented on the Committee for Industrial Development.

5.4.2 <u>Small Industries Development Corporation</u> (SIDO)

Detailed recommendations are given in Appendix 10 to develop SIDO, which at present is grossly under-resourced and as a result largely inefficient, into a joint public/private sector agency charged with the development of small businesses. The ideas behind this new organisation, (which for convenience we have called Enterprise Mauritius) are based upon the enterprise agency concept in Britain and the Boutiques de Gestion in France, but adapted to the present circumstances and needs in Mauritius.

Our proposals are that a new agency should be set up specifically to serve small businesses, both new and existing, with a wide range of advice, practical assistance and problem-solving capacity at no charge to the user. The essence of this body would be that staff are seconded from both the public and private sectors to Enterprise Mauritius and the rationale behind this approach is that it is in everyone's interests that a healthy, independent business sector should exist, and that newly established ventures should stand the best possible chance of survival.

This proposal is quite complex, and the reader is referred to Appendix 10 (section 10.3.3) for the full details. In brief, we are proposing:

- a free-wheeling organisation, backed by the public and private sectors alike, offering practical, day to day help to those setting up and/or running their own businesses;

- the development and management of managed workshop complexes ("mini-industrial estates) at key points in Mauritius; and

- a retail-style headquarters in Port Louis where individuals are encouraged to come in off the street and get help turning their ideas into real projects.

We firmly believe this to be a relevant and exciting project for Mauritius, and to be one which will attract the support of both Mauritians and international financing agencies as a project offering immediate action on the difficult problem of joblessness on the island.

5.4.3 <u>Industrial Co-ordination Unit (ICU)</u>

We recommend that the all important function of the ICU in co-ordinating and welcoming new investors, should be modelled upon the "One Stop Unit" operated by the Hong Kong Department of Industry (and fully described in Appendix 6). The main feature of the ICU should be to assume responsibility of getting a new investment project off the ground. This will require:

- the ICU to assume exclusive responsibility for obtaining clearances, licences etc which at present is the responsibility of the investor;

- a measure of independence and, most important, a staffing seniority equivalent to, perhaps, permanent secretary to obtain the co-operation of key ministries; and

- an "urgent procedures" system whereby requests for action from the ICU to a ministry can be immediately re-inforced when necessary by the Prime Minister's office.

We also propose that the ICU should serve existing industry and should set up an emergency telephone service to provide immediate help in unravelling difficulties between the private and public sectors. Section 10.3.4 of Appendix 10 gives further details.

5.4.4 Development Bank of Mauritius (DBM)

We reviewed the operations of the DBM only insofar as these directly affect the industrial sector. We recognise that the DBM has to establish the Bank's operating policy. Nevertheless, we have recommended (Appendix 10.3.5) a more flexible approach to industrial credit, and willingness on the DBM's part to accept more risks in its industrial financing policy, especially with respect to loans made in foreign exchange, and a greater willingness to put up venture capital in new businesses.

5.4.5 Policy Review Board

We have given some thought to the establishment of a "Think Tank" - a policy review body which, inter alia, could develop long-term industrial strategy. We support this approach provided that such a body is widely based - ie includes private sector, academic and also the services of foreign experts when appropriate.

We also see great merit, in the industrial sphere at least, in combining the functions of policy monitoring with those of the Think Tank's Secretariat, and we have proposed measures along those lines in Appendix 10, Section 10.3.6.

5.4.6 Mauritius Standards Bureau (MSB)

In considering the future role of the MSB we would strongly recommend that consideration is given to strengthening its activities by:

1. providing information on technical standards, regulations and acceptances as relevant to particular markets overseas;

2. improving the public image and awareness of the product quality guaranteed by display of the national mark; and

3. encouraging membership of the scheme by reducing or waiving the cost of membership.

5.5 Systems and Procedures

5.5.1 Promotion, Communications and MEDIA

Our analysis of the existing investment and export promotion programme identified four main shortcomings:

1. the emphasis excerbated the status quo;
2. the absence of research and planning resulted in an overall lack of long-term guidance to promotion;
3. the financial and manpower constraints were severe; and
4. communication possibilities were not appreciated.

To overcome the shortcomings we recommend the following actions:

(i) continue Mauritian representation at trade fairs on the present or expanded scale but change the emphasis so that less are directed to Europe and more consideration is given to specialist fairs;

(ii) reduce dependence on foreign consultants at least initially by not renewing the contract of the UK and West German consultants and rescheduling the available funds to other more immediate needs;

(iii) we believe the practice of placing ad hoc advertisements in international newspapers is ineffective and should cease;

(iv) we do not consider the time to be right for establishing an overseas investment promotion office;

(v) high priority is given to initiating a series of planning studies designed to:

- identify new export markets and investment opportunities that provide a worthwhile perspective for industrial development and which could aid promotion efforts;
- provide the basis for a series of investment prospectuses that can be used to assist promotional initiatives; and
- form the basis of a series of market studies for exporters;

(vi) new promotional literature is urgently required and we recommend the preparation of an investors' guide to Mauritius and supporting documentation, including a mini-guide, updated fact sheets, and one page information cards;

(vii) we recognise the increased technical demands that will be placed on MEDIA and propose that additional temporary support be given to MEDIA. We recommend the appointment of an adviser to support the director, assist in the development of long-term promotional strategies and monitor and adjust the effectiveness of individual initiatives;

(viii) we consider one of the major constraints to promotion is the low degree of sophistication in marketing and communications skills and propose a series of training initiatives comprising:

a) scholarships and bursaries for formal training abroad;
b) workshops and seminars to be held in Mauritius; and
c) the organisation of a series of promotion and marketing surgeries also to be held in Mauritius;

(ix) once the preparatory research work has been undertaken to develop, in conjunction with the international communications industry, a long term communications plan; and

(x) the establishment of a centralised market intelligence library.

5.5.2 Import Licensing and Foreign Exchange

Considerable attention has been given to trade and commercial policy and we have recommended the phasing out of the current quota system over a four year period. We would therefore envisage that the system of import licensing would also be phased out over the same period as it is merely the administrative system through which quotas are operated. In the remaining four years of quota operation we would suggest two revisions to the system:

(i) more flexibility to allow for emergency/urgent imports; and
(ii) a margin of error between proforma and actual invoices to allow for such occurrences as exchange rate fluctuations - say between plus/minus 5-10%.

5.5.3 Price and Wage Controls

On the twin grounds of economic inefficiency and administrative complexity, we have argued strongly against the continuation of both wage and price controls. We do recognise the social considerations in both areas and suggest some protection of low income families but at the barest minimum level. For wages we suggest that the existing minimum wage is maintained but not increased.

5.5.4 Duty Drawback Scheme

We have argued that the duty drawback scheme has not been a success. The intention is to facilitate the securing of occasional export orders by Mauritian companies not primarily engaged in the export sector. In our view, the main operational difficulty that has arisen relates to the need, under this scheme, for the Ministry of Finance, guided by the Customs Department, to repay duty paid by companies on imported inputs to order which eventually (and often unexpectedly) go to export markets.

Recognising that Government resources are from time-to-time unavailable for such repayments, we have recommended the introduction of a credit system. The proposal is that where a company is deemed to be due for a rebate on duties paid, a credit equal to that amount is deducted from the duty payable on that company's next import consignments. Where the rebate due exceeds this amount, the excess would be rolled over to subsequent consignments. In our opinion this would be a fair and easily administered system which would be favourable to the Government's cash flow and which would give companies the certainty they need to be able to include the value of the rebate due in their calculations of the export price to be charged.

Discussions with representatives from the Ministry of Finance and the Department of Customs and Excise have identified that verification checks by Customs officials at manufacturers' premises will be required between the time of winning the export order and commencement of production to establish the amount of duty eligible for credit.

5.6 Implementation

In the detailed recommendations presented in Appendix 10 to this report we have argued for a wide-ranging series of changes to the industrial policy environment in Mauritius. At the centre of these recommendations lies the "quasi-liberalisation" approach which we believe should be undertaken and would be to Mauritius' advantage in the medium-/long-term. This programme we have suggested should be implemented over a 4 year period.

The trading and commercial policy changes represent only one facet - albeit a key one - of the changes we recommend. Hand in hand with this programme goes the full range of our proposals, incorporating action on the incentives package, the supporting institutional structure and the whole panoply of Government systems and procedures. The important point to make is that the recommendations as a whole have been designed as a consistent package which, to a degree, are interdependent and which rely on each other for their logic and potential impact.

The four-year programme of tariff reform and dismantling of quantitative restrictions on trade should therefore be regarded as a 4 year programme in which <u>all</u> the recommendations in this report could be acted upon. In this way, we are confident that Mauritius could lay the foundations for a period of sustained industrial development with the emphasis upon expansion of the export sector.

The reasons for introducing the concept of a 4 year progamme are twofoid:

(i) firstly, it seems that a programme of this complexity will require broadly this length of time to carry out the actions required, and

(ii) it is clear that a programme of this nature will imply costs of adjustment as well as benefits, and therefore a timescale should be adopted which aims to keep such costs within manageable bounds.

Discussions on the proposed programme (and its funding where we have indicated the concept of discrete projects) will be necessary before the Government could give a commitment to implementation: likewise, no firm timetable for the individual components could be drawn up prior to the achievement of that commitment. Nevertheless we have felt it useful to outline an indicative timescale for the key tasks within the overall 4-year programme, and this is set out in digramatic form on page 54.

The main features of this timetable may be described as follows:

- An immediate start can be made on the preparation of a new Industry Act; this would provide the legislative framework required for our proposed changes, and discussions during the field research phase with the Minster of Industry and Cooperatives indicated an appreciation of the benefits to be derived from a clear and complete framing of policy.

- Similarly, an immediate start could be made upon the simplification of industrial licensing (preparatory work to the inauguration of the Industrial Co-ordination Unit), and to the improvements required to the duty drawback scheme and supporting provisions to external investors such as profit repatriation guarantees and the mechanics of the work and residence permit system.

- On trade policy, we envisage an early announcement of the Government's intention to abolish quotas within a specified time-frame, and that action on this area should commence immediately thereafter in order to have the revised tariff structure designed and implemented, together with the safeguard provisions, by the end of the fourth year.

- In parallel, the progressive phasing out of imprt controls (i.e. licences = quotas), and price and wage controls should also be initiated.

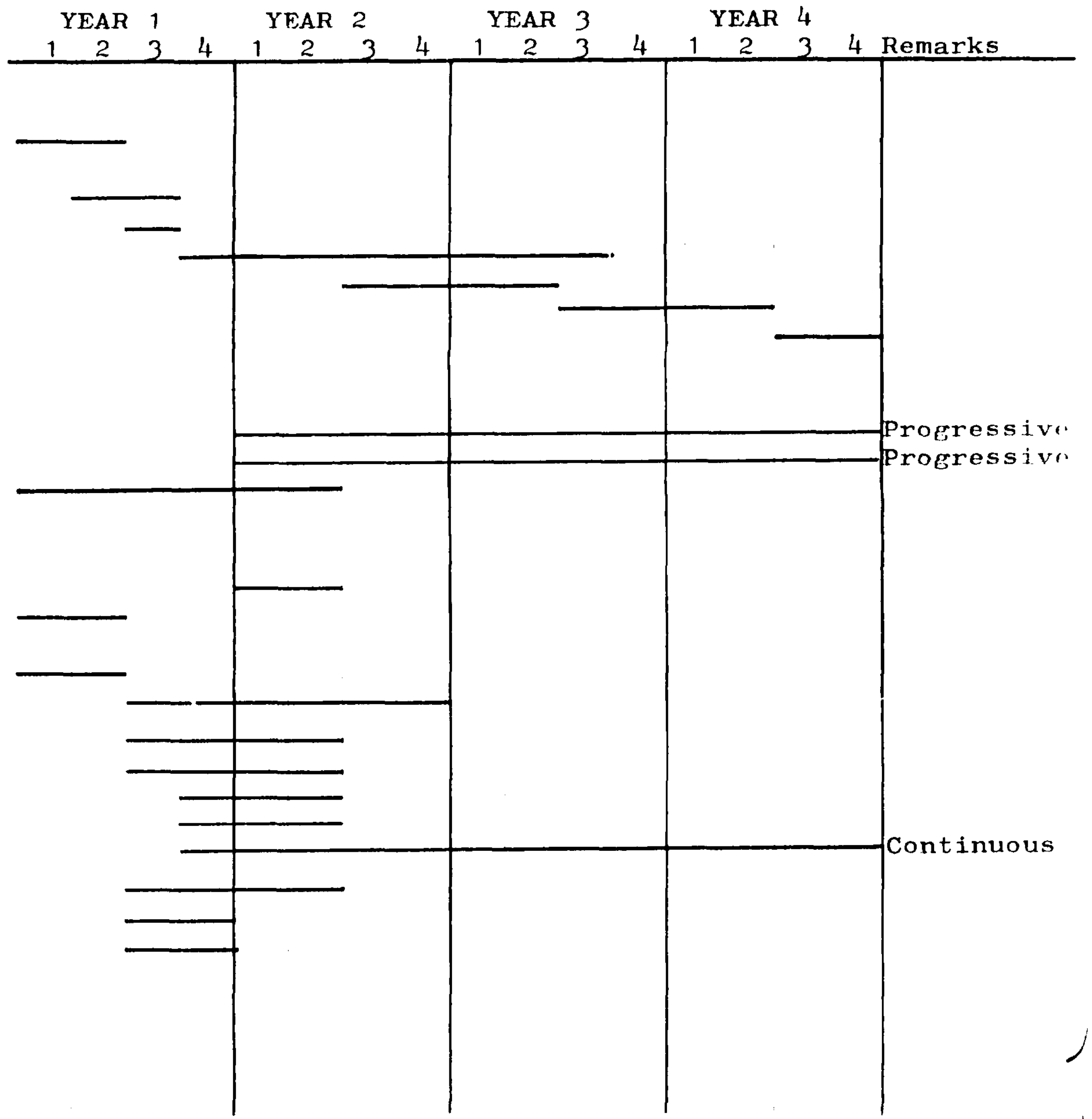
- In the important area of institutions, there is much to be done to plan for and introduce MEDIA, the ICU and the up-graded SIDO. In all cases, we believe that these should be operational by the middle of year 2, and every effort should be made to bring these dates forward where possible.

- In the first half of year 2 the bulk of the new incentive schemes for industry should be implemented permitting, where appropriate, a gradual phasing of policy measures to go hand in hand with the restructuring of trade and commercial policy to smooth the transition phase and minimise the short-term net costs of adjustment.

- Finally the inauguration of the proposed Policy Review Board should be targetted for the first half of year 2 also, and training programmes designed for an early commencement (though these would, of course, have a permanent long-term role to play).

MAURITIUS INDUSTRIAL POLICY: INDICATIVE 4-YEAR ACTION PROGRAMME

QUARTERS



A. **KEY POLICY MEASURES**

Design New Industry Act

Trading and Commercial Policy

Replace Stamp Duties and Levies with Tariffs
Announce programme to abolish quotas
Replace quotas with tariffs
Design rationalised tariffs
Implement new tariffs
Introduce safeguards

Other

Phase out import licences
Phase out price/wage controls
Phase out licensing (industrial)

B. **Action Programme** (CAPS)

Introduce New Incentives Package
Implement revised duty drawback
Revise repatriation and work permit provisions
Build new industrial estates

Implement MEDIA
- planning studies
- new literature
- market intelligence library
- training

SIDO
ICU
Policy Review Board

ANNEXURE

TO

SUMMARY REPORT

KEY ISSUES

AND

RATIONALE

ANNEXURE

KEY ISSUES AND RATIONALE

The purpose of this annexure is to highlight the key issues and rationale which have guided our thinking in developing the proposed set of investment incentives thereby putting into perspective the recommendations outlined in Appendix 10, and providing a framework within which to consider the analysis, undertaken and findings identified.

Key Issues

In approaching industrial development in Mauritius it is important to recognise that there are no differences between those investors interested in import substitution projects and those who would enter the export industries. They are the same, indeed many today operate in both sectors. The decisions as to which industry or sector to enter is largely guided by the expected return that can be achieved. At present because of the existing structure of tariffs and industrial incentives investors are more motivated to invest in import substitution industries than in export industries. It is easier to make profits in highly protected markets than in intensely competitive export markets. To encourage more investment in export industries the balance of incentives must be redressed so that investors find it relatively more attractive to enter export industries vis-a-vis local market oriented industries.

To achieve this we have adopted four broad strands to our policy recommendations:

1. to eliminate the distinction currently made between export industries and import substitution industries; all manufacturing companies should be treated in the same manner;

2. to introduce a more appropriate system of incentives;

3. to alter the tariff structure so as to change the balance of relative profitability between export and domestic oriented investment; and

4. strengthen the administrative and organisational infrastructure surrounding industrial development.

The major changes to policy are summarised in the table to this annexure and are discussed in detail in Appendix 10.

Implications

The major implications are as follows:

(i) By not distinguishing between DC and EPZ we will allow industrial projects to sell on both the home and export markets as they wish. This will, in some industries, increase the level of competition in home markets, and add an incentive to erstwhile sluggish companies to become more efficient. Consumers will benefit from lower prices.

(ii) The abolition of quotas will increase competition in the home market from imports and will further add incentive to local companies to increase efficiency. Consumers will also benefit from reduced prices.

(iii) An investment incentive package aimed at increasing export profitability relative to local sales will motivate investors to establish export industries in preference to import substitution industry. The result will be:

- increased efficiency and productivity of Mauritian industry
- increased scope for growth
- a more positive effect on balance of payments
- higher real incomes and lower domestic prices
- increased scope for employment growth

The possible negative aspects of the recommendations may be perceived to be:

1. An undue hardship being imposed on existing industrial ventures if a new incentive package is imposed on them.

2. That as a result of increased competition from importers and Mauritian export companies some import substitution companies might fail.

3. That the reduced flow of investment funds to the import substitution sector is not desirable.

4. Undue hardships and therefore disincentives to invest may be imposed on new local investors.

As regards 1. we are recommending the new incentive package only to be applicable to new industrial ventures. Existing companes will have the option to choose to accept the new system or continue operating under their present package for 10 years or until their incentives expire which ever is the sooner.

Concerning 2. we recognise that some industrial ventures might fail but consider that these should not have been established in the first place if they can only exist under high tariff barriers. However we recognise that for political and social reasons the Government might wish to keep some of these in operation. In such circumstances we recommend that the Government gives company specific assistance (employment subsidies, reduced rates, rents, cheap credit, equity capital etc) .rather than concede to increasing or maintaining the level of protection and therefore continue with soft operating conditions for all the companies in that industry.

Concerning 3. the reduced flow of investment funds to import substitution industry can be regarded as an objective not a negative consequence of the recommendations. There is a finite pool of investable resources in Mauritius, we have proven quite conclusively that the majority is going into the highly protected import substitution sector. We have argued that for further sustainable growth to develop emphasis has to be placed on export industries. Conseqently reduced investment to import substitution industry must be deemed essential.

The only way to increase the investable funds in Mauritius is for industrial profits to grow, this is most feasibly accomplished through export growth.

Finally concern may be shown over the abolition of tax holidays in so far as the move may be seen as imposing undue hardship and disincentives to new local investors. As we have argued previously such investors are likely to be in small businesses, and the package of incentives that have been proposed for such ventures wlll be more appropriate to the needs of small scale enterprises than tax holidays. In these cases what is needed is support guidance and the provision of facilities appropriate to their needs. We must emphasise tax holidays only benefit profitable companies - if companies are profitable then they are successful and can afford to pay the rates of taxation proposed - which by international standards are not penal. It is widely recognised these days that provided tax rates are not penal then the effect of introducing tax holidays has minimal effect on stimulating investment.

COMPARISON OF EXISTING TO PROPOSED INCENTIVES FOR MANUFACTURING COMPANIES

INCENTIVES	PROPOSED INCENTIVES	EXISTING DEVELOPMENT CERTIFICATE HOLDERS	EXISTING EXPORT ENTERPRISE CERTIFICATE HOLDERS
(A) INCOME TAX CONCESSIONS			
1. Exemption from payment of corporate taxes	None: 5% tax rate on profits "attributable" to export receipts 40% tax rate on other profits	Basic 5 years plus 3 years if company forgoes normal initial capital allowances	100% first 10 years 50% years 11-15 25% years 16-20
2. Exemption from payment of income tax on dividends		First 5 years	Any consecutive 5 years during first 10 years
3. Partial income tax relief to foreign technicians	As existing	Initial exemption on first Rs 15,000 + relief 30% of balance	Initial exemption on first Rs 15,000 + relief of 30% of balance
(B) IMPORT DUTY CONCESSIONS			
1. Exemption from payment of:			
a) import duty on equipment/machinery	Duty free for all manufacturing companies	In special cases	Scheduled items duty free
b) spare parts	Suggested rate 10% with maximum 15%	Duty leviable at normal rates	Exemption in accordance to the scheduled items
2. Exemption from payment of import and excise duty on raw materials and semi-finished goods (except spirits, tobacco and petroleum products)	Duty free for inputs into manufacturing processes for export	In special cases (concessions on duty are granted)	Scheduled items duty free
3. Duty drawbacks scheme on exports	Full duty rebate on all imported materials for use in export products via a rebate credit note scheme	Duty drawbacks are available on exports by local companies	-
(C) IMPORT PROTECTION			
1. Tariff protection	Study of tariffs to recommend new structure of tariffs	Case-by-case consideration	Not applicable
2. Quotas on imports of competing products	Phased reduction of all quotas to zero over 4 years	Case-by-case consideration	Not applicable

Note: The basis for this table was prepared by A. Lutchman

COMPARISON OF EXISTING TO PROPOSED INCENTIVES FOR MANUFACTURING COMPANIES:

	INCENTIVES	PROPOSED INCENTIVES
(D)	FINANCE	
	1. Priority in access to Development Bank Finance	As existing
	2. Export Credit Guarantee Scheme	For all exports
	3. Finance at preferential rates	As existing
	4. Foreign currency accounts	As existing
(E)	EXEMPTION FROM CHARGES AND PREFERENTIAL CHARGES	
	1. Electric power	
	2. Payment of registration fees on land and buildings purchased by new industrial enterprises	Exemption
	3. Payment of crane and other harbour handling charges	No exemption
	4. Exemption from Municipal Rates	Abolished
(F)	OTHER	
	1. Issue of Permanent resident permits to promoters and shareholders	As existing
	2. Issue of work permits (as approved by Minister of Industry on payment of the following fees	Priority/temporary work permits for up to 6 months granted automatically to key foreign staff

continued

EXISTING DEVELOPMENT CERTIFICATE HOLDERS	EXISTING EXPORT ENTERPRISE CERTIFICATE HOLDERS
Case-by-case consideration	Case-by-case consideration
For exports	For exports
Normal rates	Special rates
As required and subject to approval of Bank of Mauritius	As required and subject to approval of Bank of Mauritius
	Preferential rates - partial refund of duty (2.6 cs per unit) on fuel oils and concessionary rates for heavy consumer (above 250,000 units)
-	Exemption
No exemption	No exemption
Exemption by two-thirds from Municipal Rates during the tax holiday period	-
As warranted by the size of their participation and subject to the approval of the Prime Minister's Office	As warranted by the size of their participation and subject to the approval of the Prime Minister's Office
Rs 1,000 (1st and 2nd years) Rs 3,000 (3rd and 4th years) Rs 5,000 (5th and thereafter)	Rs 1,000 (1st and 2nd years) Rs 3,000 (3rd and 4th years) Rs 5,000 (5th and thereafter)

COMPARISON OF EXISTING TO PROPOSED INCENTIVES FOR MANUFACTURING COMPANIES:

	INCENTIVES	PROPOSED INCENTIVES
(F)	OTHER: continued	
	3. Free repatriation of capital and remittances of profits and dividends	Free to foreign investors subject to tax liabilities
	4. Sales on local market	Free access to both export and domestic markets
	5. Services to facilitate access to foreign markets and export market information	MEDIA
	6. Government contribution to participate in trade fairs	MEDIA
	7. Direct negotiation by Government with shipping and airlines for favourable freight rates	Government assistance as necessary
	8. Guarantee against nationalisation	Recommended for manufacturing activity
(G)	SPECIFIC INCENTIVES/LABOUR LEGISLATION	
	1. Equitable settlement of disputes	Not applicable
	2. To increase productivity of workers and decrease rate of absenteeism	Not applicable

continued

EXISTING DEVELOPMENT CERTIFICATE HOLDERS	EXISTING EXPORT ENTERPRISE CERTIFICATE HOLDERS
Initial capital invested is allowed to be repatriated free of tax. However, the balance (capital appreciation) may be repatriated subject to payment of stamp duty	Initial capital invested is allowed to be repatriated free of tax. However, the balance (capital appreciation) may be repatriated subject to payment of stamp duty
Essentially caters for local consumption	Case-by-case consideration
Institutional facilities at the Ministry of Industry/MEDIA	Institutional facilities at the Ministry of Industry/MEDIA
Government organised participation in international trade fairs in target markets	Government organised participation in international trade fairs in target markets
Constant meetings are held by Government with airline companies and conference lines with a view to containing frequent increases in freight rates (Ministry of Trade and Shipping)	Constant meetings are held by Government with airline companies and conference lines with a view to containing frequent increases in freight rates (Ministry of Trade and Shipping)
Applicable (sessional paper No.2 of 1963 and Minister's pronouncement in Parliament)	Applicable (sessional paper No. 2 of 1963 and Minister's pronouncement in Parliament)
As applicable	As applicable
-	In accordance with section 12 of the Export Enterprise Remuneration Order of G.N. No.169 of 1975 as amended, every worker who, during a period of one month, does not absent himself from work on any day on which he is required to work, is entitled at the end of the month to an attendance bonus of not less than 5% of the basic wages he has earned for that month

COMPARISON OF EXISTING TO PROPOSED INCENTIVES FOR MANUFACTURING COMPANIES: continued

INCENTIVES	PROPOSED INCENTIVES	EXISTING DEVELOPMENT CERTIFICATE HOLDERS	EXISTING EXPORT ENTERPRISE CERTIFICATE HOLDERS
(G) SPECIFIC INCENTIVES/LABOUR LEGISLATION: continued			
3. End of year bonus equivalent to one-twelfth of a worker's earnings for that year	Not Applicable	The qualifying clause is for a worker not to absent himself for more than 28 days without any reasonable excuse in accordance with Factory Workers Remuneration Order of 1977 (Section 22 of G.N.241)	The qualifying clause is for a worker employed on a five-day week basis to have worked for at least 208 days in that year and for a worker employed on a six-day week basis to have worked for at least 250 days in that year (in accordance with Export Enterprise Remuneration Order of 1975 as amended)
4. Transport facility and allowance	Not Applicable	Any worker is entitled to transport facility and allowance if he lives more than three miles away from his place of work and the worker is required to work between 9 p.m. and 5 a.m. (section 18 of Labour Act)	Not applicable
5. Work on a Public Holiday for a normal day's pay	Not Applicable	Not applicable	In accordance with the EPZ Act No.51 of 1970, an employee may be required to work on any public holiday. If an employee performs not less than a normal day's work on a public holiday the employer may in respect of the normal day's work, instead of paying the employee at double rate, pay him at the normal rate and grant him one day off duty with a normal day's pay in the next following week
6. Maternity leave and maternity allowance	Not Applicable	Maternity leave and maternity allowance granted irrespective of number of confinements	A female employee who has at any time had three confinements shall, if she is pregnant thereafter, be entitled to maternity leave without pay but shall be entitled to any maternity allowance (in accordance with the EPZ Act No.51 of 1970)
7. Termination of Contract/ Employment	Not Applicable	An employee is entitled to receive compensation if he is dismissed after one year's continuous service with an employer (in accordance with the Labour Act)	Where any employee reckons not less than three years continuous service with an employer and his services are terminated, he shall be entitled to receive compensation which shall be equivalent to not less than two weeks wages for each year of service he reckons with that employer (in accordance with the EPZ Act of 1970)

MAXWELL STAMP ASSC
Economic Consultants

55-63 Goswell Road,
London EC1V 7PT
Telephone 01-251 0147
Telex 28604 Ref: 284 M(
Cables: MAXSTAM Lonc

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MAURITIUS INDUSTRIAL

POLICY STUDY

VOLUME II

TECHNICAL APPENDICES

1-9

Prepared for:

THE UNITED NATIONS
INDUSTRIAL DEVELOPMENT
ORGANISATION

June 1984

MAURITIUS INDUSTRIAL POLICY STUDY

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APPENDIX 1

1. POLICY FRAMEWORK

1.1 Introduction

Industrial policy in Mauritius has evolved progressively over a number of years and currently embraces a wide range of legislation and policy measures. It is the purpose of this appendix to summarise the main features of the existing structure of policy as it affects the industrial/ manufacturing sector. Excluded from this summary is coverage of the sugar and agricultural sector, and also policy measures which may be regarded as peripheral to the industrial sector itself, such as transport, education and tourism, since these are areas outside the scope of the study.

The main headings under which this appendix is set out are as follows:

- The Legislative Framework
- Procedures and Licensing
- Labour Laws
- Recent Structures

1.2 The Legislative Framework

The legislation which most directly affects the industrial sector of Mauritius is contained in five key acts:

- The Export Processing Zones Act No. 51 of 1970
- The Development Incentives Act No. 50 of 1974
- The Export Service Zones Act No. 8 of 1981
- The Development Bank of Mauritius Act No. 10 of 1972
- The Equity Finance Fund Act.

(a) The Export Processing Zones Act, 1970

The Export Processing Zones (EPZ) legislation was intended to encourage the development of export-based manufacturing and processing industry in Mauritius, through investment by local and overseas interests. There is no Export Processing Zone as such, since Mauritius took the decision to encourage dispersion of enterprises throughout the country by simply bonding specific factories and/or industrial sites and designating them as being within the EPZ.

The main incentives offered to EPZ companies under the Act are:

- Duty-free imports of machinery, equipment and spare parts.

- Duty free imports of raw materials, semi-finished goods and components (except spirits, tobacco and petroleum products).

- Exemption from corporation tax on company profits derived from export products on the basis of complete relief for the first 10 years, 50% relief in years 11-15, and 25% relief in years 16-20.

- Exemption from income tax liability for individuals receiving dividends from EPZ companies for any five consecutive years within the first 10 years, commencing with the year in which dividends are first declared.

- Free repatriation of capital and dividends.

- Electric power, loans, investment and export finance at preferential rates.

- Eligibility under Export Credit and Export Insurance Schemes.

- Investment allowances on new investment in buildings, machinery and equipment.

- Availability of advance factories for lease/rent.

- Exemption from payment of registration fees on land and buildings purchased for new enterprises.

- Issue of permanent residence permits to key promoters and shareholders.

- Partial income tax relief to foreign technicians.

- Favourable labour legislation.

- Institutional support from the Government sector.

By June 1983, 133 EPZ companies had been established, employing 24,390 people. The (current) value of EPZ exports had risen from Rs 3.9 million in 1971 to Rs 620 million in 1979 and Rs 1,236 million in 1982. The net contribution made by EPZ companies to the balance of payments amounted to Rs 493 million in 1982, compared to Rs 225 million in 1979.

(b) <u>The Development Incentives Act, 1974</u>

To complement the EPZ legislation, the Development Incentives Act is designed to encourage the establishment of import substitution industries in Mauritius and has the primary objective of creating jobs in the manufacturing sector.

A range of incentives is offered to companies who secure a Development Certificate (these are known as DC companies), the principal features of this scheme being:

- A tax holiday for corporate profits of 5 years together with initial depreciation allowances on machinery and buildings to be claimed in year 6 as if all such expenditure incurred during the tax holiday period took place on the first day of year 6;

  or as an alternative,

- an 8 year tax holiday with normal depreciation allowances, provided this option is elected within one year of the start of production.

- Exemption for 5 years from income tax on dividends paid out of development activity profits.

- Free repatriation of capital and free remittance abroad of profits and dividends.

- Loans, investment and export finance available at preferential rates.

- Availability of advance factories.

- Incentives and allowances on new investment in buildings, machinery and equipment.

- Protection in the form of import duty relief or exemption on machinery, raw materials and semi-finished products, and via tariff or quota restrictions on competing imports.

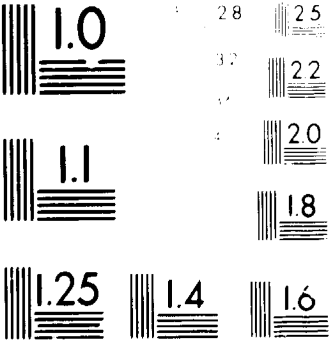
- A two-thirds exemption from municipal rates during the tax holiday period.

- Issue of permanent residence permits to promoters and shareholders.

- Partial income tax relief to foreign technicians.

- Guarantee against nationalisation.

In mid 1983, 154 DC companies were in operation, employing a total of 8,659 people. Of this total, 2,598 were employed in 14 hotels, and the balance - 6,061 - in 140 manfacturing companies, an average of 43 per company. The largest sectoral groups were food and beverages (1,674 employed in 21 companies) and engineering (1,372 employed in 47 companies).



MICROCOPY RESOLUTION TEST CHART

(c) The Export Service Zones Act, 1981

The objective of this relatively new policy instrument is to encourage the establishment of companies providing export-oriented services and thereby to contribute to a reduction in unemployment among relatively well-educated individuals seeking white-collar jobs. Professional services, marketing, financial and computer services, and consultancy are seen as the main areas of activity under this act.

The main incentives offered are:

- Substantial reductions in the rate of corporation tax payable; 10% is the rate applying to ESZ companies.

- Exemption from the payment of tax on dividends during any five consecutive years during the first 10 years of operation.

- Free repatriation of capital, and remittance abroad of profits and dividends.

- Complete exemption from import duty on machinery, equipment spare parts and goods for re-export.

In mid June 1983, 53 certificates had been issued. Fourteen companies were in operation and in total 110 persons were employed.

(d) The Development Bank of Mauritius Act, 1972

It is relevant to include the Development Bank of Mauritius (DBM) Act as being of primary importance to industrial development, because of its function of providing credit and investment funds to industry and its impact upon the private sector, (see Appendix 5). Not only should the DBM take the lead in encouraging new industrial investment, it also has a central role in the schemes whereby preferential interest rates are available to qualifying companies. It also has acted as the Government's agents in providing advance factory buildings on the two main industrial estates at Plaine Lauzun and Coromandel.

The DBM Act (and subsequent amendments) give the Bark wide powers and considerable freedom to develop its own operating policies. The objects of the Bank are "tc facilitate the industrial, agricultural and economic development of Mauritius" and in carrying out its operations it is required to "have due regard to the general economic interests of Mauritius".

The Bank may participate in new or existing enterprises in a wide variety of ways, including loan finance, equity participation, research projects and investments within or outside Mauritius. It may invest with or without security, raise money nationally and internationally and may participate in ventures by providing management advice or staff in addition to its purely financial operations.

Significantly, the Minister of Finance may give general directions to the DBM on the operational policy to be applied, and the DBM is required to comply with such directions. However, if the DBM Board is of the opinion that the Minister's directions may be prejudicial to the Bank's financial position, the DBM cannot comply with those directions unless the Government guarantees to make good any losses that might be sustained as a result.

The DBM's involvement in Mauritius' industrial sector may be summarised as follows:

Table 1.1

DEVELOPMENT BANK OF MAURITIUS: OVERALL OPERATIONS 1975-1982

(Rs million)

Year Ending June 30	Sanctions	Disbursements
1975	49.2	33.1
1976	61.6	85.6
1977	89.4	67.2
1978	82.6	64.1
1979	48.8	43.2
1980	51.1	33.6
1981	63.7	45.4
1982	30.7	39.3

Source: DBM Annual Report 1981/82: Table II

These figures show that recession in 1982 slowed the rate of sanctions sharply to the lowest level since before 1975. Disbursements in recent years have averaged Rs 40 million per annum, compared with over Rs 60 million per annum in the mid/late 1970s.

Investment in the industrial sector is summarised in Table 1.2. In 1980 and 1981 industrial loans accounted for about 70% of all DBM disbursements, and almost 90% in 1982. Of these industrial loans, the great majority were made in foreign currency: equity investment was minimal in this period.

Table 1.2

DEVELOPMENT BANK OF MAURITIUS: INDUSTRIAL INVESTMENT

(Rs million)

Approvals to:		1980	1981	1982
Medium/large industries + tourism:	Foreign exchange	31.79	41.70	20.88
	Local	5.24	0.59	0.05
Agro-industry:	Foreign exchange	2.95	6.15	1.92
	Local	-	-	0.05
Small-scale industry		3.43	2.74	3.83
Equity Investments		-	1.50	0.38
TOTAL APPROVALS		43.41	52.68	27.11
Disbursements to:				
Medium/large industries + tourism:	Foreign exchange	14.32	25.66	29.61
	Local	7.41	3.06	0.36
Agro-industry:	Foreign exchange	-	-	2.26
Small-scale industry		2.00	2.19	2.56
Equity Investments		-	-	0.20
TOTAL DISBURSEMENTS		23.73	30.91	34.99

Source: DBM Annual Report 1981/82: Table III

(e) The Equity Finance Fund Act

In recognition of the need to provide venture capital to existing and new businesses, the Government of Mauritius introduced the Equity Finance Fund Bill in August 1983.

The intention of this measure is to provide a fund to be located in the DBM building and to work in close co-operation with the DBM, the main objectives of which are:

(i) to invest equity in existing enterprises in the industrial, agricultural, tourism and other service sectors, which are in financial difficulties;

(ii) to invest equity in the expansion programmes of existing enterprises in these sectors; and

(iii) to invest equity in new enterprises in these sectors.

Clearly, this is a new measure which has not yet had a measurable effect on investment/industrial policy. It fulfils a need identified by the private sector to us in our discussions, and the DBM has stated its willingness to assist the Fund in the flexible application of its investment policy. There is certainly little doubt that a vehicle of this type is needed to help maintain and secure realistic gearing ratios in industrial companies; as can be seen from the DBM operating statistics quoted above, equity investment has so far amounted to a negligible proportion of industrial funding by the Bank.

1.3 Procedures and Licensing

The industrial sector in Mauritius is affected by three important areas of administrative procedure:

- Applications for DC or EPZ status.
- Import and foreign exchange licensing.
- Industrial and manufacturing licences.

1.3.1 Applications for DC and EPZ Status

Application procedures for the two main types of incentive-related status, Development Certificates (DC) and Export Processing Zone (EPZ) are quite complex. In each case, applicants have to submit 10 copies of the relevant application forms, together with a feasibility study or suitable supporting evidence and a payment of Rs 250 which is refundable once a decision on the project has been taken.

In the case of EPZ companies, the Evaluation Unit of the Ministry of Industry prepares a project review which is submitted to the Secretary for Industrial Development and eventually comes before the Industrial Development Committee, chaired by the Minister, for a decision. This Committee meets fortnightly, and the Ministry estimates that acceptance/rejection of the applications takes about 4-6 weeks on average.

In the case of DC applications, the procedure is more complex. Firstly, the applicant has to publish his intention to operate a DC company in the Government Gazette which is published weekly. Potential objectors are given 10 days to notify the Ministry of Industry in writing of their intention to object, and a further 22 days in which to submit the details of their objection. (The Ministry is proposing to reduce this procedure to 5 days, and 10 days respectively.) Only after the initial 10 days has passed, or, in the case of objections being notified, up to 32 days can the Ministry commence the evaluation procedure. In addition to scrutinising the application, the Ministry has to conduct a file search to determine whether the proposed project will be a pioneering industry (i.e. the first of its kind in Mauritius) and also to consider whether protection should be offered by raising tariffs and/or quantitative restrictions against imports, and/or whether raw materials and other inputs to the proposed new DC venture should be allowed concessionary entry to Mauritius by reducing or eliminating existing Customs tariffs on items imported by the DC company itself.

The Ministry of Industry estimates that the processing of DC applications on which no objections are raised takes approximately 2-3 months on average while those where objections are raised take in excess of 3 months. (The DC companies interviewed as part of this study - see Appendix 3 - reported up to 28 months for the granting of a DC, and delays of 12 months was common, although we emphasise that the experience of the DC companies interviewed may not be entirely representative of the sector as a whole.)

1.3.2 Import and Foreign Exchange Licensing

For DC companies, the process of importing their requirements causes much concern (see Appendix 4) and is of sufficient prominence in the industrial sector to merit specific mention here. EPZ companies on the whole have to comply with less complicated procedures, though they commonly deal with the basic import procedure for non-qualifying items, typically small accessories or urgent minor consignments which, for a variety of reasons, may not qualify for duty free entry. (EPZ companies lodge a list of items at Customs which have been approved for duty free importation by the Ministry of Industry; when unlisted items are required by EPZ companies, normal import procedures must be followed.)

The basic procedure for importing dutiable goods into Mauritius is as follows:

- Once quotations have been received, a supplier selected and an order placed, a proforma invoice is received by the importer.

- The importer then submits the proforma invoice (containing full details of the goods ordered, quantity, f.o.b. value and c.i.f. value) to the Ministry of Commerce in application for an import licence. This procedure normally takes 7-14 days.

- Once the import licence has been issued, stamp duty becomes payable at 12% of the c.i.f. value of the consignment. In some cases surcharges are also payable.

- With the import licence, the importer applies to a commercial bank for a letter of credit (the most usual form of import financing).

- The commercial bank applies to the Bank of Mauritius for foreign exchange allocation, a procedure which typically takes 10-14 days.

- Having obtained foreign exchange approval, the letter of credit is transmitted to the supplier's correspondent bank.

- On arrival of the goods, the bill of lading or appropriate consignment manifest is submitted to the Ministry of Commerce to be verified against the proforma invoice. Provided this is approved the goods are then ready for Customs clearance.

- Customs clearance normally takes place within 48 hours (according to views reported to the consultants).

A common problem with the import procedure is that discrepancies can arise between the bill of lading and the proforma invoice. Where the detail of the consignment, and/or the c.i.f. value exceeds that of the proforma invoice, a supplementary import licence has to be applied for which can result in substantial delays before Customs clearance of the goods takes place.

(For the experiences of private sector companies in the operation of the import licensing system, see Appendix 5.)

1.3.3 Industrial and Manufacturing Licences

Licensing procedures in Mauritius perform the functions of planning control (for the location of industrial activities and the erection of buildings), and health, safety, environmental, security and employment control. Procedures, though not especially complex individually, are extensive, and the main areas where companies must satisfy licensing requirements may be summarised as follows:

- Company licences, issued by the Accountant General, have a fee structure based upon the company's paid up capital and reserves. The range of fees is:

  (i) Rs 300 per quarter for companies with a capital of Rs 20,000-40,000;
  (ii) Rs 540 per quarter for companies with a capital of Rs 40,000-100,000;
  (iii) Rs 900 per quarter for companies with a capital of Rs 100,000-500,000.

- Activity-Specific Licences, also issued by the Accountant General. There is a very full list of licences applicable to, for example, wholesalers, manufacturers, traders and so on.

In these two cases, the primary purpose of the licence is to raise revenue. In most other cases, licences are not intended to raise revenue.

Three basic types of licence are issued by the municipalities, (in each case, the costs are nominal):

- Trade process licences, authorising the conversion of raw materials. This is issued only once at the commencement of a company's operations, and costs Rs 165.

- Trade and Industries Licence This is an activity-specific licence issued anually, for example, for particular types of food processing (typical cost Rs 3), for bacteriological laboratories (typical cost, Rs 3), for special trades such as abattoirs, lime kilns etc (cost Rs3-10) and so on.

- Machinery licences, which are issued only once by the municipal engineer's department, and relate to the size of electric motor(s) used on-site by the enterprise.

In addition, each new enterprise requires a Development Permit, (essentially planning permission), which is issued by the municipal engineer's department. Once the Development Permit has been granted, the above operating licence(s) may be issued, subject to prior approval by the public health authorities and the police.

In the process of founding a new enterprise, companies have to satisfy the requirements of the Fire Authorities, the Factory Inspectorate, Police and Health Authorities, and also have to ensure that the Electricity and Water Authorities are aware of the proposed new venture and can service it adequately within their existing structures.

In the majority of cases, licences are intended to control physical developments rather than raise revenue. A key feature of the licensing procedure is that the new company promoter/investor is required to take the initiative in obtaining the necessary permissions. Taken together, this can be both a lengthy procedure and in some cases a disincentive to the promoter to undertake the planned project.

1.4 Labour Laws

The labour/employment legislation which affects the industrial sector covers a number of general areas relating to remuneration and conditions of employment. Specific measures have been designed to meet the needs of the Export Processing Zone and the Development Certificate Enterprises including hotels. Such regulations are contained in a variety of Acts of Parliament, Remuneration Orders and Pensions Provisions, and reflect the Mauritius Government's concern that minimum pay and conditions criteria are met in the development of the industrial sector.

Amongst the most important provisions are:

- minimum wage conditions for EPZ and DC companies;

- statutory social costs (around 40% of basic wage costs), employers' pension contributions to employees' funds (6% of wages) are payable in addition;

- normal working hours and overtime payments are specified (based upon a 45 hour working week);

- regulations cover annual leave, sick leave, maternity benefits, public holidays (about to be reduced drastically by the Government), piece rate work and protective equipment; and

- attendance bonuses, end-year bonuses and death grants are payable by law.

Mauritian labour laws, and the level of social policy embodied within the law, are comprehensive and may be fairly described as being more advanced and sophisticated than would be found in most developing countries.

Two features of employment policy are of particular interest to potential new investors especially those who may be external to Mauritius and appraising Mauritius against other possible locations for offshore, export-based manufacturing ventures:

(i) Recent labour legislation has placed a company's workforce in the position of preferential creditors in the event of compulsory liquidation of the company, insolvency or bankruptcy. In the event that a company is forced to close, the workforce has a first claim on the company's residual net assets in response to the worker's statutory rights to redundancy/severance pay. One of the effects of this legislation has been that commercial banks have from time-to-time requested auditors to provide an estimate of the company's potential liability to staff in the event of winding up proceedings being instigated, prior to the bank assessing the company's creditworthiness in granting loans or other facilities for expansion or development.

(ii) The employment of expatriate staff is governed by strict procedures in Mauritius. A work permit cannot be granted to a non-Mauritian without the prior issue of a residence permit. The residence permit must be issued by the Prime Minister's office. Work permits are issued on an annually renewable basis to foreigners having a specific skill or professional qualification which is not available in Mauritius itself. Residence permits (and also permission for foreigners to own shares and/or property within Mauritius) are issued under strictly controlled conditions, though permission would not normally be withheld where expatriate skills were clearly an essential component in the successful launching of a new enterprise. (EPZ company legislation in fact provides for concessions in the issue of such permits to encourage the development of export-based industries.)

1.5 Recent Structures

As part of the progressive development of industrial policy in Mauritius, the Government has recently introduced a number of new administrative procedures, and/or enacted new legislation, to assist in the administration of industrial policy. Those which are especially relevant to this study are:

- The Mauritius Export Development and Investment Authority (MEDIA);
- Small Industries Development Organisation (SIDO);

- Industrial Co-ordination Unit (ICU); and
- Industrial and Commercial Intelligence Unit.

1.5.1 Mauritius Export Development and Investment Authority (MEDIA)

MEDIA was established by Act of Parliament in September 1983, although it is not yet operational. The establishment of MEDIA provides the framework for a development of major importance in the promotion of Mauritius, and has as its specified objectives:

- the promotion of the export of goods and services from Mauritius;

- the execution of investment promotion activities designed to promote Mauritius as an attractive base for the establishment of manufacturing industries and services with special emphasis on export-oriented ones;

- the development and operation of industrial sites and estates;

- the planning, implementation and review of programmes of action for the development of exports and investment in export-oriented manufacturing; and

- the provision of advice to the Minister on all matters relating to export and investment promotion.

The Government of Mauritius is at present preparing to implement this Act and is taking advice on the organisation and staffing of MEDIA in order to ensure that it makes an effective start. Included in the recommendations (Appendix 10) to this report, at the Mauritian Government's request, is an organisational and structural outline for MEDIA.

1.5.2 Small Industries Development Organisation (SIDO)

The SIDO is not a statutory body but is an integral part of the Ministry of Industry which reports to the Secretary for Industrial Development. Its primary objective is to provide advisory and support services in management, financial and economic areas to the small business sector in Mauritius. Small businesses are defined for SIDO's purpose as being those where investment in fixed assets (plant and machinery) does not exceed Rs 100,000 and the workforce is less than 25 per shift. It is estimated that there are 5,000 such concerns in Mauritius, and that they employ some 25,000 people.

SIDO is intended to support existing businesses and to encourage and help new entrepreneurs get started. SIDO is located in an office in the centre of Port Louis, in a building occupied primarily by the Ministry of Prices and Consumer Protection. SIDO's staff consists of five people, vis:

- 1 Economist (Mauritian);
- 1 Adviser (financed by the Indian Government);
- 1 Field officer (Mauritian);
- 2 Clerical assistants/typists

No specific budget is made available to SIDO other than the funding of its staff resources. Such other expenditure as does arise is dealt with by direct vote, (e.g. the production of brochures/advertising material).

Proposals have been put forward to expand SIDO's activity and scale of operations, and a new bill is planned to elevate SIDO's status. At the request of the Government of Mauritius, Appendix 10 contains a detailed proposal for the development of SIDO in future.

1.5.3 Industrial Co-ordination Unit (ICU)

As can be inferred from the wide range of procedures, legal requirements and licences described in this Appendix, the process of establishing a new venture or company in Mauritius is relatively complex. At present, a new investor not only has to apply to a number of Ministries but also has to deal with a large number of national and municipal bodies to satisfy established procedures.

In recognition of the need to simplify this process, the Government of Mauritius has proposed the formation of the Industrial Co-ordination Unit, to act as a "one stop shop" and streamline these procedures. The ICU will have executive responsibility for assisting individuals and companies to obtain the authorities and clearances necessary for all aspects of their proposed businesses. It will be an integral part of the Ministry of Industry and Co-operatives, and will be staffed by 6 people initially.

At present the Ministry is examining areas where streamlining can be introduced and we understand that this report will form an important input to this process. It will also be a feature of the ICU to liaise closely with bodies such as MEDIA, and to concern itself with, for example, the movement of paper between key Ministries and the removal of bottlenecks in administrative procedures. We comment further in Appendix 10 on the desirable roles which the ICU should in future fulfil.

1.5.4 Industrial and Commercial Intelligence Unit

At the end of September 1982, the Government of Mauritius received a report from the United Nations Centre on Transnational Corporations (UNCTC) on the recommended methods of monitoring the performance and behaviour of foreign investors in Mauritius. Subsequently, UNCTC and the Mauritius Government organised, in July 1983, a workshop on the subject in Mauritius over a 5-day period.

At that time, the then Minister of Commerce, Industry, Prices and Consumer Protection announced the Government's intention to establish the Industrial and Commercial Intelligence Unit, to perform this monitoring function. The aims of the ICIU, though based upon the UNCTC report and recommendations, were intended to embrace somewhat wider responsibilities than those suggested in the report.

Following the recent General Election in Mauritius, the ministerial responsibilities for Industry were separated from Commerce and Prices, and the new Ministry of Industry has not yet established the ICIU. At present the Ministry operates a Monitoring Unit staffed essentially by a single senior staff member reporting to the Secretary for Industrial Development. The precise role of the Monitoring Unit is still in the process of being defined. Further consideration of this function is given in Appendix 10.

1.5.5 Mauritius Standards Bureau (MSB)

The MSB is a public sector organisation providing services related to standardisation, testing, quality control, certification and metrology. Effectively founded under the Standards Act 1975, the Bureau is responsible to the Minister of Commerce, Industry, Prices and Consumer Protection, The latest available Annual Report, dated December 1982, indicates that the MSB continues to receive considerable direct Government subsidy; in 1981/82 reported revenue covered just over 13% of recurrent expenditure i.e. excluding capital items. This subvention partly reflects the fact that the MSB provides testing, calibration and technical services free of charge to Ministries and parastatal agencies.

Main MSB industry or sector groupings are as follows:

(a) chemicals;
(b) food and pharmaceuticals;
(c) fibres;
(d) civil and mechanical engineering; and
(e) electrical and electronics engineering.

MSB is also a correspondent member of the International Organisation for Standardisation (ISO) and the International Organisation of Legal Metrology (OIMC). Amongst its various official responsibilities, the MSB promotes and operates the MAURICERT certification schenme. This scheme was introduced under the Standards (Certification Mark) Regulations of 1979 and consists of the inspection, licensing and thereafter annual monitoring of local manufactures to ensure continued compliance with the relevant Mauritian Standards. Products that satisfy the necessary quality criteria are licenced to carry the national MAURICERT mark.

APPENDIX 2

2. EFFECTIVE PROTECTION IN MAURITIUS

2.1 Introduction

This appendix is concerned with the measurement of effective protection in Mauritius across broad industry sectors. In section 2.2 a brief review of the theory of effective protection is given which is then related to policy implications in section 2.3. The core element of the appendix is section 2.4 which presents and discusses the methodology and findings of the research. Readers wishing to avoid the technical aspects could omit sections 2.2-2.3 and turn to section 2.4 where the estimates are presented.

2.2 The Theory of Effective Protection

The final prices of import substitutes depend largely on the price of imports which may be influenced by nominal tariffs or other protection measures (assuming domestic producers price up to the import price). However, in a world of multi-stage production processes it is the impact of the tariff on value added (1) not final price which affects the extent to which the import substitutes producers can increase production and employ additional factors of production. But what happens to value added at any particular stage of production depends on the share in final value of all intermediate inputs, the share of imported inputs in final value, and the structure of nominal tariffs on the value of imported inputs. The effect on value added is measured in the effective rate of protection.

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(1) Value added is the difference between the value of intermediate inputs and the value of final goods.

The formal definition of the effective rate of protection is the proportional increase in value added resulting from the imposition of protective measures(1). Mathematically this is expressed as

$$e_j = \frac{V^*_j - V_j}{V_j} \quad \text{.................................... equation 2.1}$$

where: e_j = the rate of effective protection of final good j

V_j = value added per unit of final good j at free trade prices

V^*_j = value added per unit of final good j at tariff distorted prices

Thus the effective rate of protection is increased if the value added in the import substitute activity (j) can be raised as a consequence of the imposition of a tariff or non-tariff protective measures (whilst leaving domestic producers of import substitutes in a position to compete with imports).

2.2.1 The Effective Tariff Rate

It is necessary to make a distinction between the effective tariff rate and the effective rate of protection. The nature of the effective protective structure is influenced by many instruments of trade policy and also by fiscal and quantitative measures which are designed to satisfy other policy objectives. If effective rates of protection were measured

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(1) The theory assumes (i) fixed relationships between inputs and outputs;

(ii) changes in relative prices of imported versus non-traded inputs and factor inputs do not induce changes in the import mix.

by equation 2.1 then this distinction would be of less concern as the comparison would be between value added at non-distorted prices and distorted (by whatever means) prices. Often, however, the empirical method is constrained to inferring value added using the following definitional equations:

$$V_j = P_j \left[1 - \sum_{i=1}^{n} (Z_{ij} + Z'_{ij})\right] \quad \text{.......................... equation 2.2}$$

$$V^*_j = P_j \left[(1 + t_j) - \sum_{i=1}^{n} Z_{ij}(1+t_j) - \sum_{i=1}^{n} Z'_{ij}(1+t'_i)\right] \quad \text{.. equation 2.3}$$

where P_j = free trade price of commodity j

Z_{ij} = share of imported input (i) into the production of j

Z'_{ij} = share of non-traded input (i) into the production of j

t_i = nominal tariff on inputs of commodity i

t'_i = nominal tariff (equivalent) on non-traded inputs (if the prices of non-traded inputs change following the imposition of tariffs)

By substituting equation 2.2 and 2.3 into equation 2.1 we derive the equation for estimating effective protection.

$$e_j = \frac{t_j - \left[\sum_{i=1}^{n} Z_{ij} t_i + \sum_{i=1}^{n} Z'_{ij} t'_i\right]}{1 - \sum_{i=1}^{n} (Z_{ij} + Z'_{ij})} \quad \text{.................... equation 2.4}$$

In effect what is measured from equation 2.4 is the effective rate of tariff: the proportional increase in value added of commodity (j) permitted by the imposition of a nominal rate of tariff on commodity j.

2.2.2 The Effective Rate of Protection

When the empirical method is constrained to inferring value added as in equations 2.2 and 2.3 then it is not only difficult to capture all the tariff influences but many non-tariff influences are ignored. It is possible to a degree, however, to explicitly include some non-tariff sources of protection in the calculations.

For instance, where quotas are operative then it is possible to compute tariff equivalents of each quota (the tariff level required to generate the same degree of protection as the quota). However, when the indirect method of estimation is used data and resource constraints frequently prevent calculations other than the effective tariff rate.

One of the easier non-tariff-influences to capture is that of production subsidies, since a net production subsidy increases the value added at "distorted" prices and therefore also increases the rate of effective protection. Equation 2.4 can be rewritten to include the effects of production subsidies and therefore to give a broader measure of effective protection than just the effective tariff.

$$e'_j = \frac{t_j + S_j\,(1 + t_j) - \left(\sum_{i=1}^{n} Z_{ij}\, t_i + \sum_{i=1}^{n} Z'_{ij}\, t'_i\right)}{1 - \sum_{i=1}^{n} \left(Z_{ij} + Z'_{ij}\right)} \quad \text{.. equation 2.5}$$

where S_j = the net production subsidy

Thus the difference between the rate of effective protection and the effective tariff is

$$e'_j - e_j = \frac{S_j}{1 - \sum_{i=1}^{n} \left(Z_{ij} + Z'_{ij}\right)} \quad \text{.................... equation 2.6}$$

Equations 2.4 and 2.5 formalise our earlier argument that it is the extent to which value-added on an import activity can rise as a consequence of the whole tariff or protective structure, rather than the extent of any rise in the final price of imports, that influences resource movements into an import substitute activity. Only when there is a single stage production process and

$$\sum_{i=1}^{n} (Z_{ij} + Z'_{ij}) = 0$$

(i.e. when there are no inputs used in the production process so that value-added is 100%) is the nominal rate on the final good the sole determinant of effective protection.

For the more realistic multiprocess case effective protection is a function of four factors:

i) The nominal rate of tariff on the final good. Other things being equal, a rise in the nominal tariff will increase effective protection.

ii) The nominal protection on imported inputs. Generally there is an inverse relationship between effective protection and nominal tariffs on imported inputs.

(iii) The share of imported inputs in final value. For a given level of nominal protection a higher proportion of imported inputs (Zij) will be associated with a higher rate of effective protection. This follows because the smaller (in absolute terms) the level of pre-protection value-added the greater proportionate effect on value-added of a given increase in nominal protection.

(iv) The sensitivity of the prices of non-traded goods to protection. If they are totally insensitive, then they can be treated as a traded input to which a zero (implicit) tariff applies. In which case the higher the share of non-traded inputs the lower is effective protection, ceteris paribus. If, at the other extreme, the prices of non-traded inputs are completely sensitive to tariff induced changes of traded goods, then non-traded and imported inputs can be aggregated together. In which case the relationship between effective protection and the share of non-traded inputs is the same as for that of imported inputs.

2.3 Implications of the Concept for Trade Policy

For policymakers the measurement of effective protection rates has a number of important implications and can assist, if properly interpreted, in the design of effective policies to attain national objectives.

The most useful feature of effective protection is that it provides a summary indication of the influence of the entire protective structure on individual protective activities. This is especially useful where tariffs are imposed at differential rates on intermediate and final products since the degree of protection offered from imports may be considerably different to that suggested by the nominal rates on final products.

A second feature is that a comparison of measures of effective protection for different activities offers some insights into the overall consistency of a country's trade policies. Nominal tariffs on final goods might be set for instance to induce import substitution via infant industry promotion, with the hope that this will stimulate further industrial activity via backward linkages into intermediate activities. But if effective protection on final goods is much higher than nominal protection, while simultaneously nominal and effective protection of intermediate activities is much lower, then the overall impact of policy may be to pull resources away from intermediate activities rather than to induce the desired backward linkages.

Furthermore individual or specific inconsistencies of policy may be highlighted by measures of effective protecton. The effective rate of protection indicates the extent to which the tariff structure enables the domestic value of resources used in a stage of domestic production to exceed their free trade value. Since this depends on the interaction between nominal tariffs (on imports of finished goods and inputs) and the proportion of domestic value added in the final price it is difficult to gauge their overall effects and thus the effective degree of protection offered to individual industries may well differ from those intended by policy makers. Higher rates of effective protection are to be expected therefore for industries where the proportion of domestic value added to final price is very low and/or the authorities offer high nominal protection combined with duty free imports of intermediate inputs.

A fourth feature of effective protection analysis is that it may indicate something about industrial efficiency and performance. Many empirical analyses have found that where an activity enjoys a relatively high degree of effective protection there is evidence of inefficiency. This is something which is examined below in the analysis of effective protection in Mauritius.

Finally extreme distortions or perversities may be present in the structure of protection which would not be apparent without a detailed consideration of the structure of effective protection. The possibility of negative effective protection exists where tariff-distorted value added on a particular activity is less than free trade value added. This may be because tariffs on imported inputs are greater than the tariff on the final good. This can occur, for example, when a range of trade restrictions are used in an ad hoc or unplanned manner, or are used to satisfy conflicting objectives. For example a quota (which has a tariff-equivalent) may be applied to final goods, and higher (revenue-raising) duties may be applied to imports of intermediate inputs.

An alternative cause of negative effective protection is the existence of a higher value of intermediate inputs than the world value of the finished product. This would appear at first sight to be impossible since it implies producing something the value of which is less than its cost of production. But it is home market value not world value relative to cost which determines the domestic production decision. In fact infant industry protection behind high nominal tariffs may often involve this type of negative effective protection.

For both sources of negative protection, value added would be higher under free trade. The affected firms may or may not be aware of this fact, but even if they are they may well prefer the existing situation to a competitive, free trade situation! Without the identification of situations of negative effective protection by policy makers there may be little pressure for rationalisation of the protective structure from the import-substitute sector itself.

The concept of effective protection is equally applicable to export activities. Subsidies on a final export would tend to raise effective protection, as would subsidies on inputs. Taxes on (non-exported) inputs and (exported) outputs tend to lower effective protection. Thus negative effective protection could occur for instance if the output of an export process is subject to neither taxes nor subsidies but an imported input into the production process is subject to a tariff or quota. Again low or negative levels of effective protection for exportables may not be "planned" but the compatibility of import-substitution and export promotion polices and of protective and revenue motives is difficult to achieve.

Effective protection analysis thus serves as a useful indicator of the effect of trade policy on individual industries, but does not provide the complete picture.

Measures of effective protection do not in themselves identify the actual distortions of production (i.e. resource pulls) induced by trade policies. The way in which domestic production in a particular activitity responds to a given level of effective protection is determined by domestic technological and market conditions. Inter-industry differences in the impact of institutional barriers (administrative procedures), technological barriers (skill or capital deficiencies) or market barriers (domestic monopoly deterrents to potential entrants) may mean that the extent and direction of resource pulls and distortions are not accurately identified or ranked by (partial) measures of effective protection. In the absence of detailed information about short- and long-run elasticities of supply by industry, then effective protection measures can only provide interpreted alongside detailed, qualitative information about domestic industrial and market conditions.

In investigating the impact of a package of trade and industrial policies, however, it may not be legitimate to assume that conditions in all but the one industry for which the effective rate is measured remain unaltered. Ultimately the need is to compare the impact of the protective structure on one activity relative to another; that is to examine trade and industrial policies within a general equilibrium framework. The direction and extent of resource movements or pulls between import and export industries or sectors depends on relative rates of protection.

Our analysis in Appendix 2 is restricted to partial estimates of effective protection, in order to investigate the inter-industry consistency of import-substitution policies. In Appendix 3 a general equilibrium framework is constructed to consider the compatibility and net effects on broad sectors of the economy of the simultaneous use of import substitution and export promotion policies.

The remainder of this appendix is concerned with the measurment of effective protection rates across industrial activities in Mauritius.

2.4 Estimation of Effective Protection Rates in Mauritius

2.4.1 Methodology

As outlined in the preceeding section choice of methodology in estimating effective protection is basically between estimation from value added data (equation 2.1) or from cost data (equations 2.4 and 2.5), or some variant of either. Both methodologies have advantages and disadvantages, and invariably choice of technique is dictated by data availability rather than any marked preference for one methodology as opposed to the others. In principle the estimation of effective tariff rates from cost data has the potential for greater accuracy than use of value added data. The data requirements for the cost based methodology are however extremely exacting, since, to obtain meaningful estimates of effective tariffs, computation at highly disaggregated levels is necessary. By contrast the value added approach is a very much more robust (and in consequence more widely used) methodology. The data requirements tend to be less exacting and estimation can be executed at a higher level of statistical aggregation than tends to be the case with cost data. Since the estimation of effective protection was not the central focus of the present study and since we are only concerned with broad orders of magnitude, the value added approach was followed in the present study,

The objective behind effective protection analysis is to gain some indication of the extent to which domestic value added can be raised as a consequence of the tariff structure. The estimating equation used to arrive at this was derived as follows and approximates closely to equation 2.1:

$$e_j = \frac{\dfrac{V^*_j}{q^*j} - \dfrac{V_j}{qj}}{\dfrac{V_j}{q_j}} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{equation 2.7}$$

in other words effective protection in industry j is equal to the proportionate difference between valued added per unit of output at tariff distorted prices and value added per unit of output at free trade prices. In practice it is difficult to identify value added per unit of output due to the fact that no consistent measure of output is available at the third digit SIC classification. In dealing with chemicals for example one may find that some commodities are classified by volume, some by weight, some by number of units. This is a problem which applies to most of the industries in the sample. One way of circumventing this is to deflate value added by value of final output, rather than quantity of output, viz.,

$$e'_j{}^* = \frac{\frac{V^*_j}{P^*_j q^*_j} - \frac{V_j}{P_j q_j}}{\frac{V_j}{P_j q_j}} \quad \ldots\ldots\ldots\ldots\ldots\ldots \text{equation 2.8}$$

where (p^*_j) is the tariff distorted price per unit and (p_j) is the free trade price. Clearly however such a measure is biased since if we multiply 2.7 through by Pj what we obtain is:

$$e_j = \frac{\frac{V^*_j}{P_j q^*_j} - \frac{V_j}{P_j q_j}}{\frac{V_j}{P_j q_j}} \quad \ldots\ldots\ldots\ldots\ldots\ldots \text{equation 2.9}$$

which differs from 2.8 since V^*_j is deflated by $p_j q^*$ and not $p^*_j q^*$. In order therefore to obtain an unbiased estimate often one has to adjust for the fact that p^*_j is distorted. This can be accomplished by deflating $P^* jq^*$ by the nominal tariff rate on final output in industry j. Once this is done the final estimating equation becomes:

$$e_j = \frac{\frac{V^*_j}{[P^*_j q^*_j/(1 + t_j)]} - \frac{V_j}{P_j q_j}}{\frac{V_j}{P_j q_j}} \quad \ldots\ldots\ldots\ldots\ldots\ldots \text{equation 2.10}$$

where t_j refers to the nominal tariff on j and all other terms are as defined above.

2.4.2 Data Sources

As we can see from equation 2.10 the data required to estimate effective protection are; data on Mauritian value added by industry, data on free trade value added, and data on Mauritian tariffs on final output.

Until recently estimates of value added by industry in Mauritius have only been available at a highly aggregated level, (in the Bi-annual Digest of Statistics). In October 1983 however a comprehensive input-output table for Mauritius was published for the first time. Although the table only provides data for nine industrial categories it proved possible (with the cooperation of the Central Statistical Office) to expand it to encompass some twenty five manufacturing activities. Data limitations with respect to free trade value added subsequently reduced this to twenty two activities. Whilst it would of course be desirable to work with more finely classified data the sample at least covers all industrial activities and provides a sufficient number of observations to permit tentative deductions to be made. The activities for which data are available, and for which effective rates were calculated are listed in Table 2.1. The sample includes most of the principal manufacturing activities in Mauritius as defined at the third digit SIC classification.

No Mauritian data are available to proxy value added at free trade prices, since exchange takes place at distorted prices. It is not even possible to proxy free trade values by references to c.i.f. import values since the extensive use of quantitative restraints in Mauritius will certainly mean that these figures are biased. There are some economies however where conditions approximating to free trade exist. Exchange in Hong Kong for instance is completely unrestricted. The complete absence of tariffs, quotas and indirect taxes makes it reasonable to assume that Hong Kong prices/values are a good proxy for free trade prices/values.

Table 2.1

INDUSTRIES FOR WHICH ESTIMATES OF EFFECTIVE PROTECTION IN MAURITIUS WERE CALCULATED

Beverages

Tobacco

Textiles

Wearing Apparel

Leather Products

Footwear

Wood Products

Furniture

Paper Products

Printing

Basic Chemicals

Other Chemicals

Rubber

Plastic

Glassware

Base Metals

Fabricated Metals

Lime and Stone

Non Electrical Machinery

Electrical Machinery

Transport Equipment

Watches and Lenses

It was decided therefore to use value added by industry in Hong Kong as the free trade counterpart of value added in Mauritius. Data on Hong Kong value added classified into the twenty two industries listed in Table 1 was obtained from the 1980 Survey of Industrial Production published by the Industrial Production Statistics Section of the Census and Statistics Department in Hong Kong.

Details of nominal tariffs in Mauritius were obtained from the Comptroller of Customs, (Revised Laws of Mauritius 1981, Customs Tariff Act) and amended for changes which occurred as a consequence of the October 1983 budget. Tariffs are of course specified at the tariff line (the fourth, sixth or eighth digit of the BTN), which is a much lower level of aggregation than our value added series. In order to make the data series comparable, average tariff rates were calculated for each industry. Since the tariff rates were being deployed to deflate the value of gross output, in principle weighted averages should have been used; the appropriate weights being the share of each commodity in industry gross value. In practice this was not possible since the details of the shares of constituent commodities in industry output were not available. Unweighted tariff averages were therefore computed. Details of the activities included in each industry for purposes of calculating the average tariff are included in Table 2.2.

One further feature of the average nominal tariffs should be noted. The Mauritius tariff schedule identifies three classes of duty: general customs duty, preferential customs duty and fiscal duty. Imported commodities are subject to fiscal duty and general customs duty or preferential customs duty. The countries which benefit from the latter are published in the tariff schedule and in fact encompass all of Mauritius' major trading partners. For purposes of calculation therefore the "visible" nominal tariff was taken to be fiscal duty plus preferential customs duty. The nominal tariff rates calculated in this way are listed as column (a) of Table 2.3. These tariff rates are however an underestimate of nominal tariffs in Mauritius since there are a number of supplementary duties which apply to imports and which have to be taken into account. These are the import surcharge (10%), the special levy (10%)

Table 2.2

TARIFF LINES INCLUDED IN EACH ACTIVITY: EFFECTIVE PROTECTION ANALYSIS

ACTIVITY	TARIFF LINES
Beverages	22 (excl.10)
Tobacco	24.02.10 24.02.20
Textiles	50 51 52 53 54 55 56
Wearing Apparel	60 61
Leather Products	42
Footwear	64.01 - 64.05
Wood Products	44
Furniture	94 (excl.parts)
Paper Products	48
Printing	49
Basic Chemicals	28 29 31
Other Chemicals	30 32 33 34 35 36 38
Rubber	40.07 -40.16
Plastics	39
Glassware	70.07 - 70.21
Base Metals	73.01 - 73.15 (excl.73.11.10) 74.01 - 74.06 75.01 - 75.03 76.01 - 76.07 77.01 - 77.04 (excl.77.02.90 (" 77.04.20.20) 78.01 - 78.04 79.01 - 79.03 80.01 - 80.04 81.01 - 81.04
Fabricated Metals	73.17 - 73.40 74.07 - 74.19 75.04 - 75.06 76.06 - 76.16 77.02.90 77.02.20.20 78.05 - 78.06 79.04 - 79.06 80.05 - 80.06 82 83
Lime and Stone	25.23 68.01 - 68.16 69.01 - 69.05
Non Electrical Machinery	84 (excl. parts)
Electrical Machinery	85 (excl. parts)
Transport Equipment	86 (excl. parts)
Watches and Lenses	90.01 - 90.09

and stamp duty (12%) which apply to all imported commodities. Average nominal tariffs by industry which include these additional tariffs are listed in column (b) of Table 2.3. As one can see they are very much higher than the rates in column (a). Clearly those rates of tariff which are published in the tariff schedule underestimate nominal protection to a significant extent.

Using these data sources, effective protection in Mauritius was therefore measured as:

$$\left(\frac{\text{Total value added (less indirect taxes) in industry j in Mauritius}}{\text{Gross output in j deflated by the nominal tariff on j}}\right)$$

$$\text{minus} \left(\frac{\text{Total value added in industry j in Hong Kong}}{\text{Gross output in j in Hong Kong}}\right)$$

$$\text{divided by} \left(\frac{\text{Total value added in industry j in Hong Kong}}{\text{Gross output in j in Hong Kong}}\right)$$

In other words effective protection is estimated by the extent to which value added in Mauritius in a given industry can exceed value added in the same industry in Hong Kong, as a consequence of tariffs in Mauritius.

2.4.3 Estimates of Effective Protection

The estimates of effective protection computed using the above methodology are presented in Table 2.3. Again two sets of estimates are presented. In column (a) effective protection using "visible" nominal tariffs are presented, (fiscal duty plus preferential customs duty). Column (b) presents the estimates for all nominal tariffs, (fiscal duty, preferential customs duty, special levy, import surcharge and stamp duty). A number of observations can be made regarding these effective rates.

Table 2.3

NOMINAL AND EFFECTIVE TARIFFS IN MAURITIUS 1980

ACTIVITY	NOMINAL TARIFF (a)	NOMINAL TARIFF (b)	EFFECTIVE TARIFF (a)	EFFECTIVE TARIFF (b)
Beverages	188%	220%	140%	161%
Tobacco	300%	332%	80%	94%
Textiles	13%	45%	38%	77%
Wearing Apparel	48%	80%	64%	99%
Leather Products	75%	107%	212%	269%
Footwear	50%	82%	113%	158%
Wood Products	25%	57%	132%	191%
Furniture	88%	120%	97%	130%
Paper Products	40%	72%	88%	131%
Printing	16%	48%	37%	75%
Basic Chemicals	5%	37%	15%	50%
Other Chemicals	29%	62%	0%	26%
Rubber	53%	85%	86%	125%
Plastic	20%	52%	49%	89%
Glass	40%	72%	44%	77%
Base Metals	2%	34%	94%	154%
Fabricated Metals	32%	64%	106%	156%
Lime etc	21%	53%	151%	218%
Non Electrical Machinery	19%	51%	28%	62%
Electrical Machinery	41%	53%	157%	179%
Transport Equipment	70%	102%	4%	23%
Watches and Lenses	37%	69%	197%	266%
Arithmetic Mean	55.1	86.2	87.8	128.2
Standard Deviation	65.8	66.0	58.2	67.7
Coefficient of Variation	1.19	0.76	0.66	0.51

First on average effective rates are higher than nominal rates for both sets of estimates. Taking all nominal tariffs together, column (b), the average rate of effective protection is no less than 128%. By any standards this is an extremely high average rate. To place it in perspective one might note in passing that even for a highly protected economy like Pakistan, the average effective rate as estimated by Guisinger in the early 1970s was 95%.

As we noted at the outset we are dealing with relatively broadly defined industries. It is possible that further disaggregation could reduce the average values, (since some of the tariffs averaged could be redundant). Against this however there is undoubtedly a downward bias in these estimates since Mauritian gross output is deflated by nominal tariffs only; no explicit account is therefore taken of the price raising effects of quantitative restrictions. Given the pervasiveness of quotas in Mauritius this is likely to be an important influence. Quite how these two influences 'net out' would only become clear following a more detailed analysis at the product level. Because of the pervasive role of quotas however it is reasonable to suppose that the figures reported here are unlikely to underestimate effective protection in Mauritius and should therefore be regarded as minimum likely estimates.

A second feature which is notable is the number of industries which are highly protected. In no fewer than twelve out of twenty two cases the effective rate exceeds 100%, (beverages, leather products, footwear, wood products, furniture, paper products, rubber, base metals, fabricated metals, lime and stone, electrical machinery, watches and lenses). Comparisons with other countries are again illuminating - in Guisinger's study of Pakistan effective rates in excess of 100% were found in ten cases out of thirty two. If the objective of import substitution policy is the fostering of infant industries it is difficult to see how such an objective can have much hope of success with such high effective rates of protection - rates which are likely to insulate domestic industry from any competitive pressure whatsoever.

A third feature of the results which can be noted is that the coefficient of variation is lower for effective rates than nominal rates. Thus although the average effective rate is higher (as is the associated standard deviation) there is a slightly narrower spread of effective rates.

The final point we may note refers to the ranking of effective rates. Table 2.4 ranks industries from the most protected to the least protected. One has to be cautious about generalising from the ranking but there is some evidence of tariff escalation. For example fabricated metals are more protected than base metals; wearing apparel is more protected than textiles. On the other hand however wood products are more highly protected than furniture; paper products are more highly protected than printing. If one of the objectives of industrial policy is to foster the development of exportable manufactures, it is unlikely that conferring substantial protection on intermediate production will assist in this objective, since it simply serves to raise the cost of inputs to domestic producers.

2.4.4 Effective Protection and Resource Allocation

Effective protection can indicate something about relative resource pulls in an economy. Other things being equal one would expect resources to be attracted into the most highly protected activities, and away from less protected activities. After all, greater protection generally means less competition, and greater potential for excess profits. If, as is usually the case, import substitute activities are highly protected whilst export activities are unprotected (or, as we argue in our shifting analysis in Appendix 3 "disprotected"), then clearly resources will be attracted away from (actual and potential) export activities towards import substitute activities. For an economy where the domestic market is small, (in both an absolute and relative sense), this clearly cannot provide a solid foundation for industrialisation - indeed it is likely to arrest the process. The effective rates which have been computed for Mauritius, even allowing for the reservations which we have expressed regarding the data, certainly suggest that there are compelling incentives to produce in

Table 2.4

RANKING OF INDUSTRIES BY EFFECTIVE PROTECTION

(1) Leather Products
(2) Watches and Lenses
(3) Lime and Stone
(4) Wood Products
(5) Electrical Machinery
(6) Beverages
(7) Footwear
(8) Fabricated Metals
(9) Base Metals
(10) Paper Products
(11) Furniture
(12) Rubber
(13) Wearing Apparel
(14) Tobacco
(15) Plastic
(16) Glassware
(17) Textiles
(18) Printing
(19) Non Electrical Machinery
(20) Basic Chemicals
(21) Transport Equipment

Notes: Industries are ranked from the most protected to the least protected according to estimates (b) in Table 2.3.

certain industries in preference to others purely as a consequence of the effects of the tariff structure. At its simplest, the results suggest that in twelve out of the twenty two industries examined value added can at least double without the industries concerned losing competitiveness to imports. Local shoe producers for instance can permit total production costs to increase by up to 158% above those associated with production in Hong Kong and still remain competitive. Clearly with such a margin for cost increases the opportunities for export are non-existent (short of dumping).

2.4.5 <u>Characteristics of Protected Industries</u>

Protection has a number of economic effects which have been adumbrated at various points in this report. The implications of protection for consumers are by and large fairly obvious - prices are raised and choice is restricted. The supply side, resource allocation, effects are not always so direct nor so obvious. Theory predicts that relative resource pulls are influenced by relative rates of effective protection and that these pulls will be manifested in the characteristics of the industries concerned. For example recent work on protection in developed market economies has suggested that relatively highly protected industries often exhibit certain distinctive characteristics. They are often more labour intensive and less skill intensive than less protected industries; they are frequently geographically concentrated; one often finds evidence of excess profits.

If suitable data were available a variety of non-parametric tests could be conducted on the Mauritian data. This may indeed be a fruitful area for further research. As a first step an attempt was made to examine a number of features of protected industries in Mauritius. Industries were grouped into "high", "medium" and "low" protection categories. The divisions between those groups are to some extent arbitrary. The "high" group comprises the industries with the highest seven rates of effective protection; "low" refers to the seven lowest rates and "medium" refers to the middle eight rates. The exercise is ordinal rather than cardinal, and does not attempt to define "critical" rates which separate one group from another, (by reference to mean rates, median rates or any other yardstick). Since we are interested in relative resource pulls this is a permissible procedure. (Indeed it should be noted that even if data were available for a more sophisticated statistical analysis non-parametric tests, rather than regression techniques, would be deployed.)

A number of characteristics which might be associated with or influenced by relative rates of protection, and for which data were available, were identified:

(a) Excess Profits There are sound theoretical reasons for believing that the market power conferred by high effective protection creates opportunities for excess profits to be earned. To examine this possibility gross operating surplus by industry, (relative to production costs), was taken as a proxy for profitability.

(b) Wage Costs Protection tends to raise rewards to all factors of production employed in the protected industry. One might therefore hypothesise that there should be a tendency for wage costs to be relatively high in highly protected industries. To examine this possibility wages and salaries by industry (relative to intermediate consumption) were included as a proxy for relative labour costs.

(c) Value Added As noted above the estimates of effective protection generated in this study do not directly allow for the price effects of Mauritian quotas on industry value added. One would anticipate that where quotas are important value added should be higher than otherwise. To allow for this value added relative to intermediate consumption by industry was included. Of course, one could contend that a relatively high value added is a manifestation of high productivity. Since however the principal components of value added are operating surpluses and wage costs it can be argued that relatively high value added might indicate that in industries where effective tariffs are high, quotas tend also to be important.

(d) Local Inputs One aspect of resource misallocation which is frequently associated with protection is that protected industries have less incentive to seek out least cost sources of input supply than less protected industries. It is not easy to generalise on input supply that local sources are more high cost than overseas sources. Since however most of the intermediate industries included in our sample enjoy some degree of protection, and furthermore since all EPZ and many DC companies can obtain imported inputs duty free, we shall assume that local inputs tend to be higher cost inputs than imported intermediate inputs. To examine the possibility that highly protected activities rely more heavily on local inputs, the proportion of local inputs relative to imported inputs by industry was included as a further variable.

The values of all these variables were grouped into "high", "medium" and "low" categories. As with the categorisation of effective rates, "high" was ascribed to the top seven values, "low" to the bottom seven values and "medium" to the middle eight values. Direct comparisons were than made between the values of our various characteristics and those associated with effective protection to ascertain whether there appeared to be any features which consistently seem to be associated with highly protected or unprotected industries.

2.4.6 Results of the Characteristics Analysis

The results of this qualitative evaluation of the characteristics of protected industries in Mauritius are summarised in Table 2.5. The findings suggest the following.

(a) High Protection Industries

In four out of the seven industries classified as having a high effective tariff, gross operating surplus, (relative to total costs) appears to be high; (leather products, footwear, wood products and watches and lenses). In two cases gross operating surplus is classed as

Table 2.5

CHARACTERISTICS OF PROTECTED INDUSTRIES IN MAURITIUS: SUMMARY

	Nominal Tariff	Effective Tariff	Wages relative to Total Costs	Gross Operating Surplus relative to consumption	Value Added relative to consumption	Local inputs relative to imported inputs
Beverages	H	H	M	M	M	H
Tobacco	H	M	M	L	L	H
Textiles	L	L	L	M	L	M
Wearing Apparel	M	M	M	M	M	H
Leather Products	H	H	M	H	H	H
Footwear	H	H	H	H	H	H
Wood Products	M	H	H	H	H	M
Furniture	H	M	H	L	M	H
Paper Products	M	M	L	M	M	L
Printing	L	L	H	H	H	M
Basic Chemicals	L	L	L	L	L	M
Other Chemicals	H	L	L	L	L	L
Rubber Goods	H	M	M	M	M	L
Plastic Goods	L	M	M	H	M	L
Glassware	M	L	L	L	L	L
Basic Metals	L	M	M	M	M	M
Fabricated Metals	M	M	H	H	H	M
Lime and Stone	L	H	M	M	M	H
Non Electrical Machinery	L	L	H	L	H	M
Electrical Machinery	M	H	H	L	H	L
Transport Equipment	H	L	L	M	L	M
Watches and Lenses	M	H	L	H	M	L

Note: H = High M = Medium L = Low

medium, and it might be noted that in one of these, beverages, indirect taxes are extremely high and could be having an effect analogous to a profit tax (if part of the tax liability is borne by producers). In only one case, electrical machinery, is gross operating surplus classed as low.

With regard to our wages proxy, this turns out to be high in three cases (footwear, wood products and electrical machinery), medium in three (beverages, leather products, lime and stone) and low in only one (watches and lenses). A similar pattern is observed where industry value added is concerned, four cases of high value added (leather products, footwear, wood products and electrical machinery) and medium in the remaining three. Finally, in four out of seven cases local inputs are high relative to imported inputs, (beverages, leather products, footwear and lime and stone), medium in one (wood products) and low in two, (watches and lenses and electrical machinery), where in fact one would expect imported inputs to predominate anyway given the virtual absence of a components industry in Mauritius.

Although the analysis is qualitative the results are sufficiently consistent to suggest that there may be certain distinctive characteristics associated with those industries which operate behind high tariff walls in Mauritius. The findings on gross operating surplus could lend some support to the possibility that excess (or "super normal") profits are being earned in those industries which gain the most insulation from foreign competition. There is also circumstantial evidence to suggest that labour benefits from fruits of protection, since wage costs are relatively high in more than half of the "high" protection cases. The pattern on local inputs suggests that highly protected industries might have less of an incentive to seek out low cost sources of inputs.

Referring to individual industries, it is striking to note that in three cases the indicators have a "high" reading on all counts, or in three out of four counts. These are leather products, wood and footwear. In terms of the rank ordering of effective rates these appear to be first, fourth and seventh most protected industries in Mauritius. Even with the caveats noted above this is a significant finding.

(b) Low Protection Industries

At the other end of the spectrum we have the seven "low" protection industries, viz., textiles, printing, basic chemicals, other chemicals, glassware, non electrical machinery and transport equipment.

With respect to gross operating surplus, in four of these seven industries a "low" reading was recorded, (basic chemicals, other chemicals, glassware and non electrical machinery). A "medium" reading was recorded in a further two cases (textiles and transport equipment), and a high reading in only one (printing). Where the wages variable is concerned "low" values are registered in five out of seven cases, (textiles, basic chemicals, other chemicals, glassware and transport equipment) and "high" in two cases (printing and non electrical machinery). The pattern in value added is similar with five recorded low cases out of seven, (textiles, basic chemicals, other chemicals, glassware and transport equipment) and two high cases (printing and non electrical machinery. Finally with respect to structure of inputs we find a low reading for local inputs in only two cases (other chemicals and glassware), and a medium reading in the remaining five cases.

As with the high protection analysis, these results are taken as indicative rather than conclusive. There is again however an obvious pattern to the results. Relatively low profits suggest that it is unlikely that excess profits are being earned whilst relatively low wage costs are perhaps indicative of greater competitive pressures. The value added findings reinforce the profit/wage findings and the only area where the results are not as hypothesised is in the relative importance of local inputs. Even here however one might not be too discouraged by the fact that all readings are in the low or medium categories.

Taking the industries specifically one finds that in three cases low readings are recorded either for all four indicators, or in three out of four cases. These are basic chemicals, other chemicals and glassware. Significantly these rank as twentieth, twenty-first and sixteenth (out of twenty-two) in the ranking of effective rates.

(c) Medium Protection Industries

Our principal concern in this type of ordinal analysis is with the high and low categories. For completeness however a few observations on the medium protection industries are appropriate. Given the patterns observed for the high and low cases, as one would expect there is a reasonably close association between "medium protection" and "medium" readings on our performance indicators.

Gross operating surplus turns out to be in the medium range in four cases out of eight (wearing apparel, paper products, rubber goods, basic metals); it is in the low range in two cases (tobacco and furniture) and in the high range in two cases (plastic goods and fabricated metals). Where wages are concerned we find medium readings in five out of eight cases (tobacco, wearing apparel, rubber goods, plastic goods, basic metals), a low reading in one case (paper products) and high readings in two cases (furniture and fabricated metal). The value added results reinforce this with six out of eight industries in the medium, (wearing apparel, furniture, paper products, rubber goods, plastic goods, and basic metals) whilst one is low (tobacco) and one is high (fabricated metals). Finally with respect to the relative importance of local inputs medium readings are recorded in just two cases (basic metals and fabricated metals), low readings in three cases (paper products, rubber goods, plastic goods) and high readings in three cases (tobacco, wearing apparel and furniture).

Referring to specific industries, in three out of eight cases medium readings are recorded for all four, or three of the four indicators, (wearing apparel, rubber goods and basic metals). Overall the results are consistent with the findings for high and low protection industries.

2.5 Effective Protection in Mauritius: Evaluation

A number of caveats must be borne in mind when evaluating these results. First of all it must be recalled that the estimates of effective protection apply only to one year, namely 1980. There are no obvious reasons why 1980 should be regarded as an unrepresentive year. Nevertheless a more detailed analysis of effective protection would presumably estimate rates for a variety of years. Given that input-output data were only available for 1980, this was simply not possible in the present study. Second the sample of industries included is necessarily restricted. Data limitations imposed a constraint of twenty-two industries. Although studies of effective protection in other countries have relied on samples of a similar size, if data were available more activities would have been included.

With these caveats in mind, the following deductions can be made from the effective protection analysis:

1) Average rates of effective tariff protection in Mauritius exceed average rates of nominal tariff protection.

2) The absolute level of recorded effective tariff rates is high by international standards with rates in excess of 100% being recorded in more than half the industries investigated.

3) Given the importance of quantitative restrictions in Mauritius, it is likely that the estimated effective tariff rates actually understate true effective protection.

4) There is circumstantial evidence to suggest that in those industries which enjoy the highest levels of effective protection excess profits are being earned and labour costs are relatively high.

5) It is likely that such high rates of effective protection attract scarce resources into the industries concerned. Since these industries are essentially import substitution activities rather than

export industries this is likely to lead to resource misallocation. Resources are being diverted into commodities which are produced relatively inefficiently rather than into activities where Mauritius enjoys a (potential or actual) comparative advantage. These industries, since they are concentrating on production for the home market rather than the export market, have very limited potential for growth and are unlikely therefore to be able to make as significant a contribution to industrial progress in Mauritius as export oriented industries.

APPENDIX 3

3. THE INCIDENCE OF TRADE POLICIES IN MAURITIUS

3.1 Concepts and Principles

Beside the obvious revenue/foreign exchange motive for duties or taxes on imports and or exports, the aim of particular instruments of trade policy (quotas, taxes, subsidies etc) or of trade policy in general is to discriminate in favour of certain groups of producers in the economy. Although the intention of the policy maker may only be to protect or favour one well-defined group, inevitably other groups are disadvantaged. For example taxes on imports of all manufactured goods allow import-competing firms to raise their prices, thus effectively increasing the reward and therefore incentive to invest in this type of activity relative to other activities. The distribution of this burden between other distinct groups (producers for export markets and producers of domestic activities) depends on the type of linkages and substitutional relationships present in the economy. The formal nature of these relationships is examined in section 3.2 of this appendix. A more general discussion is given in the remainder of this section.

Those readers who are not interested in the technical discussions can proceed directly to the Summary on page 15, and the empirical analysis of Section 3.3, with no serious loss in continuity.

3.1.1 Discrimination and Resource Pulls

Prices, or more accurately relative prices, serve as a market economy's signalling mechanism. An increase in the price of import - competing production relative to other types of production directly signais increased opportunities for profitable investment in that activity. Since protection in itself cannot increase the amount of resources currently available to the economy, the resources must be pulled out of other activities - including those where the economy has an international comparative advantage. Of course there may be some scope for increasing resource utilization in the shorter term. This may however only be the utilization of specific resources (such as unemployed labour) but with scarcer resources of say capital or enterprise inevitably being removed from employment elsewhere into the import competing activities. In many cases un-or under-utilised resources may be pulled not only from current export activity, but also from potential export activity. Such potential export activity would then not only be constrained domestically by the diversion of the supply of domestic resources but also by restrictions imposed on export markets in retaliation to the country's own import restrictions.

3.1.2 The Incidence of Import Taxes

To examine, therefore, these burdens of protection on the rest of the economy we need to adopt a general equilibrium framework which captures the effects of relative price changes.

In the standard, textbook treatment of the impact of import taxes the analysis is partial, isolated from the rest of the economy. Raising the absolute level of import prices and the prices of import-substitutes is viewed as raising domestic production and lowering domestic consumption of the commodity in question. This analysis clearly demonstrates that import protection harms the interests of the domestic consumer; in welfare terms there is a consumer loss, (not only as a consequence of the higher domestic price of importables, but also because the domestically produced import substitute may be of inferior quality). It also suggests however, in public finance terms, that the incidence of the tax (ie the tariff) is distributed in some way between importers and domestic consumers. Certainly domestic consumers do pay initially for some or all of the tax in the form of higher prices. The partial analysis cannot capture however the subsequent adjustments to spending and production then induced by import duties. The costs of the tax may be shifted on to other groups, so that ultimately part of the burden of the tax will be borne by those other groups such as exporters. But to capture the ultimate incidence of protection we need to examine the impact of trade policies within a general equilibrium framework that captures relative, rather than absolute, price changes.

The traditional, general equilibrium model of international trade is based on two industries, one producing exportables and one importables, and two factors of production, (for example capital and labour). Such a model allows us to predict which factor loses from trade restriction and which gains. Under specified conditions an import duty benefits the economy's scarce factor which is used most intensively in activities of comparative disadvantage namely the production of importables (this is the well known Stopler-Samuelson theorem). But since both factors are used in both sectors it is not possible to examine the incidence of protection in sectoral terms. The changes in price in each tradeable good sector relative to some other sector's prices would provide, however, an indicator of how the (ultimate) tax burden is shifted from the protected sector and shared between the non-protected sectors.

Such an analysis is not however feasible in the traditional two commodity partial equilibrium model because we only have one relative price ratio. Import protection raises the price of importables relative to exportables, but we cannot say anything about the incidence of protection across the sectors. If we work from a model where we introduce a third sector, namely non-tradeables, (typically the service sector), we introduce a second relative price ratio: the price of non-tradeables relative to tradeables. An examination of how a given policy (like an import tariff) alters the price of importables relative to exportables, compared with the way in which the same policy affects the price of non-tradeables relative to exportables, permits us to identify how the burden of the tariff on importables is shared between the other two sectors. The relative incidence of this burden depends essentially on the degree of substitutability (in both demand and supply terms) between the products of the importable and the other non-protected sectors.

3.1.3 Shifting of Burdens

The effects of protection can be summarised therefore in terms of the impact on internal relative prices, if we introduce a non-tradeable home goods (mainly services) sector into the model. Consider Table 3.1 below, which sets out some hypothetical changes in the prices of importables (P_m), exportables (P_x) and home goods (P_h). In each case a uniform import duty of 45% raises the domestic price of importables relative to the fixed price of exportables (fixed that is for a small country having little or no control over the world price ruling in international markets) by 45%. The incidence of the tariff burden, however, is shared between exporters and producers of home goods rather differently in each case. In case a) the relative prices of importables to home goods is unaltered, but the price of exportables and real income generated in this sector has fallen relative to both other sectors. The incidence in this particular case therefore falls totally on exporters. The tariff is then fully equivalent to an export tax.

Table 3.1

THE IMPACT OF AN HYPOTHETICAL TARIFF INCREASE OF 45%

	Alternative Absolute Price changes		
Prices	a)	b)	c)
Importable (P_m)	+ 45%	+ 45%	+ 45%
Exportables (P_x)	constant	constant	constant
Non traded home goods (P_h)	+ 45%	constant	+ 30%
Shift parameter	1	0	0.66

By contrast in case b) the price of importables rises by 45% relative to both exportables and home goods. In this case the incidence is equally shared between producers in both the unprotected sectors. Because the burden is equally shared between the two sectors, the implicit export tax is zero, and therefore the shift parameter in table 3.1 is zero. In this case the degree of 'true' protection conferred on the import substitute sector is equivalent to the nominal tariff of 45%.

Case c) illustrates an intervening possibility. The price of importables rises by 45% relative to exportables, but only by 15% relative to home goods. The price of exportables falls by 30% relative to home goods. Thus although the tariff is initially (nominally) paid for by importers, the ultimate changes in relative prices are such that 66% of the tariff is shifted onto producers of exportables as an implicit tax levied in the form of diminished real income or domestic purchasing power; the rest of the ultimate burden falling on producers of home goods the price of whose products have fallen relative to importables. The extent of this decline in the price of home goods relative to importables determines the extent of the implicit subsidy to domestic producers of importables given by an import tax; the greater the relative fall the larger the implicit subsidy.

3.1.4 The Role of Substitutional Relationships

As a result of the ensuing real income effects protection of one sector must therefore 'disprotect' at least one other sector; the nature and extent of the 'disprotection' depending on the nature of the substitutional relationships in both production and consumption. For example the internal price of importables relative to home goods can change little if the goods of these two sectors are close substitutes in demand and production. An import duty must in this instance pull up the price of both importables and home goods relative to exportables.

Hence the effects of the import tariff are similar to those of an export tax levied at the same rate. If, by contrast the exportables and home goods are close substitutes in demand and production, but less substitutable with importables, an import tax must raise the domestic price of importables relative to both of the other sectors. Protection of import - substituting activities imposes costs in this case on all other sectors. (Note that protection imposes some costs on exporters whatever the nature of the substitutional relations present in an economy either via real income effects on factors employed in that sector or through cost increases in production).

3.1.5 Countervailing Distortions

Many policy makers are clearly not aware that they are discriminating against other sectors when seeking to discriminate in favour of import - competing industries. In many industrializing countries the desire to industrialize has induced simultaneous attempts at import substitution and export promotion. The impact of each package of policies; import duties, quotas and other tax advantages for import substitution and subsidies (direct and indirect) for export promotion, is often viewed in isolation and without awareness for the general equilibrium or relative price effects. The actual, net effects of simultaneously operating conflicting policies (in terms of their effects on internal, relative prices) will be considerably different from the intended effects. The protection of import-competing activities in isolation 'disprotects' non-traditional manufacturing exporters, while the promotion of those non-traditional exporters in isolation 'disprotects' import-substitution activities. In the extreme (and in the simplifying case of balanced trade) the imposition of a uniform import duty, combined with a uniform export subsidy at the same rate, will have no effects on the real economy. This follows because the relative price structure will be preserved with all nominal prices being increased by the rate of the duty and subsidy. If protection would in isolation result in a marked fall in the price of exportables relative to home goods, then the imposition of an export subsidy merely acts as a 'countervailing' distortion which affects the costs imposed on the export sector by protectionist measures. Clearly the extent to which export subsidies offset the effects of import duties on relative prices depends on the relative magnitudes of the nominal rates of duty and subsidy and the nature of the substitutional relationships present in the economy. With respect to the latter an interesting additional dimension is created by the co-existence of traditional and non-traditional exports in many industrializing countries. Exports of primary products are generally referred to as traditional exports. These commodities are invariably raw material or resource intensive. As such one would anticipate somewhat limited substitution possibilities in demand and production between these and other sectors. By contrast non-traditional exports, or exports of manufactures, tend to be labour intensive and are therefore likely to have closer substitutional relationships with other sectors, in particular the home goods sector. As a result of this contrast one might expect differences in the proportion of protection which is shifted, with a higher incidence on traditional exports. Ultimately this is an empirical issue.

3.1.6 Relationships Between Nominal Tariffs and Subsidies and 'True' Protection

If import duties and export subsidies are used simultaneously the true rates of each will differ from their nominal rates. Since each type of instrument has contradictory or offsetting influences on relative prices the true rates of 'protection' for each sector must be less than that suggested by the nominal rates.

As we have seen an import duty is shifted in part at least on to exportables. Conversely the effects of an export subsidy will tend to reduce the price of importables relative to exportables and home goods. The net effects of both sets of policy instruments can be evaluated by reference to how tuey alter prices relative to the price of home goods. This can be summarised as a true tariff on imports and a true subsidy on exports.

Consider Table 3.1 again. This was used to illustrate the different incidence of protection levels (in the absense of an export subsidy). The larger the increase in the price of home goods relative to the price of exportables the greater the shifting of the incidence of protection on to exportables. If a tariff induces an increase in the price of home goods, however, it must reduce the true protection given to importables. This follows because the real income of the importables sector in terms of home goods declines as the price of home goods increases. We can as a result use the change in the price of importables relative to home goods as a measure of the net or true ffect of the tariff in protecting the importables sector. (1) Thus:-

$$t^* = \Delta\left[\frac{P_m}{P_h}\right] \text{.........................equation 3.1}$$

Where t = true tariff rate
and the initial, pre-tariff price ratio $\frac{P_m^\circ}{P_h^\circ} = 1$

In case (a) in table 3.1 the true tariff rate is zero, since the purchasing power of importables in terms of home goods is ultimately unaltered by the nominal tariff of 45%. In case (b), with the price of home goods unaltered the true tariff and nominal tariff are equal at 45%. In the intermediate case represented by case (c) a nominal tariff of 45% produces a true tariff of only 11.5%.

Similarly we can use the change in the domestic price of exportables

$$s^* = \Delta\left[\frac{P_x}{P_h}\right] \qquad \text{.................. equation 3.2}$$

where s* = true rate of subsidy.

$$\text{and} \quad \left[\frac{P_x^{\circ}}{P_h^{\circ}}\right] = 1$$

In Table 3.1 we assumed the nominal subsidy(s) to be zero. In which case the true subsidy (s*) in case (a) s* = -0.31 (approx), a negative, true subsidy (i.e. an export tax) of about 30%, in case (b) s* = s = o, and in case (c) s* = - 0.24. The negative subsidy/export tax increases as the price of home goods increases relative to exportables.

Thus the greater the substitutional relationships between home goods and importables and the greater the shifting of the incidence of protection from importables to exportables, the greater the disprotection or negative subsidisation of exportables and the lower the true tariff protection of importables. Despite the apparent perversity of this conclusion, it merely serves to emphasise the limitations of simultaneously attempting to protect import substitutes and promote exports. If we introduce a positive nominal subsidy of 45% into our present numerical example in addition to the implicit export tax we can quickly identify the ineffectual nature of these contradictory policies. Prices in all sectors rise by 45%, leaving <u>relative</u> prices unaltered. The true tariff and subsidy rates are as a result zero.

The distinction between true and nominal protection is in fact the key to understanding the hidden nature of the costs of protection, and understanding why the failure of export promotion policies can be easily attributable to extraneous factors. The fact that true protection is likely to be less than nominal protection not only reduces the security offered to the import - competing sector below that expected, but also provides a motive for pressing government for further nominal protection. The erection of protective barriers tends to be a continuous process, which never seems to satisfy importers. By contrast exporters often appear satisfied with the promotion policies on offer, but are unable to identify a root cause for their difficulties.

3.2 A Formal Model

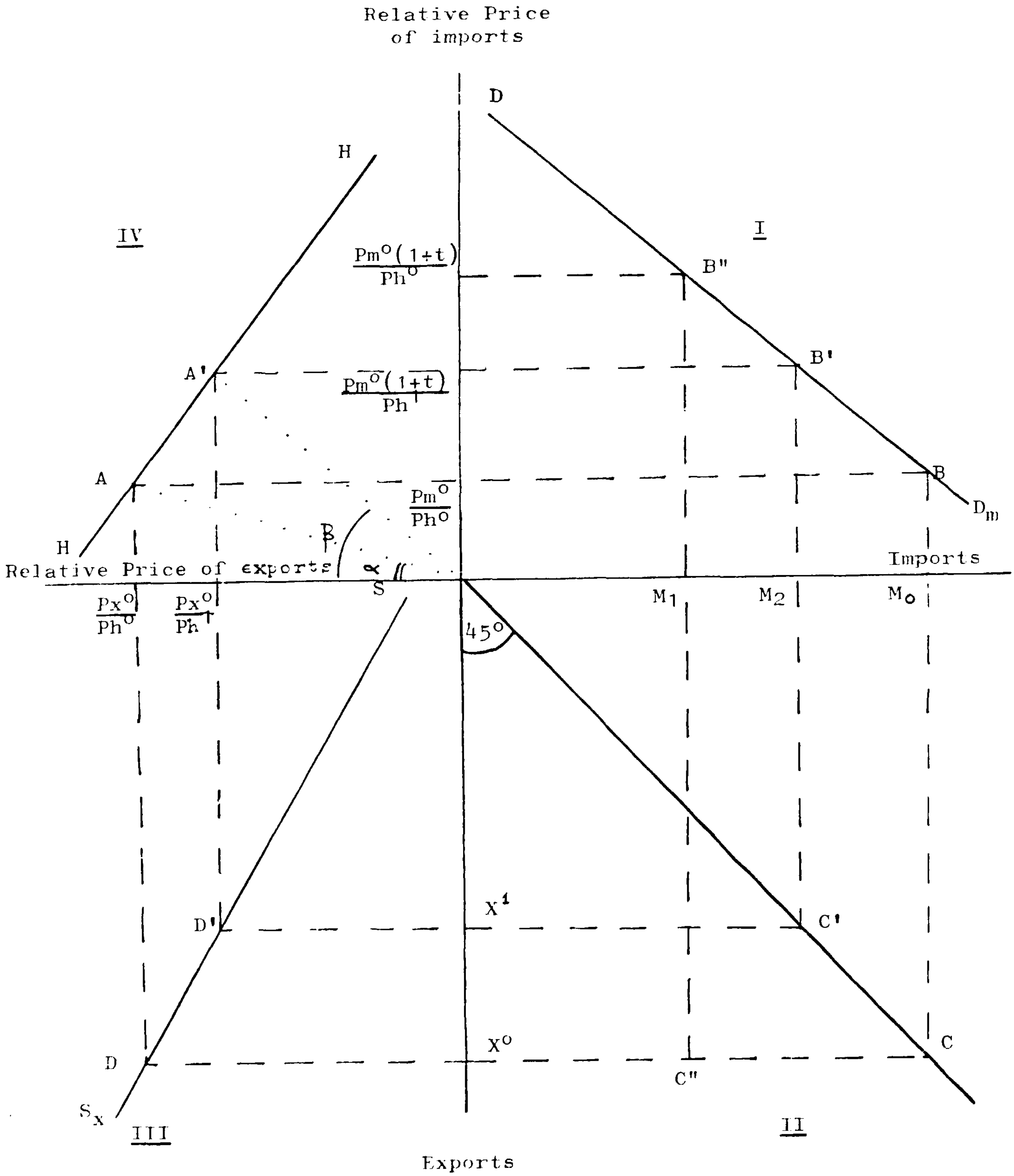
In this section the ideas outlined in the introduction will be developed in a more formal manner. Again the goods produced and consumed in the economy will be classified into importables (m), exportables (x) and home goods or non-tradeables (h). For simplicity we assume that the country is without international market power, i.e. it is a price-taker.

Consider Figure 3.1

Since importables and imports are close substitutes the demand for imports can be modelled as the excess demand for importables (i.e. demand for importables less domestic production of importables) as in quadrant I. An increase in the relative price of importables from: $\frac{P_m^\circ}{\overline{P}_h^\circ}$ to $\frac{P_m^\circ(1+t)}{\overline{P}_h^\circ}$ caused by the introduction of a (uniform) tariff of rate (t) reduces the consumption of importables, increases the domestic production of importables and as a result reduces the volume of imports from M_0 to M_1. The subsequent adjustments in spending and production induced by this initial relative price adjustment require that the relative price cannot remain at this level.

Quadrant III gives the export supply schedule SSx. Since the price of exports (and exportables) is constant at P_x°, an increase in the price of home goods from P_h° to P_h' causes the relative price of exportables to fall from P_x°. This fall causes exports, which are the excess supply of exportables, to fall from X_0 to X_1.

FIGURE 3.1



Relative Price
of imports
D
H
IV
I
Pm°(1+t)
Ph°
B"
A'
Pm°(1+t)
Ph¹
B'
A
Pm°
Ph°
B
Dm
H
β
Relative Price of exports
α
Imports
S
Px°
Ph°
Px°
Ph¹
M1
M2
Mo
45°
X¹
D'
C'
X°
D
C
C"
Sx
III
II
Exports

Quadrants II and IV demonstrate the market clearing condition of Walras' law. In general equilibrium there is no tendency for relative prices to change because markets have cleared. Thus, in quadrant II, along the 45° ray OB excess demand for traded goods is zero, ie X=M.

Similarly in quadrant IV HH is the home goods schedule, which is the locus of all combinations of relative prices of importables and exportables which clears the home goods market. Thus a general equilibrium situation is represented by the relative price structure $\frac{P_m^\circ}{P_h^\circ}$ and $\frac{P_x^\circ}{P_h^\circ}$ at point A on the home goods schedule. At $\frac{P_m^\circ}{P_h^\circ}$ the demand for imports is Mo and the supply of exports at Px° is X_0. This gives us a trade balance at C on the range OB.

We are now in a position to consider the nature of the relative price adjustments required to restore general equilibrium, resulting from the imposition of the tariff. At the new relative price of imports $\frac{P_m^\circ(1+t)}{P_h^\circ}$ the volume of imports is M_1 ,(ie B" on DDm). But the volume of exports remain at the initial level (Xo), since the relative price of exportables (in terms of home goods) is unaltered. There is as a result a trade surplus (represented by point C" in quandrant II). Corresponding to this excess supply of traded goods there must be a excess demand for home goods; domestic consumers at the higher relative price of imports seek to substitute home for importaole goods while domestic producers seek to shift production from home to importable goods. The price of home goods must rise to eliminate this excess demand. In fig 1 this market clearing is achieved by the rise in the price of home goods from P_h° to P_h' . The resulting fall in this relative price of importables $\frac{P_m^\circ(1+t)}{P_h^\circ}$ to $\frac{P_m(1+t)}{P_h'}$ reverses some of the initial substitutional effects and imports increase from M_1 to M_2 . Similarly the fall in the relative price of exportables from $\frac{P_x^\circ}{P_h^\circ}$ to $\frac{P_x^\circ}{P_h'}$

induces a contraction in the supply of exports from X_o to X_1. Thus general equilibrium is restored at the points A', B', C', and D' on the respective schedules.

The key to the shifting of the incidence of protection is therefore demonstrated. The tariff has raised the relative price of importables (relative to home goods). But general equilibrium also requires that the price of home goods rises. Since the internal price of exportables is fixed (by the price takers condition) then protection has the inevitable consequence of lowering the relative price of exportables (relative to home goods). It is in this sense that protection 'taxes', that is works to the disadvantage of, exporters.

3.2.1 Deriving the Incidence or Shift Parameter

The effect of the tariff on imports and the raising of the absolute price of importables must also be to raise the price of importables relative to exportables $\frac{P_m}{P_x}$. Indeed the slopes of the dotted lines from the origin to A and A' in quadrant IV show this relative price at the initial and new equilibrium positions. Thus :-

$$\tan \beta - \tan \alpha = \Delta\left[\frac{P_m}{P_x}\right] \quad \text{............................ Equation 3.3}$$

The extent to which this decline in the relative price of exportables 'taxes' exportables depends on the extent of the rise in the price of home goods and the resulting change in the real value of exports. As we illustrated in the previous section the larger the increase in home goods' prices relative to exportables $\Delta\left[\frac{P_h}{P_x}\right]$ the greater the shifting of the burden on the exporters, and vice versa. In terms of Fig. 3.1 the increase in $\frac{P_h}{P_x}$ for any given change in Pm increases as the home goods schedule becomes flatter (shown as $\frac{P_x}{P_h}$ declines in the diagram). Thus:-

$$\Delta\left[\frac{P_h}{P_x}\right] = w\,\Delta\left[\frac{P_m}{P_x}\right] \quad \text{equation 3.4}$$

if price ratios are initially unity where

w = shift or incidence parameter

(or in continuous terms):-

$$\hat{P}_h - \hat{P}_x = w\,(\hat{P}_m - \hat{P}_x) \quad \text{equation 3.5}$$

$0 \leqslant w \leqslant 1$

As long as there is no complementarity between home goods, importables and exportables then w will be non-negative and unity or less. In other words the price of home goods will never fall with the imposition of a tariff and will not increase by more than the rise in the price of importables. Where importables and home goods are close substitutes in demand and production, the proportionate increase in home goods (relative to exportables) will tend towards the proportionate increase in the price of importables (relative to exportables) and w will tend towards unity. Alternatively w will tend toward zero if home goods and exportables are close substitutes and there is a small proportionate increase in the price of home goods. The extent of the shifting of the incidence of protection on to exportables is therefore directly related to the value of w; the higher is w the greater the shifting effect. (See the previous section for details of numerical example, and estimates of alternative shift parameter (w) values).

3.2.2 Measuring True Tariffs and Subsidies

We are now in a position to demonstrate precisely the impact of nominal tariffs, subsidies and the shift or incidence coefficient on the true tariff and subsidy rate. If we reconsider initial equations 3.1 and 3.2 in the first section for the case where there is a uniform nominal tariff structure. Thus :-

$$t^* = \Delta\left[\frac{P_m}{P_h}\right] \quad \text{.............................. equation 3.1}$$

$$= \frac{P_m^\circ \;(1+t)}{P_h^\circ \; w(1+t)} - \frac{P_m^\circ}{P_h^\circ} \quad \text{........................ equation 3.6}$$

if $\dfrac{P_m^\circ}{P_h^\circ} = 1$

then $t^* = \dfrac{(1+t)}{w(1+t)} - 1 = \dfrac{(1-w)t}{1+w\,t}$ .... equation 3.7

where t = nominal tariff rate

w = shift or incidence parameter.

Since $0 \leqslant w \leqslant 1$ then $t^* \geqslant 0$. Note that when $w \rightarrow 1$, home goods and importables are close substitutes and import protection is virtually impossible (i.e. $t^* \rightarrow 0$). Note also that for values of w greater than the unlikely value of zero then $t^* < t$.

Conducting a similar exercise for the true subsidy rate we see that:-

$$s^* = \Delta\left[\frac{P_x}{P_h}\right] \quad \text{.............................. equation 3.2}$$

$$= \frac{P_x^\circ}{P_h^\circ \; w(1+t)} - \frac{P_x^\circ}{P_h^\circ} \quad \text{.................... equation 3.8}$$

if $\dfrac{P_x^\circ}{P_h^\circ} = 1$

then $s^* = \dfrac{1}{w(1+t)} - 1 = -\dfrac{wt}{1+wt}$ .... equation 3.9

Thus for the case where there is no countervailing export subsidy then $s^* < 0$ for values of $0 \leqslant w \leqslant 1$. Only for the unlikely value of w = 0 does s = 0.

It may of course be more appropriate to reframe the analysis for the case where a country simultaneously uses import duties and export subsidies. (Again we will assume uniform rate structures.) Examination of equations 3.5 and 3.7 shows that what happens to the price of home goods has a critical influence on the true rates. The proportionate increase in the price of home goods ($\dot{P}_h$) following the imposition of an import tariff and export subsidy is composed of two elements; that part of the increase shifted on from the rise in the price of importables due to the tariff (wt) and that part of the increase shifted on from the domestic price of exportables due to the subsidy ((1-w) s). That is :-

$$\dot{P}_h = wt + (1-w)\, s \quad \text{.......................... equation 3.10}$$

where t = nominal tariff rate

s = nominal rate of subsidy

w = shift or incidence parameter

If t = s, we have the result that $\dot{P}_h = t = s$; the prices of all goods (tradeables and non-tradeables) have risen by the same proportion and no sector is protected because relative prices are unaltered.

The case where $t > s$ is probably of more empirical relevance. The division of net (true) protection now depends only on the value of w. The policy makers can set the extent to which actual or nominal t exceeds nominal s but they cannot influence the final relative price structure and therefore the true tariff and subsidy; this is determined entirely by substitutional relationships in the economy which are dependent on preferences and technological characteristics.

We might expect w to be between zero and unity given the degree of substitutability that might be expected between the production of distinct sectors. However, consideraton of the impact of extreme values for w in equation 3.10 is instructive. If w = 0 then $\dot{P}_h = s$, home goods and exportables are such close substitutes that their relative prices cannot be altered. Since $t > s$ (by assumption) the positive net protection ($t^* > o$) for importables is paid for equally by exporters and producers of home goods.

Note that the true tariff is however less than the nominal tariff because the price of home goods has risen. This can be shown by incorporating the effects of a nominal subsidy into our definition of the true tariff rate. If we substitute equation 3.10 into equation 3.7:-

$$t^* = \frac{t - \dot{P}_h}{1 + \dot{P}_h} \quad \text{.......................... equation 3.11}$$

If $P_h > o$ then $t^* < t$. Similarly by substituting equation 3.10 into equation 3.8 we can define the true subsidy rate for the tariff-cum-subsidy case :-

$$s^* = \frac{s - \dot{P}_h}{1 + \dot{P}_h} \quad \text{.......................... equation 3.12}$$

If $w = 0$ and $\dot{P}_h = s$ then $s^* = 0$. By contrast if $w = 1$ equation 3.7 establishes that $\dot{P}_h = t$; home goods and importables are such close substitutes that P_m/P_h cannot be altered. Since $\dot{P}_h$ $(=t) > s$ (by assumption) then the entire burden of protection falls on exporters; from equation 3.12 we can see that this means that the s (true subsidy) is negative. But since $\dot{P}_h = t$ equation 3.11 establishes that where $w = 1$ t^* is zero. If w is equal or near to unity therefore net protection of importables (relative to home goods) is virtually impossible; an import duty serves only as an export tax (= negative export subsidy).

From this examination of its possible extreme values we can give a clear intepretation to the incidence coefficient (w). It is that part of net protection in the tariff-cum-subsidy case that is borne as an implicit tax by exporters.

3.2.3 Summary

1) Protection of one sector in an economy can only be achieved relative to other sectors. Thus if one protects one sector, some other sector is inevitably disadvantaged.

2) In an economy where there are importable, exportable and home goods sectors, protection of the importable sector inevitably imposes costs on the other two sectors.

3) The proportion of the costs of protection which is shifted to the exportable sector depends on whether home goods are closer substitutes for importables or for exportables.

4) When home goods are close substitutes for importables, a large proportion of the costs of protection will be borne by the export sector. If home goods and exportables are close substitutes, the costs of import protection will be shared by these two sectors.

5) Since import protection constitutes, to some degree, an export tax, true protection will inevitably be less than nominal protection.

6) Since import protection constitutes, to some degree, an export tax, subsidies to the export sector may do no more than offset the disincentive effects of import protection.

3.3 Empirical Analysis of the Shifting of Protection in Mauritius

3.3.1 Methodology and Results

The theoretical discussion of the previous sections outlined the a priori reasons for the possibility that the costs of protecting the import substitute sector may be shifted in large measure to the export sector. The extent to which import tariffs and quotas confer true protection to the import substitute sector of any economy, and the extent to which they constitute an export tax, depends entirely on substitutional relationships between the import substitute sector, the non-traded (or home goods sector), and the export sector. In practice one cannot directly observe such substitutional relationships. It is possible however to discern the implications of protection via its effects on relative prices. In other words one can evaluate the shifting of import protection by reference to the change in import prices, export prices and the prices of non-traded goods through time. Futhermore, shifting analysis also allows us to comment on the effects of subsidies to export related activities and to comment on the extent to which these may merely offset the export tax element of import protection.

Shifting analysis, from an empirical standpoint, has potentially important applications to the case of Mauritius. Industrial policy over the past 15 years or so has helped create distinct import substitute, export and home goods sectors. Furthermore the ability to claim a Development Certificate (DC) or Export Processing Zone (EPZ) status provides, in nominal terms anyway, different incentives for different activities. If a potential investor intends to compete with imports on the domestic market he may apply for a DC. If granted, this generally confers upon him some degree of import protection (which in many cases is total). If on the other hand the investor plans to produce for the export market, he can obtain EPZ status and benefit from the incentives listed in Appendix 1. From a policy perspective what is important is not the apparent (or nominal) incentives which are available, but the <u>relative</u> incentives. Thus a potential investor does not consider the incentives offered to EPZ status in a vacuum; rather he will tend to evaluate these incentives relative to those associated with DC status, or those associated with investing in the service sector. From an empirical standpoint the attraction of shifting analysis is that it can offer insights into these issues.

3.3.2 Data, Sample and Time Period

Shifting analysis is fundamentally an evaluation of the effects of (import and export) protection on relative prices. The principal data input, as we can see from Equation 3.5, is price index data on importables, exportables and non-traded goods, more specifically data on Mauritian prices of each of these activities. Some countries do prepare alternative price series for importables and exportables and sometimes even non-traded goods, this however is not the case where Mauritius is concerned. Price data, in the form of the Consumer Price Index, (CPI) is extensive and comprehensive. The index covers most items of consumer expenditure.

Unfortunately sub-indices are not provided. Since however details of the sub-groups of the CPI were available, and furthermore since specific price data were available by sub-group, it proved possible to compute composite price indices for importables, exportables and home goods. Details of the component elements of each composite price index are provided below. Before these are discussed however some comment needs to be made on time periods.

3.3.3 Time Periods for Analysis

It was hoped that data would be available from the late 1960s through the early 1980s. In any time series analysis directed at evaluating the effects of policy a time period which is sufficiently long to permit the possible effects of policy to be manifested is clearly desirable. In the Mauritian context it is especially interesting since the period covering the late 1960s through to the early 1980s spans several policy regimes. Prior to 1971 the DC system was the principal instrument of industrial policy. With the introduction of the EPZ in 1971 the direction of policy shifted somewhat towards the export sector. By contrast the later part of the 1970s has witnessed a gradual, insidious change in emphasis back towards import protection, (and away from export promotion), with the addition of a variety of supplementary import duties. This period, especially the latter years of the 1970s and early 1980s, is therefore potentially of great interest.

Reliable consumer price data are available back to 1962. The series is not however continuous. The data fall into three distinct sub-periods:

a) January 1962-June 1976;
b) July 1976-December 1982; and
c) January 1983-present.

The base year for each of these sub-periods differs (being January 1962, January to June 1976, and July to December 1981 respectively).

Furthermore the composition of each basket is different as are the weights associated with specific items. To complicate matters further indices for the post 1976 period are compiled at the Section and sub-section levels of aggregation. By contrast, in the pre-1976 period indices are only compiled at the Section level (although raw data for computation of indices at the sub-group level were available). Given these data constraints it was decided to work with two sub-periods, viz, January 1969-June 1976 and July 1976-December 1982, with particular emphasis being placed on the latter given the greater reliability of data and its greater potential significance from a policy standpoint. This satisfied the objective of covering the changeovers of policy regimes. Since the data being used were monthly data it provided an adequate number of observations for each sub-period (78 for the later period and 86 for the earlier period) from a technical standpoint, splitting the period into two sub-periods avoided the possibility of introducing further biases into the series via re-basing without re-assignment of weights.

3.3.4 Elements of Composite Price Indexes

In the absence of separate price indices for importables, exportables and non-traded goods, composite indices for each were compiled following careful perusal of the Survey of Consumer Expenditure, import, export and production data for both sub-periods.

3.3.4.1 Importables

Importables refer to a category of actually (or potentially) traded goods which are imported and for which a domestically produced import substitute exists. In terms of a simple neo-classical trade model, this would refer to the commodity (commodities) in which the country in question enjoyed a comparative disadvantage in production. The components of the price index of importables for Mauritius are shown in the top panels of Tables 3.2 and 3.3. Both indices include five commodities which are unambigously importables, and which enjoyed some degree of import protection. Since the consumer price index changed in January 1969 there is one minor difference between the two 'baskets', namely the absence of footwear from the index in the earlier period. No sub-group or item which clearly applied to footwear existed for the earlier period and it therefore had to be omitted. Apart from this the two series are identical. (It might be noted parenthetically that a price index for importables covering five specific items of consumer expenditure exceeds the number of items used in previous work (see Sjaastad and Clements 1981).)

3.3.4.2 Non-Traded/Home Goods

In designing the composite index for home goods, the guiding objective was the need to select items of consumer expenditure for which no actual or potential trade exists. Most commentators tend to focus on the output of the service sectors when discussing non-traded goods. This convention has recently been challenged since in countries which have contiguous frontiers a substantial amount of trade in services may occur across these frontiers (see Blackhurst 1983). Since Mauritius is an island economy and since furthermore there is a substantial distance between Mauritius and other islands this is not a problem and the use of services in the index of home goods is permissible. The items included in the home goods index are listed in the centre panels of Tables 3.2 and 3.3. Again there are five items in each composite index, (it is worthwhile noting that by comparison with earlier work this is also an extensive sample). As with the index of importables the components for each period are virtually identical.

3.3.4.3 Exportables

Of all the indices, exports provided the most interesting problems. It is well known that the principal export from Mauritius for a great many years has been unrefined sugar, (and recently an increasing amount of refined sugar). This one might refer to as a 'traditional export'. One of the principal objectives of industrialisation is of course to lessen dependence on this primary commodity and diversify into manufactured exports which (inter alia) can provide more stable export earnings - in other words to diversify into 'non-traditional exports'. From the standpoint of shift analysis it is more interesting to consider shifting to the non-traditional export sector than the traditional export sector. Traditional exports (sugar) are land intensive. There are limited opportunities for substitution away from sugar production into non-tradeables and importables, and although shifting will take place, a priori one would expect it to ultimately affect rental values on land. In other words shifting may impose a burden on sugar producers, since however the resources used intensively in sugar production cannot be re-deployed into importable or home goods production there will be limited substitution, it may nevertheless be of interest to examine the shifting which occurs with respect to traditional exports, not least since import protection is reinforced by an explicit export tax. Our principal interest however must be in non-traditional exports, i.e. manufactured exports. Here the resources which are used intensively in production can be re-deployed to other activities. Thus import protection can be expected to draw resources from the export sector into the import substitute or home goods sector to a greater extent than would be the case with traditional exports. Since our overall objective is to evaluate the way in which the existing package of incentives has affected prospects for industrialisation and export promotion this is clearly the principal focus of interest.

Three price indices of exportables were constructed, two for traditional exports and one for non-traditional exports. In the case of the former it was not possible to use the consumer price index for sugar since this refers to refined sugar and since, furthermore, its domestic price is rigidly controlled. Instead a proxy for the export price was used, namely an export unit value series for sugar. This series was constructed from Mauritian f.o.b. value and quantity data. Unfortunately however these data were only available on a quarterly basis, which restricted the number of observations available. Furthermore, shift factors for traditional exports could only be estimated for the 1976-82 period. Export unit values for 1973, 1974 and 1975 were distorted by the sugar price boom which occurred then. The loss of these observations (with quarterly data) resulted in an insufficient number of observations for meaningful analysis. Since the principal focus of analysis is the 1976-82 period this is not unduly worrying. Nevertheless to reinforce the analysis for the second period, a second index of traditional exports was deployed, namely an index of unit values for sugar and tea.

One final point is worth noting. Export unit values are rightly regarded with suspicion when used as proxies for prices of manufactured commodities. They are extremely sensitive to changes in product composition and product quality. As we are dealing here with primary commodities which are homogenous this is not seen as being a particular problem.

As Mauritius is an industrialising economy, the number of non-traditional exports is perforce limited. There is however one commodity where Mauritius unambiguously enjoys a comparative advantage and which is clearly a manufactured exportable, namely ready-made clothing. Close and careful inspection of production, trade and consumer price da' revealed that this in fact was the only manufactured export for which reliable and comprehensive data existed for both sub-periods. Consequently the price index for exportables was taken as the price index for ready-made clothing for both periods. The only differences between the two periods (as can be seen in the lower panels of Tables 3.2 and 3.3) is that the index comprises three sub-groups in the earlier period, but is unified into the same sub-group in the later period.

3.3.5 Specification, Estimation and Results

Multivariate regression analysis was deployed in order to estimate the shift coefficients. A variety of specifications were tested using several estimation techniques.

Those readers who are not interested in the technical details of the econometric analysis can proceed directly to the discussion of the results (Section 3.3.7) with no loss in continuity.

3.3.6 Shifting to Non-Traditional Exports

Section 3.2 outlined the theoretical model of shifting. Equation 3.5 summarised the shift factor as:

$$\hat{P}h - \hat{P}x = w\,(\hat{P}m - \hat{P}x) \quad \ldots\ldots\ldots\ldots\ldots\ldots \text{ equation 3.5}$$

Given time series data on prices of home goods (Ph), importables (Pm) and exportables (Px), equation 3.5 can be estimated as a linear regression equation of the generalform.

$$\frac{Ph}{Px} = a + b\,\frac{Pm}{Px} + u \quad \ldots\ldots\ldots\ldots\ldots\ldots \text{ equation 3.13}$$

(where u is a stochastic disturbance term)

Since we are interested in the proportionate extent to which the price of home goods rise (relative to the price of exportables), following an increase in the price of importables (relative to exportables) the appropriate general functional form is double logarithmic, viz.,

$$\log\,(Ph/Px) = a + b\,\log\,(Pm/Px) + u \quad \ldots\ldots\ldots\ldots\ldots\ldots \text{ equation 3.14}$$

If log (Ph/Px) is regressed on log (Pm/Px), the estimated coefficient b provides an estimate of the shift coefficient (w in equation 3.5).

Table 3.4 reports the results of estimating equation 4 using ordinary least squares (OLS) methods. Equation (1) in Table 3.4 reports the coefficient estimates and summary statistics for the 1976-82 sub-period whilst equation (2) refers to the sub-period 1969-76. As is clear from the estimates of b, these results suggest that for both sub-periods around two-thirds of the cost of protection is shifted to the export sector in Mauritius. Interestingly these figures are similar to those reported for a variety of Latin American industrialising economies (see Table 3.8). There is clear evidence however that the residuals in both equations are autocorrelated. Durbin-Watson statistics of 0.36 (for 1976-82) and 0.21

(for 1969-76) are consistent with positive autocorrelation in both series. Since we are dealing with monthly price observations this was to be expected.

In order to correct for autocorrelation two alternative estimation procedures were followed, namely estimation using the generalised shift model, and estimation using the Cochrane-Orcutt procedure. Both procedures commence from the assumption that the autocorrelation takes the form:

$$u_t = r u_{t-1} + e_t \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{ equation 3.15}$$

where, $-1 < r < 1$

and, $E\left[e_t \mid U_{t-1}\right] = 0$

that is, we are dealing with a first-order auto regressive scheme. Most methods of adjusting for autocorrelation are two stage procedures. The first stage results in an estimate of r, this is then used to adjust equation 3.13 to the estimated equation:

$$(\text{Log } Ph/Px - \hat{r}\ [\log Ph/Px_{-1}\ ]) =$$

$$a\ (1-\hat{r}) + b\ (\log Pm/Px - \hat{r}\ [\log Pm/Px_{-1}\ ]) \ \ldots\ldots\ldots \text{ equation 3.16}$$

Equation 3.16 then becomes the general estimating equation. Two procedures for the estimation of $\hat{r}$ were followed, estimation from the Durbin-Watson statistic reported in the OLS results; and estimation using the Cochrane-Orcutt procedure.

3.3.6.1 Durbin-Watson Estimation

The Durbin-Watson statistic (d) can be defined as:

$$d = \frac{\sum (e_t - e_{t-1})^2}{\sum e_t^2} \quad \ldots\ldots\ldots\ldots\ldots\ldots \text{equation 3.17}$$

i.e. the ratio of the sum of squared differences in successive residuals to the residual sum of squares. This can be expanded to:

$$d = \frac{\sum e_t^2 + \sum e_{t-1}^2 - 2\sum e_t e_{t-1}}{\sum e_t^2} \quad \ldots\ldots\ldots \text{equation 3.18}$$

Since e_t^2 and e_{t-1}^2 are approximately equal, we could write 3.18 as

$$d \simeq 2\left(1 - \frac{\sum e_t e_{t-1}}{\sum e_t^2}\right) \quad \ldots\ldots\ldots \text{equation 3.19}$$

Since we can define r as

$$r = \left(\frac{\sum e_t e_{t-1}}{\sum e_t^2}\right) \ldots\ldots\ldots\ldots\ldots\ldots \text{equation 3.20}$$

it follows that,

$$d \simeq 2(1-\hat{r}) \quad \ldots\ldots\ldots\ldots\ldots\ldots \text{equation 3.21}$$

and therefore,

$$\hat{r} \simeq 1 - \frac{d}{2} \quad \ldots\ldots\ldots\ldots\ldots\ldots \text{equation 3.22}$$

substituting the values of d reported in Table 3.4 into 3.22 and substituting $\hat{r}$ into equation 3.16 allows us to estimate the shift coefficient whilst adjusting for autocorrelation. The results of deploying this procedure are discussed below.

3.3.6.2 Cochrane-Orcutt Estimation

In equation 3.15 we defined first order autocorrelation as:

$$u_t = ru_{t-1} + e'_t$$

Cochrane-Orcutt (1949) suggest that one can estimate the unknown r from the OLS residuals as follows:

$$e_t = r^*e_{t-1} + e'_t$$

i.e. one regresses the lagged values of the residuals on their OLS values, using the estimated coefficient on the lagged values as an estimate for r. This is then substituted into equation 3.16 to facilitate estimation of equation 3.16.

3.3.7 Estimated Equations for the 1976-82 Period

3.3.7.1 Non-Traditional Exports

Table 3.5 reports the results of the econometric analysis for the 1976-82 period where exports are taken to be manufactured (or non-traditional) exports. Equations (1), (2) and (3) in table 3.5 were estimated using the Cochrane-Orcutt procedure, whilst equations (4), (5) and (6) resulted from generalised shift estimation (using the Durbin two stage procedure to estimate $\hat{r}$). Equations (1) and (4) are estimates of equation 3.16 above, i.e. of the model

$$(\log Ph/Px-\hat{r}\ [\text{Log } Ph/Px_{-1}] = a\ (1-\hat{r}) + (b \log Pm/Px-\hat{r}\ [\text{Log } Pm/Px_{-1}\ ]) + u$$

Estimates of the coefficients b are therefore estimates of the shift factor. As can be seen from the estimates of b in (1) and (4) the shift factor is almost identical in both models. These estimates are lower than those reported above using the OLS methodology but they nevertheless suggest that 59% of the cost of protection is shifted to the export sector. In both models the estimated coefficient is statistically significant at the 1% level. The overall explanatory power is reasonably good (with an $\bar{R}^2$ of 0.42). Finally with DW statistics of 2.23 and 2.25 the null hypothesis of no positive or negative serial correlation cannot be rejected.

In order to explore the robustness of the estimated shift coefficient additional explanatory variables were included, namely $[\text{Log } Pm//Px]^2$ and $(\text{Log } Ph/Px_{-1})$. The former variable may indicate whether there are non-linearities in the relationship, whilst the latter may indicate something about speed of adjustment, (of the prices of home goods relative to imports). The full estimating equation therefore becomes:

$$(\text{Log } Ph/Px - \hat{r}\,[\log Ph/Px_{-1}]) = a\,(1-\hat{r})$$

$$+ (b \log Pm/Px - \hat{r}\,[\text{Log } Pm/Px_{-1}])$$

$$+ c\,([\log Pm/Px]) + d\,(\log Ph/Px_{-1})$$

The results of estimating this equation and (a truncated version) we report in Table 3.5 as equations (2) (3) (5) and (6). In the event none of the estimates of c or d turn out to be statistically significantly and the overall explanatory power of the model alters little. What is striking however is the impressive stability of the shift coefficient. Its value increases to around .66, (which it will be recalled was the estimated OLS value) and is almost identical across all four equations, all of these coefficients are significant at the 1% level and the D-W statistics again mean that the null hypothesis of no autocorrelation cannot be rejected.

The results reported in Table 3.5 are most encouraging. The stability of the value of the shift coefficient across specifications and estimation techniques is impressive and indicates that one can conclude with some confidence that between 59% and 66% of the cost of protection in Mauritius is shifted to non-traditional exports. Even if one only takes the lower estimate this is consistent with manufactured exports bearing a considerable burden and will certainly influence incentives to invest in that sector. (We will discuss the policy implications of these results more fully below).

3.3.7.2 Traditional Exports

Since we are essentially concerned with the effects of industrial policy the application of shifting analysis to traditional exports is of less significance. It is nevertheless of some interest. Table 3.6 reports the outcome of estimates using indices for sugar, and for sugar and tea. For brevity only the OLS and Cochrane-Orcutt results are reported, (the results for the generalised shift estimation were very similar to those for Cochrane-Orcutt). Our principal interest again is in the estimated values of the b coefficient. The range for the estimated b coefficents is greater than with manufactured exports, but all estimated coefficents are significant at the 1% level. Two features of the estimated coefficients are of particular interest. First, all of their values are in excess of the estimated coefficients for manufactured exports - every coefficient except one exceeds .80. This suggests that shifting is greater for traditional exports which is in fact what one would expect. After all what the coefficients are telling us is that there is very limited substitution possibilities between home goods and traditional exports - given the factor inputs of the latter this is entirely plausible. As a consequence when protection raises the prices of home goods and importables, the bulk of the burden is borne by the export sector. Furthermore producers of manufactured exports benefit from a variety of subsidies which to some extent offsets the effects of protection and lowers their burden relative to traditional exporters.

The second feature of these estimates which is notable is that in two cases, (equations 3 and 4) the estimated value of the b coefficient exceeds unity. At first sight these appear to be implausible estimates since, as we saw in Section 3.2, the shift coefficient is hypothesised to lie in the interval $0 \rightarrow 1$. It seems entirely implausible to suggest that more than 100% of the burden can be shifted. It is notable however that a shift coefficient in excess of unity only appears for sugar and it is likely that this is an outcome of the export tax on sugar which can be expected to drive down the domestic price of sugar. If simultaneously the prices of importables and home goods are driven up as a consequence of import protection, this would manifest itself in estimated shift coefficients in excess of unity.

As a final comment on the results for traditional exports it might be noted that $\bar{R}^2$ are consistently high and the D-W statistics suggest that autocorrelation is not a problem.

3.3.8 Estimated Equations for the 1969-76 Period

We noted above that data limitations for the 1969-76 period were more problematic, in particular for traditional exports. In fact no equations could be estimated for traditional exports for this period. As we have emphasised at several points however since we are concerned with evaluating the effects of industrial policy our principal focus has to be on non-traditional exports, and an inability to estimate equations for traditional exports for the earlier period is not a serious shortcoming.

Equations were estimated for manufactured exports using OLS, Cochrane-Orcutt and generalised shift procedures. Table 3.7 summarises the Cochrane-Orcutt results. Again the estimated shift coefficients are of central interest. The first feature of these coefficients which is notable in that the difference between the Cochrane-Orcutt and OLS estimates are greater than was the case for the 1976-82 period. This clearly suggests that autocorrelation is more of a problem in the 1969-76 period than in the 1976-82 period. Nevertheless in two of the three equations coefficient estimates suggest that close to 50% of the cost of protection was shifted to the export sector. These estimates are statistically significant at the 1% level and the D-W statistics are consistent with an assumption of no first order autocorrelation.

$\bar{R}^2$ is lower for all equations than in the 1976-82 period, which is also consistent with autocorrelation in the OLS model being more of a problem in the earlier period, but they are still tolerable. From the standpoint of evaluating industrial policy the contrast between the estimated shift factors between the 1976-82 periods appears to indicate that the burden of protection which is borne by exporters has increased.

3.4 Evaluation of Results

The results of this econometric analysis provide a number of important insights into the effects of industrial and commercial policy in Mauritius over the 1969-82 period.

1. Protection of import substitution activities in Mauritius imposes a significant burden on the export sector.

2. The extent of this burden may be as high as 66% for the exporters of manufactures and close to 100% for exporters of sugar and tea.

3. Where the manufacturing export sector is concerned this burden appears to have increased through time, from just under 50% in the first half of the 1970s to up to 66% in the second half of the 1970s, early 1980s.

4. Any incentives provided to producers of manufactures for export only serve to offset in part the disincentives associated with import protection.

5. Given the magnitude of the estimated shift coefficients it is inevitable that industrialisation through development of the export sector is being adversely affected by a highly protected import substitute sector.

The importance of these results should not be underestimated. They suggest that there is inconsistency in the deployment of policy instruments. A variety of incentives is provided as inducements to potential investors in the export sector (or EPZ). In practice however these appear to do little more than offset to some extent the disincentives to invest in that sector which are provided by the protection conferred on the import substitute sector. Furthermore the incentives to exporters have remained unchanged for a considerable period of time whilst the protection conferred on the import substitute sector, (and hence incentives to invest in that sector/disincentives to invest in exporting), have increased. The net effect of this has probably been to induce resources into import competing activities rather than export activities. Not only does this result in resource misallocation in a static sense, in a dynamic context it provides limited opportunities for industrialization.

Table 3.2

COMPONENTS OF COMPOSITE PRICE INDEXES 1976-82

Price Index	Consumer Price Index Reference Numbers		Commodity Description
	Group	Sub-Group	
Importables	1	11	Alcoholic Beverages and Intoxicants
	3	03	Furniture and Furnishings
	3	04	Household Appliances and Utilities
	4	02	Clothing Materials
	4	03	Footwear
Non-Tradeables	3	05	Household Services
	4	05	Miscellaneous Clothing Services
	5	01	Medical Care
	5	03	Education and Reading
	5	05	Recreation and Amusement
Exportables	4	01	Ready-Made Clothing

Table 3.3

COMPONENTS OF COMPOSITE PRICE INDICES 1969-76

Price Index	Consumer Price Index Reference Numbers		Commodity Description
	Group	Sub-Group	
Importables	0	05	Furniture
	0	06	Furnishings
	0	07	Household Appliances
	2	20	Alcoholic Drinks
	3	33	Cotton Yarns
Non-Tradeables	0	04	Household Operations
	3	35	Shoe Repairs
	4		Medical Care
	7	70	Education and Reading
	8	05	Entertainment
Exportables	3	30	Men's Ready-Made Clothing
	3	31	Women's Ready-Made Clothing
	3	32	Children's Ready-Made Clothing

Table 3.4

ESTIMATION OF SHIFT COEFFICIENTS IN MAURITIUS:
ORDINARY LEAST SQUARES ESTIMATION

Eq.No.	a	b	$\bar{R}^2$	DW	N	Period	Data	Exportables
(1)	0.0153	0.6636	0.83	0.36	78	1976-82	Monthly	Manufactures
	(5.63)*	(18.99)*						
(2)	-0.0324	0.6724	0.83	0.21	86	1969-76	Monthly	Manufactures
	(10.76)*	(19.93)*						

Notes: * Statistically significant at the 1% confidence level

(t values in parenthesis)

Table 3.5

ESTIMATION OF SHIFT COEFFICIENTS IN MAURITIUS 1976-1982: COCHRANE-ORCUTT AND GENERALISED SHIFT ESTIMATES

Eq. No.	a	b	c	d	$\bar{R}^2$	DW	N	Estimation Procedure	Data	Exportables
(1)	0.0036 (2.81)*	0.5895 (7.45)*			0.42	2.25	78	CO	Monthly	Manufactures
(2)	0.0041 (2.93)*	0.6535 (6.12)*	-0.2238 (-0.89)		0.42	2.31	78	CO	Monthly	Manufactures
(3)	0.0034 (1.82)	0.6571 (6.10)*	-0.3428 (-0.96)	0.0211 (0.47)	0.41	2.36	78	CO	Monthly	Manufactures
(4)	0.0367 (2.87)*	0.5903 (7.54)*			0.42	2.23	78	GS	Monthly	Manufactures
(5)	0.0419 (2.98)*	0.6567 (6.12)*	-0.2306 (-0.91)		0.42	2.30	78	GS	Monthly	Manufactures
(6)	0.0348 (1.81)	0.6604 (6.12)*	-0.3681 (-1.02)	0.0246 (0.54)	0.42	2.36	78	GS	Monthly	Manufactures

Notes: CO Cochrane-Orcutt Estimation

GS Generalised Shift Estimation

* Statistically significant at the 1% confidence level

(t values in parenthesis)

Table 3.6

ESTIMATION OF SHIFT COEFFICIENTS IN MAURITIUS, TRADITIONAL EXPORTS 1976-82: OLS AND COCHRANE-ORCUTT ESTIMATES

Eq. No.	a	b	c	d	$\bar{R}^2$	D-W	N	Estimation Procedure	Data	Exportables
(1)	0.0082	0.7171			0.86	0.80	26	OLS	Quarterly	Sugar
	(1.89)	(12.29)*								
(2)	-0.0019	0.8643			0.88	1.74	26	CO	Quarterly	Sugar
	(-0.46)	(13.28)*								
(3)	0.0012	1.10171	-1.5692		0.92	2.58	26	CO	Quarterly	Sugar
	(0.53)	(12.49)*	(-3.39)*							
(4)	0.0039	1.036	-1.0156	-0.0754	0.92	2.45	26	CO	Quarterly	Sugar
	(1.19)	(9.82)*	(-1.61)	(-1.19)						
(5)	0.023	0.8303			0.95	1.12	26	OLS	Quarterly	Sugar and Tea
	(1.05)	(41.14)*								
(6)	0.0000	0.8543			0.97	1.87	26	CO	Quarterly	Sugar and Tea
	(0.00)	(28.82)*								
(7)	0.0015	0.8810	-0.2118		0.97	1.93	26	CO	Quarterly	Sugar and Tea
	(0.56)	(20.53)*	(-0.87)							
(8)	0.0009	0.9432	0.0933	-0.1035	0.98	1.55	26	CO	Quarterly	Sugar and Tea
	(0.43)	(23.73)*	(0.42)	(-3.37)*						

Notes: OLS Ordinary Least Squares Estimation

CO Cochrane-Orcutt Estimation

* Statistically significant at the 1% confidence level

(t values in parenthesis)

Table 3.7

ESTIMATION OF SHIFT COEFFICIENTS IN MAURITIUS 1969-76: COCHRANE-ORCUTT ESTIMATES

Eq. No.	a	b	c	d	$\bar{R}^2$	D-W	N	Data	Exportables
(1)	0.0005	0.4785			0.30	2.02	86	Monthly	Manufactures
	(0.57)	(4.52)*							
(2)	-0.0002	0.4690	0.0966		0.30	2.03	86	Monthly	Manufactures
	(-0.20)	(4.41)*	(1.04)						
(3)	-0.0002	0.3327	0.6879	-0.1463	0.26	1.90	86	Monthly	Manufactures
	(-2.04)	(2.99)*	(3.15)*	(-2.97)*					

Notes: * Statistically significant at the 1% confidence level

(t values in parenthesis)

APPENDIX 4

4. COMMERCIAL POLICY IN MAURITIUS

4.1 The Choice of a Strategy for Commercial Policy

4.1.1 Background

Of all the external constraints on development and industrialisation in Mauritius, the pattern of foreign trade is among the most important. Appendix 1 shows how the present form of commercial policy has emerged to form a particular "mixed strategy". The introduction of DC status initially by Mauritius represented an "inward-looking" strategy for industrialisation based on import substitution. Subsequently the granting of EPZ status represented a shift towards a more "outward-looking" strategy based on the promotion of exports. Significantly however the legislation and incentives of the "inward-looking" elements of the policy remained intact. The results reported in Appendix 3 have shown the objectives of this type of "mixed strategy" to have been inconsistent to a considerable extent. The simultaneous use of incentives to import substitute and export promote is largely counterproductive. Protection of import substitute activities tends to "disprotect" export industries while promotion of exports tends to "dispromote" import-competing firms; the net change in the relative incentives for investing in each type of activity is much less than the Mauritian Government intends or desires.

If industrialisation in Mauritius is constrained therefore by this type of "mixed strategy" for its commercial policies, then the Government needs now to revise or clarify its broad strategy for trade policy. It needs to make a choice about the emphasis of its long term strategy; a choice between industrialisation based substantially on export promotion or on import substitution. The shift analysis in Appendix 3 demonstrates that the (true) protection of import substitutes would be much more effective if the subsidisation of EPZ industries was reduced. Alternatively the promotion of EPZ firms would be more effective if the incentives given to DC firms were lowered. Clearly either the same relative effects on each sector could be achieved at less "cost" (foresaken tax, import revenue etc) to the Government, or the relative effects could be modified by the Government for example by spending more to give greater incentives to export promotion. But the real conclusion of this study is that the positive effects of the incentive structure (at the same or lower "cost" to Government) would be significantly enhanced by changing the mix of commercial policy strategy; there are strong grounds for recommending that in the case of Mauritius change should be towards a strategy more clearly based on export promotion.

4.1.2 The Problems of Import Substitution

Although economists can devise arguments for protection based on efficiency considerations, governments in Mauritius, like in many developing countries, have adopted import-substitution policies for the attractive motives of simultaneous industrialisation and balance of payments/foreign exchange support. The presence of domestic demand in Mauritius for consumer goods gave an apparently simple rationale for industrialisation based on the replacement of imported finished goods. By importing components and engaging in final assembly processes, governments hoped presumably to "industrialise from the top downward" through the ultimate production of intermediate and capital goods.

But the simultaneous pursuit of balance of payments and foreign exchange policies via a host of trade policy instruments (tariff, quotas, etc), especially from the later 1970s onwards in Mauritius and adopted in an ad hoc and administratively discretionary manner, has not produced a rational and consistent system of import protection. Inter-industry and commodity variations in the importance (determined by technological conditions or administrative decisions) of nominal tariffs and quantitative restrictions on final and intermediate goods, has produced very high and varying rates of effective protection (see Appendix 2). The variations in effective protection and escalation towards final assembly stages are not conducive to "industrialisation from the top down", while the general height of the effective protective rates imposes costs (the embedding of inefficiencies and inflationary conditions for instance) and price distortions in goods and factor markets which in turn impose costs on the traditional and non-traditional export sectors.

Unemployment and low income problems in Mauritius do not seem to have been eased by the import-substitution policy. Subsidies to DC firms (in terms of tax concessions for instance), rationing of import licences and a high level of effective protection has induced production of import substitutes in greater quantities but by more capital (and possible import and foreign exchange) intensive methods and therefore by more labour-saving methods than would have been the case in the absence of this policy. But the benefits of this express themselves largely in the form of higher profits and wages in the sheltered sector only. The linkage and diffusion effects on employment, and income effects on the rest of the economy, have not therefore been substantial.

4.1.3 The Case for Export Oriented Industrialisation

These linkages or diffusion effects of industrialisation may, of course, be less than they might be if the export sector too remains an enclave, separate from the rest of the economy. (The policy proposals in the main report will include reference to the need to eliminate the rigid segmentation of the industrial sector into EPZ, DC and non-DC firms.) But the scope for beneficial diffusion effects and stimuli on the rest of the industrial sector are much greater in the case of producing goods for export. The levels of efficiency, product quality and design, skill and technological input and entrepreneurial and marketing expertise required to compete in competitive international markets, rather than protected domestic markets, are such as to induce greater stimulus or provide a greater incentive for industrial development. The manufacture of exports is likely to result in external economies associated with the learning process: the spread of technical knowhow, the training of industrial skills, the demonstration of new production techniques that might be adopted or incorporated elsewhere in the economy and the acquisition of organisational and selling skills.

The arguments for industrialisation through international trade are not therefore simply based on static arguments about the allocative efficiency of less restricted markets. In the case of Mauritius the arguments are much more fundamentally practical and dynamic ones. The Mauritian domestic market is invariably too small to justify or induce (internationally) efficient scales or methods of production and to generate widespread external benefits and linkages within the Mauritian economy. Indeed high effective rates of protection provide an incentive for existing import substitute producers to deter entry (from home and abroad) into the domestic market; such barriers thereby restrict diffusion and learning effects in the industrialisation process. By contrast the need to compete in international markets, in terms of scale and methods of production (in specific areas of comparative advantage), in terms of product price and design, and terms of international marketing methods, is more likely to generate dynamic, integrative processes within the Mauritian economy.

4.1.4 The Role of Government

The strength or impact of this integrative process will depend on the extent of market imperfections within the Mauritian economy and of general non-economic barriers. The current strategy of import substitution (and "mixed" with export promotion), implemented by policies which are subject to considerable administrative discretion, serves in fact to increase market imperfections, price distortions and non-economic barriers. High effective tariff rates and quota protection confer monopoly power on some domestic producers and raise the price of import and import substitute goods relative to domestic service and export goods. The administrative procedures and discretion associated with the operation of Development Certificate status and of import quotas and foreign exchange allocation serve as barriers to entry to the industrial sector and to enterprise by imposing additional costs and uncertainties.

The role of overall industrial policy and of government within a strategy based on export-oriented industrialisation should therefore be to reduce market imperfections and barriers. In a newly industrialising country like Mauritius this does not imply the need for a passive industrial policy. On the contrary it calls for a highly active industrial policy (based on rules rather than administrative discretion), which seeks to encourage the creation and operation of market institutions and to correct for or regulate market imperfections. The dynamic and integrative benefits of export growth will be greater the more developed the infrastructure of the economy, the more market institutions are developed, and the more extensive the development of human skills, the less the price distortions that affect resource allocation, and the greater the capacity of the private sector to bear risks.

Active, coherent and consistent industrial policies are required therefore to facilitate the integrative process: to encourage information flows (about opportunities in and requirements of overseas markets for instance), to encourage industrial risk taking. Certain movements in these types of directions have been initiated by the Mauritian Government recently, e.g. the formation of MEDIA. (Detailed recommendations about policies and institutional reform in this area are set out in Appendix 10.) These institutional and policy reforms and the apparent commitment to an export-oriented strategy should not however be merely grafted on to the existing package of industrial policies. The results of this study have clearly demonstrated the need for greater clarity, transparency, simplicity and certainty in the formulation and operation of commercial and industrial policies.

4.2 The Rationalisation of Commercial Policy

Clearly it would be naive to make doctrinaire prescriptions with respect to commercial policy. Whatever the desirability and attractiveness of a particular package of policies and incentives, it is unrealistic to expect that they can be achieved at a stroke. With the obvious exception of coup related transformations, policy regimes do not change overnight. There are invariably vested interests associated with a given set of existing policies, and democratic change is acheved by persuasion rather than dictat. The feature of the change in policy regime proposed here is that one would be moving towards a programme which would enhance the prospects for sustained economic development in Mauritius, and which would benefit the majority of Mauritians, in contrast to the present policy regime which is manifestly inhibiting the prospects for economic development and which benefits specific minorities. Other sections of this report deal with aspects of policy reform relating to fiscal policy, investment policy and so on. Here we shall deal with steps which will facilitate the reform of commercial policy.

4.2.1 The Tariff Structure

One immediate step which can be taken (and which is dealt with more fully in Appendix 7.2.3.1) is reform of the existing system of import duties. As described in Appendix 7.2.3.1, Mauritius currently levies customs duty (general or preferential), fiscal duty, stamp duty, import surcharge and special import levy. It would appear that the purpose of these levies is to raise tariff revenue. In practice, however, the present regime is an extremely cost-inefficient way of raising revenue. Even if one wished to maintain the existing nominal tariff structure in order to raise the same amount of revenue as at present one could do so by replacing all existing duties with one single duty. This would of course necessitate the recalculation of import duties for all imported commodities. As the example in Section 7.2.3.1 shows, however, it is in fact a relatively straightforward exercise.

4.2.2 Tariffs and Quotas

It is widely accepted that tariffs are more efficient instruments of intervention than quotas. Quotas provide greater scope for administrative discretion than tariffs, they provide increasingly effective protection in a growing market, they restrict consumer choice and in general they provide no government revenue. The holders of import licences, and overseas producers of the imported commodity, gain the revenue which would accrue to the government if it relied on a tariff rather than a quota to restrict imports. Mauritius relies heavily on quantitative restrictions and there is widespread evidence that the well known inefficiencies associated with quotas are pervasive. There is therefore a persuasive case for reducing reliance on quotas. This could be accomplished either by phasing out existing quotas over a period of time, (the liberalisation option) or by replacing existing quotas with equivalent tariffs, (the constant protection option).

The liberalisation option would permit Mauritius simultaneously to reduce its dependence on quantitative restrictions and open up the import sector to increased competition from overseas producers. The obvious objection to this option is that it could create adjustment difficulties in the short term. If however it were viewed as part of a coherent policy package, a facet of which was export promotion, then this objection would have much less weight. For example, one could gradually phase out existing quotas over a specified, pre-announced period, say five years. This would give existing producers adequate time to reconsider their investment decisions and would not encourage new investment in the protected sectors. In itself this move should encourage increased interest in producing for the export sector. As the analysis of Appendix 3 demonstrated, investment decisions are very much about relative incentives. By reducing the incentive to produce in the import substitute sector (by removing the option of protection by quotas), one increases the incentives to produce in the export sector, if the concessions offered in that sector remain unaltered. Of course, by offering additional benefits to producers in the export sector of the type proposed in Appendix 10 the incentive to export is further increased.

The constant protection option is in many respects less desirable. This would involve calculating the tariff equivalent of each quota, then replacing the quota with a given nominal tariff. This would certainly eliminate existing quotas. It would however do nothing with regard to liberalisation, nor with regard to changing effective protection. There would be gains from the benefits of relying on tariffs rather than quotas, not the least of which would be increased tariff revenue. In order to encourage the movement of resources into the export-oriented sector, however, one would have to provide incentives in addition to those which are at present available, (and which could presumably be financed from the increased tariff revenue).

4.2.3 Changing Relative Incentives

It is quite clear that the prospects for industrialisation and further economic development are far healthier via export orientation rather than import substitution. There is evidence that Mauritius has the requisite skills to compete on world markets, despite the current policy environment which is more conducive to investment in the import substitute sector than the export sector. Manufactured clothing is the most obvious example. What is required, however, is a policy environment which will encourage the further development of existing export activities, and which will channel the energies and enterprise of those involved in the import substitute sector into the export sector. This can to some degree be accomplished by reducing the degree of protection conferred on the import substitute sector (for example as described in the liberalisation option above). In addition it may be felt necessary to reinforce this by providing additional incentives and support for investment in the export sector. The kind of incentives favoured by the consultants are outlined in section 2 of Appendix 10, whilst the most obvious medium for support is MEDIA (our proposals for which are outlined in section 4 of Appendix 10).

Whatever package of incentives is ultimately adopted it is quite clear that the package has to be one which will encourage development through the export substitute sector. Initially this will involve some contraction of the import substitute sector. Given the protection which that sector has enjoyed this is inevitable. As the shifting analysis of Appendix 3 demonstrated emphatically, however, one cannot simultaneously expect successfully to encourage export promotion whilst heavily protecting the DC sector. Since the export sector bears much of the cost of protecting the import substitute sector one cannot encourage the former without reducing the protection to the latter. Ultimately, of course, the reduction in protection given to the import substitute sector will have beneficial effects through greater efficiency, wider consumer choice and lower prices. As long as changes are phased in, and export promotion fostered, adjustment costs should be minimised.

APPENDIX 5

5. PRIVATE SECTOR SURVEY

5.1 Introduction

An important part of the field research for the study concerned the execution of an interview programme amongst private sector companies in Mauritius. The emphasis of this survey lay in discussions with companies holding either a Development Certificate (DC) - i.e. Import Substitution Industries, - or those operating in the Export Processing Zone (EPZ).

In total, 27 companies were interviewed, 13 DC companies and 14 EPZ companies. The sample base for this programme sought to achieve both a cross-sectional coverage by type of industry, and to embrace a wide range of operations from large, well-established companies at one end of the spectrum, to small and in some cases pre-operating companies at the other. The full list of companies interviewed is presented as an annexe to this appendix.

5.2 Objectives

As mentioned in the proposal, it was decided to undertake interviews in depth with a relatively small number of companies, rather than to attempt a much wider coverage by, for example, a postal questionnaire approach. It was felt that the approach adopted would give more reliable detailed information if conducted on a face-to-face basis than would be the case if postal techniques had been used.

The primary objectives of the programme of interviews, conducted in all cases with senior management personnel, may be summarised as follows:

(a) collect basic operational data on each company;

(b) obtain first-hand experience of the day-to-day operations of Government policy and industrial incentives as seen by the private sector;

(c) obtain views on the areas where policy improvements would be welcomed, and where administrative procedures could be improved, especially with respect to the Government/private sector interface;

(d) understand private companies' views on the locational and other advantages/disadvantages of operating in Mauritius; and

(e) seek private companies' views on the areas where new policy measures are required to improve the local industrial climate and attract new industrial investment.

In all cases, managers interviewed welcomed the opportunity to express their views. We acknowledge with gratitude the willingness of respondents to discuss their experiences with us.

5.3 Development Certificate (DC) Companies

The key features of the 13 DC companies interviewed may be summarised as follows:

(i)	Company age:	Oldest:	20 years
		Youngest:	3 months
(ii)	Employment:	Largest:	350
		Smallest:	15
		Total employed:	1100 (approx).
(iii)	Turnover:	Largest:	Rs 80 million p.a.
		Smallest:	Less than Rs 1 million p.a.
(iv)	Capacity Utilisation: (Sample of 10)	Best:	81%
		Worst:	10%
		Mean:	44%
(v)	Import Content: (Sample of 6)	Typically 75%+	
(vi)	Length of time to grant DC: (Sample of 5)	Best:	10 months
		Worst:	28 months
		Typical:	12-14 months

From this summary of the operational characteristics of DC companies, two particular features stand out. Firstly, the average capacity utilisation, (which in the majority of cases refers to productive capacity of installed machinery on the basis of a single 8-hour shift) is very low at 44%. Some companies do better than this, some much worse: a figure as low as 10% was recorded in one case. While the specific reasons vary company-by-company, it is generally the case that the restricted size of the domestic market is a major feature, and also many companies appeared to lack the management capacity to explore possible market diversification opportunities. It may be inferred that Mauritian consumers are commonly obliged to pay higher prices for domestically-produced goods, (often since protection is given to DC companies), than would be the case if production capacity matched demand more closely, or indeed if imports supplied the local market rather than protected domestic producers.

Second, the delays that occur in granting DC certificates - typically more than 12 months in this sample - is also noticeable. Again, specific reasons vary company-by-company, but many inteviewees pleaded for more streamlined administrative procedures in the Government sector, and this timescale is illustrative of the types of delay that can occur.

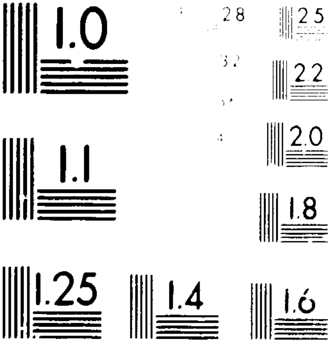
In the detailed discussion, with DC companies, a number of key features and concerns emerged. These can be summarised under three main headings:

- Incentives appreciated
- Primary concerns
- Proposals for policy change.

5.3.1 Incentives Appreciated

By far the most important incentive for the DC companies interviewed was the tax holiday period. 6 companies mentioned this, and many thought that their operations could not continue without such incentives.

Interestingly, only one company mentioned the importance of protection directly, and most companies saw no direct connection between their operations, and such tariff or quota barriers that may have been



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raised to restrict the importation of items which they produce.

Some reference was made to the cheap cost of labour, and to good labour relations, (though similar weight was given to criticising these aspects by other companies - see below). It would appear that the managers' views of labour relations, workers' discipline etc. directly reflects the success or otherwise of in-house management policies; (we gained the firm impression that staff management varies widely in style and quality.)

5.3.2 Primary Concerns

It is relevant to preface these remarks by noting that interviewees in virtually all cases offered constructive criticism of industrial policy and its administration. Only in rare cases did we discover what may be termed as purely negative complaints against the Government sector.

Overwhelmingly the most important concern of DC companies related to the regulations and operation of import procedures. 12 of the 13 companies interviewed referred to this problem. Companies' criticisms fell into a number of specific areas:

(i) Delays in obtaining import licences and foreign exchange allocations. An analysis of companies' responses to questions about the actual time involved in obtaining clearance for imports shows that procedures typically take about 1 month, provided there are no special difficulties. This 1 month period breaks down into a number of sub-components:
- obtaining the import licence from the Ministry of Commerce; 10-12 days.
- obtaining Bank of Mauritius permission for foreign exchange (the importers' private bank usually applies for permission to open a letter of credit); 10-14 days;
- confirming the detail of the import consignment as given on the Bill of Lading by comparison with the proforma invoice - control carried out by the Ministry of Commerce: 2-3 days;
- clearing goods through customs; 2-5 days.

(Transit times for consignments vary widely depending on the country of origin and mode of transport).

(ii) Dealing with variances between proforma invoices and Bill of Lading details. This aspect causes particularly acute concern. Small variations in the initial proforma invoice, caused by variations in consignment preparation by the suppliers, changes in material (eg. poly-propylene bags supplied instead of polythene bags), or on-voyage changes in freight rates, normally cause rejection of the Bill of Lading by the Ministry of Commerce. In such cases, a supplementary import licence has to be applied for, a procedure which in the examples quoted during the study can vary between 2 weeks and one year. DC companies complained that official lack of flexibility was a major disruptive influence on their operations.

(iii) Import duties, indirect taxes and duty rebates. There is widespread concern amongst DC companies about the ways in which supplementary charges on imports have been progressively added in recent years. From the basic import duty Government has built a structure of stamp duty and surcharges which causes DC companies considerable concern.

Also, DC companies securing export contracts in principle qualify for rebates of customs duties and surcharges paid on initial imports via a duty drawback scheme. In practice, the process of securing their repayment has caused substantial delays and in a number of cases quoted more than 12 months has elapsed before such repayments are made. (This is discussed further in Appendix 10).

Two further primary criticisms were commonly voiced by DC companies. Six respondents mentioned their dissatisfaction with the Development Bank of Mauritius loans which they had outstanding in the context of the exchange risk that borrowers are obliged to bear. Typically DBM loans are made with a substantial foreign exchange component, usually a majority. Borrowers are obliged to repay in foreign exchange which, of course, has to be purchased with local currency initially. Since many DBM loans were made when the rate of exchange was of the order of Rs 7=US$1, and successive devaluations since then have reduced the value of the rupee to Rs 12=US$1, borrowers' perception of their debt servicing costs on, for example, a loan made at 10% interest, is that the effective rate of interest in local currency terms has almost doubled. It is felt by many DC companies that the DBM should take more risks in its lending policy.

The third main area of concern of DC companies is the price control system. Companies complained of a lack of understanding in the Government sector of companies' need to generate profits, and a lack of flexibility in the policy of those administering the price control scheme.

Other areas of concern mentioned in discussion included the complex system of licensing of industrial companies (4 respondents), the complicated tax regime (3), deteriorating industrial relations (3), poor regional shipping services (2), and dissatisfaction at the performance of the Mauritius Standards Bureau (2).

5.3.3 Proposals for Policy Changes

Reflecting the criticisms voiced, DC companies' views on the most pressing need for policy changes focused on two main areas:

(i) Taxation About half of the DC companies interviewed wanted changes in the taxation system, and referred to simplification of the tax regime, longer tax holidays (companies claim that by the time new business becomes profitable, the tax holiday period has expired), and lower rates of corporation tax. One company proposed that tax holidays should be abolished, and replaced with a fixed low rate of company tax to run indefinitely for DC companies.

(ii) Import Procedures Some 50% of the companies interviewed requested simplification of the import procedures, and DC companies were especially concerned to secure duty free imports of raw materials and capital goods to improve their profit margins on domestic sales. The view that administrative procedures for imports needed urgent streamlining was commonly expressed.

Other policy changes requested related to an easing of the labour laws, cheaper credit, and more incentives to reinvest company profits.

5.4 Export Processing Zone (EPZ) Companies

14 EPZ companies were interviewed, and had the following main features:

(i) Company Age:	Oldest:	12 years	
	Youngest:	6 months	
(ii) Employment:	Largest:	3700	
	Smallest:	7	
	Total employed:	6200 (approx)	
(iii) Turnover:	Largest:	Rs 100 million++	
	Smallest:	Rs 300,000	
(iv) Ownership:	All Mauritian:	6 companies	(43%)
	Majority Mauritian:	3 companies	(21%)
	Majority Foreign:	4 companies	(29%)
	All Foreign:	1 company	(7%)
(v) Main Export Markets:	UK	3 companies	
	France	2 companies	
	EEC	5 companies	
	North America	1 company	
	Australia	1 company	
	Other	2 companies	
(vi) Local Inputs (other than labour)	Very little:	9 companies	
	Up to 25%	1 company	
	Substantial/all:	4 companies	
(vii) Other locations considered? (Sample of 12)	None:	10 companies	
	Reunion:	1 company	
	North Africa:	1 company	

The EPZ companies interviewed had a very wide size range both in terms of numbers employed and turnover. Two features were especially noticeable. Firstly, over 70% of the companies interviewed concentrated on the EEC market as their prime area of activity, demonstrating the importance of preferential access to EEC markets for Mauritian based products under the terms of the Lome II Convention. Elsewhere in this report it is argued that one of the key advantages of Mauritius as a manufacturing base is its position as an ACP state, and that the marketing stance should continue to reflect this in future.

Second, it is interesting to note that 10 of the 14 companies interviewed had not considered an alternative location to Mauritius. This is partly a reflection of the high level of local investment in EPZ companies (6 wholly Mauritian-owned and 3 majority owned), and partly also it indicates the success of specific "pin-point" marketing of Mauritius. One company gave the reason for its location as a direct invitation to the company by the Government to come to Mauritius. Very few companies in the sample had found it necessary to evaluate alternative locations: most found that the advantages offered by Mauritius at the time (and some companies' perception of these advantages had changed - see below), adequate in themselves to justify the location decision.

As with the DC companies, the results of the detailed discussions held with EPZ companies are presented under 3 main headings:

- Incentives Appreciated
- Primary Concerns
- Proposals for Policy Change.

5.4.1 Incentives Appreciated

At the time that company investment decisions were made (and 9 of the 14 companies interviewed were established before 1976), four features of the incentives package stood out. In order of priority these were:

(i) Tax holidays: 8 companies cited the tax holiday period as a major incentive. However, this observation should be qualified in two ways. Firstly, in October 1983, the Inland Revenue Authorities informed us that so far only one EPZ company has started paying tax, and that it would be at least another 2 years before the impact of the end of the primary tax holiday period on the continuation of EPZ companies could be assessed. Second, it appears to be common practice in Mauritius for EPZ companies approaching the end of the tax holiday period to be run down to a break-even or loss-making position, and for new EPZ companies to be formed in the same business to benefit from a further tax holiday from scratch. It is open to question, in our judgement, whether the tax holiday period is in fact achieving its intended aim. This reflects the analysis presented in Appendices 2, 3 and 4, and is considered under "Recommendations" in Appendix 10.

(ii) Low Labour costs: Cheap labour was mentioned by 7 companies in our sample as a key attraction of Mauritius; and

(iii) Good labour productivity, dexterity and literacy was also put forward by 6 companies in listing Mauritius' advantages.

It is clear that Mauritius' labour force is seen as a major attraction to EPZ companies, and this is especially important in the context of the increasing prominence in the EPZ of business investors from the Far East, notably Hong Kong. Appendix 6 gives comparative data on wage costs in key Far Eastern countries compared with Mauritius.

(iv) Dividend repatriation: A number of companies made specific mention of the free repatriation of dividends promised as an initial incentive at the time of their investment. This was seen as an important concession, and is now seen as an area where reality has not reflected the nature of the initial promise. Some companies feel that this area should be given urgent attention.

5.4.2 Primary Concerns

Two concerns featured especially prominently in the EPZ companies interviewed.

(i) Import procedures 70% of the companies interviewed were concerned about the formalities and delays associated with importing. These concerns fell into three main areas:

- The difficulties which arise when short-term import needs demand a rapid response, and where minor variations in the consignment details compared with the initial proforma invoice cause long delays before licences are issued. Generally, companies were very concerned about the lack of flexibility in the Government's administrative procedures.
- The complexity of the basic import licensing system, and in particular delays at the Bank of Mauritius in issuing foreign exchange authorisation and delays by Customs in clearing goods.
- The imposition of stamp duty/sales tax on sundry imported items which EPZ companies cannot secure duty free (eg. finished accessories which are inputs into the products of EPZ companies should be able to claim duty rebates). The companies complain that duty rebates and repayments are rarely made without inordinate delays and complicated administrative procedures, and sometimes are not made at all.

(ii) Labour Aspects Concerns expressed over aspects of labour policy varied quite widely, and embraced areas such as deteriorating labour relations as perceived by some companies, criticisms that "poaching" of key staff was becoming more prevalent, and regret that the Government gives little help to companies in training workers. The labour laws were seen as being increasingly harsh to employers, and a number of managers felt that Mauritian workers were over-protected.

This concern over labour matters is clearly important, especially in the light of comments that Mauritian labour costs and disciplines were seen as a key advantage when the decision to establish an EPZ company was taken, typically in the mid 1970's. Labour advantages remain a feature which Mauritius could justifiably emphasise in general promotional initiatives, and it is clearly important to ensure that this feature of investing in Mauritius does not become devalued over time and reduce the country's credibility in attracting foreign investment.

A number of specific concerns were mentioned in discussion by EPZ companies. In summary, these were:

- the high cost of credit and the poor lending terms of the Development Bank of Mauritius (5 companies mentioned this).
- poor industrial infrastructure and the high cost of services such as electricity and water (5 companies).
- high transport costs and port charges, (3 companies).
- unnecessarily complicated industrial licensing procedures (2 companies).
- short-notice of forthcoming trade fairs/trade missions, and inadequate Government support for private sector participation in such missions (2 companies).

5.4.3 Proposals for Policy Changes

EPZ companies raised two particular areas which affect their operations and where they felt procedural/policy changes should be made.

First, 8 companies requested that administrative procedures should be streamlined and licensing and related procedures simplified. A major concern of EPZ companies was that, while the basic incentive scheme was relatively attractive and the package of measures relevant to their needs, the administration of the system left much to be desired. A common problem was that substantial senior management resources had to be devoted to dealing with a large number of Government departments, and that the onus to solve operating problems with the EPZ incentive system fell on the companies themselves. Most felt that individual Government offices were welcoming and helpful, but that the basic systems were over complex. Many companies requested an urgent streamlining of procedures.

Second, EPZ companies felt that the location of Mauritius made effective marketing very costly in key overseas markets, and five companies explicitly requested that the Government should help with export marketing. They did not imply that companies wanted the Government to participate in product marketing, since it was felt that private companies were best qualified in this area. But Government assistance in the costs of promotion, and in identifying sales agents, for example, through embassies and high commissions, would be welcomed. (Much of this functional need will be supplied by the newly proposed Mauritius Export Development and Investment Authority - MEDIA - see Appendix 10).

EPZ companies also mentioned the need for lower tax rates/longer tax holidays, and improved communications between Government and the private sector.

5.5 Summary

The private sector interview programme proved invaluable in gaining an appreciation of the day-to-day problems faced by companies in dealing with the administration of policy. It also focused attention of the key areas of concern as perceived by the private sector, and in particular on the import licensing system, the tax and labour market regimes, and the need for more Government assistance in marketing and export promotion.

The conclusions drawn from this programme of interviews are dealt with in Appendices 6 and 7, and in the Summary report, and it is inappropriate to draw detailed conclusions here based solely on the reported views of the private sector.

There is, nevertheless, one area which merits specific mention in this appendix. It was noticeable in the responses received from the private companies that the majority of these concerns and requests for improvements related not simply to the structure of policy itself, but to its administration, and to the complexities of the Government machine. We formed the clear impression that the capacity of individual companies to deal with the administrative system directly reflected each company's internal management resources. Some (larger) companies felt that they understood the system and were able to operate it satisfactorily, while others, notably the smaller companies with restricted management resources, had greater difficulties.

In our judgement, much could be achieved by improving communications between the Government and the private sector. Publication of simple information sheets on the detail of procedures would assist companies to understand what was expected of them, and would serve to defuse some of the confusion and frustration which is currently a feature in dealing with the existing policy structure.

ANNEXE TO APPENDIX 5

List of Companies Interviewed

(a) Development Certificate Companies

Cernol Chemicals Ltd
Dry Cell Batteries
Mauritius Breweries Ltd
Margarine Industries/Pepsi Cola
Livestock Feed Limited
Floresco Ltd
Handkerchief Enterprises Ltd
Synthetic Marble Products Ltd
Mauritius Biscuit and Confectionery Co
Carpet Manufacturing Co. Ltd
Metal Can Manufacturing Ltd
Blytronics Ltd
Compagnie Mauricienne et d'Huiles

(b) Export Processing Zone Companies

Festival Ltd
Compagnie Mauricienne de Protection Industrielle Limitee
Royal Industries
King Flies
Mauritius Tuna Fishing and Canning
Historic Marine/St. Antoine
Hydrodyne Ltd
T & T International Foods Ltd
Fleurs des Tropiques
Floreal Knitwear Ltd
LSP Diamonds Ltd
Alliance Spinners Ltd
Oceana Textiles Ltd
Hillex & Co.

APPENDIX 6

6. FAR EASTERN COMPARATIVE ANALYSIS

6.1 Introduction

An important element in this study was to make a brief visit to a selection of Far Eastern countries which may justifiably be regarded as "competitors" to Mauritius in seeking to attract mobile international industrial/manufacturing investment, especially that concerned with export markets. The purpose of this research was to set in context the existing policies and structures of Mauritius, to contribute to the analysis of Mauritius' comparative advantage, (especially in the all-important qualitative aspects as perceived by potential investors) and to see what lessons could be learned from the Far East in terms of preparing policy recommendations for Mauritius.

Four countries were visited during this mission:

- Singapore
- Sri Lanka
- Philippines
- Hong Kong

Particular attention was paid to the development of export processing/ industrial processing zones. The research consisted largely of discussions with the public and private sectors, and the collection of relevant published data.

In reviewing the results of this visit, we have set out this appendix under the following main headings:

- Comparative Cost Data;
- Incentives and Taxation;
- Policy, Promotion and Administration.

6.2 Comparative Cost Data

6.2.1 Wage Costs

International labour costs are amongst the first measures to be compared by potential investors. While true comparisons require estimates of productivity - often at very specific levels and types of activity - as well as purely monetary wages, it is often the comparison of money wages in the potential location against the home base that triggers thoughts in investors' minds about possible offshore activities.

Detailed productivity comparisons were beyond the scope of this study. Table 6.1 gives basic wage cost data for Mauritius and key Far Eastern countries, based upon current exchange rates against the US dollar.

Based purely on money wage comparisons, Sri Lanka is the lowest-wage economy of those considered. Mauritius is in second place, followed by the Philippines. Both Hong Kong and Singapore are regarded by investors operating in those places as high wage economies. However, comments in our interview programme indicate that Hong Kong is regarded by investors as a high productivity market. The Philippines received little praise in the area from investors based there, while the attitude to work and discipline in Sri Lanka was criticised by a number of companies. Singapore is regarded as having a well-educated labour force but is also felt to be a high wage economy. A number of companies with whom we spoke were considering expansion plans in other Far Eastern countries; few indicated a desire to expand further in Singapore itself.

Table 6.1

COMPARATIVE INDUSTRIAL WAGE RATES

	Typical Gross Weekly Earnings (US dollars)(a)				
	(b) Mauritius	(c) Sri Lanka	(c) Singapore	(c) Philippines	(c) Hong Kong
A. Production Workers					
Textiles and Garments:					
Male	11-16)		) 50-60		65-85
Female	11-13)		)	22-26	40-70
Metal/Plastics:	)	7-11			
Male	17-22)		)		55-95
Female	)		) 55-75		40-40
Skilled/Tradesmen:					
Male	28-32	14-19	90-110		85-110
B. Office/Supervisory Workers					
Manufacturing Supervisory Workers	28-37	14-19	150-200		140-175
Secretary/Typist	16-24	19-24	70-80		70-85
Receptionist/Telephonist	14-22	18-22	70-80		70-85
Accounts Clerk	20-28	7-10	70-80		85-115

(a) Exchange Rates taken as:

US$1.00 = Mauritius Rupee 12.30
US$1.00 = Sri Lanka Rupee 24.40
US$1.00 = Singapore Dollar 2.15
US$1.00 = Philippines Peso 11.00
US$1.00 = Hong Kong Dollar 6.00

(b) Consultants Estimates

(c) Based upon published material

Discussions with companies located in these Far Eastern countries revealed that access to markets and international transport links, especially shipping services to the USA, featured prominently in their assessment of the countries' locational advantages. Those depending upon domestic and regional markets would not consider Mauritius as a potential location, even if manufacturing costs were favourable. Those shipping to the USA similarly saw no particular advantages in locating in Mauritius, but those with European marketing interests were attracted by potentially favourable access terms under Lome II. Also, companies depending upon air freight (for example, a fishing fly manufacturer in Singapore exporting to the USA) could accommodate the locational disadvantages of Mauritius provided other features proved attractive. Most companies realised that the small domestic market in Mauritius would be a disincentive to locate under a DC-type of status, and most also felt that neighbouring East African markets were too small, and also too protected, to offer much incentive to locate in Mauritius. Some interest was, however, expressed in the South African market.

6.2.2 Factory Rentals

The following table indicates typical rental levels of standard industrial factories in Hong Kong, Singapore and the Philippines compared to current rates in Mauritius.

Table 6.2

INDICATIVE FACTORY RENTS IN MAURITIUS AND COMPETING COUNTRIES

(US$ per sq.ft per annum)

	Upper Limit	Lower Limit	"Typical"
Mauritius	1.30	1.14	1.20
Singapore	4.15	3.60	4.00
Hong Kong(A)	16.70	5.60	13.00
Philippines	2.84	1.87	2.15
Sri Lanka(B)	not available - see notes		

Notes

(A) Very wide range, depending upon location. "Typical" figure relates to ground floor units well-located near main services and the international airport.

(B) Data for Sri Lanka are not available, but may be inferred. The costs of leasing land are low, at US$0.034 per sq.ft per annum (based on a once-for-all payment of US$29,000 per acre for a 99-year lease, plus an annual ground rent of US$1,200 per acre). Factory building costs at present are around US$12 per sq.ft, and rental levels would therefore be in the range US$1.00-1.50 per sq.ft per annum, comparable to those in Mauritius.

On balance, therefore, it would appear that Mauritius' factory rental rates are very competitive. Even if Mauritius were to build relatively expensive units in a modern, park-like setting, rents could be double the levels currently prevailing at Plaine Lauzun and Coromandel and remain very competitive with the Far Eastern countries surveyed.

6.2.3 Electricity Tariffs

Table 6.3 summarises industrial electricity tariffs.

Table 6.3

COMPARATIVE INDUSTRIAL ELECTRICITY TARIFFS(A)

(US$)

	Demand Charge (per month)	Energy Charge (per month)
Mauritius - EPZ	4.32 per KVA	0.098 per kwh
- Other Industrial	4.32 per KVA	0.091 per kwh
Singapore	n.a.	0.119 per kwh(B)
Hong Kong	0.8-1.00 per KVA	0.088-0.093 per kwh
Philippines	1.82-2.36 per KVA	0.045-0.063 per kwh
Sri Lanka	4.10-6.15 PER KVA	0.045-0.055 per kwh

Notes

(A) Based on Maximum Demand industrial tariffs.

(B) Domestic rate for consumption in excess of 2,000 kwh per month: industrial unit charge likely to be a little lower.

It is clearly difficult to compare effective electricity costs accurately: as an illustration, an industrial unit with 100 KVA maximum demand using 5,000 kwh in a month would face the following monthly electricity charges:

	US$ per month	Index
Mauritius - EPZ	887	100
Other	932	105
Singapore	n.a.	n.a.
Hong Kong	530-555	60-63
Philippines	445-515	50-58
Sri Lanka	635-890	72-100

Mauritius is therefore shown to be the most costly location for electricity of the countries covered by this survey.

6.2.4 Water Tariffs

As with electricity, it is difficult to give precise comparisons of water costs. Table 6.4 summarises the available information.

Table 6.4

COMPARATIVE WATER TARIFFS (A)

	Average Cost per m3	Total Monthly Cost	Index
Mauritius	0.48	646.41	100
Singapore	0.16-0.35	217.60-476.00	34-74
Hong Kong	0.28	379.44	59
Philippines	0.11-0.23	148.24-312.80	23-48
Sri Lanka	not available		

(A) Comparison based upon an industrial consumer using 10,000 gallons per day (approximately 1,360 cubic metres per month).

Accepting therefore that water tariffs tend to be sensitive to the nature of the industrial use and the volume required, and in many cases may be negotiable, it appears that Mauritius is a relatively expensive location from this point of view.

6.2.5 Summary

Despite relatively expensive utility costs, Mauritius' overall cost structure in the areas highlighted does not seem unfavourable in comparison with the four Far Eastern countries examined. Wage costs and factory rentals compare well, and these are likely to be of much greater relevance in selecting an offshore investment location than are utilities' costs for all but the most energy- and water-intensive users.

6.3 Incentives and Taxation

In the four Far Eastern countries visited, the range of incentives and tax regimes geared to encourage industrial investment is wide and diverse.

Sri Lanka and the Philippines offer a range of special incentives the content and objectives of which are broadly comparable to those in Mauritius. Singapore also offers some similar incentives, but differs from Mauritius, Sri Lanka and the Philippines by virtue of the duty-free status of the whole country. Hong Kong, also effectively duty-free, has an entirely different system, based upon a standard rate of taxation which is both low and applied across the board (to corporations, personal incomes, property and interest). Beyond this low basic tax rate, Hong Kong offers very few investment incentives as such.

Table 6.5

COMPARATIVE INDUSTRIAL INCENTIVES

	Sri Lanka	Philippines	Singapore	Hong Kong
1. Taxation				
Basic Corporation Tax Rate	50%	25-35%	40%	15%
Incentives based on:				
Tax Holidays	Yes(Employment related)	No	Yes(Pioneer Industries)	No
Tax Credits	No	Yes	No	No
Reduced tax rates	Yes	No	Yes(Other)	No
Tax Holidays for Qualifying Companies	Yes	n.a.	Yes	No
.. .. Period	Up to 10 years	n.a.	5-10 years	-
.. .. Extensions/Period	Yes up to 15 years	n.a.	No	-
Tax Exemptions				
- Export tax	n.a.	Yes	)	No
- Property tax	n.a.	Yes	)	No
- Local Taxes	Yes	Yes	) Tax	No
- Foreigners' emoluments	Yes	No	) reductions	No
- Dividends	Yes	Yes	) apply	Yes
Tax Help with training	No	Yes	Yes	No
with pre-operating expenses	No	Yes		No
2. Other				
Duty-free imports of inputs	Yes	Yes	Yes*	Yes*
Loss carry over	No	Yes	No	Yes
Accelerated depreciation	No	Yes	Yes	No
Priority foreign exchange	n.a.	Yes	n.a.	n.a.
Priority import clearance	n.a.	Yes	n.a.	n.a.
Free repatriation of dividends	Yes	Yes	Yes	Yes
Joint investment guarantees	Yes	No	Yes	No
Work permits for foreigners	Yes	Yes	Yes	Yes

n.a. = not applicable
* = Effectively duty-free anyway

Table 6.5 summarises the main components of each of the four Far Eastern countries' industrial development policy. In the following pages, the main features of each country are set out in sufficient detail to illustrate some of the more imaginative features which may be relevant when considering policy development in Mauritius.

6.3.1 Sri Lanka

Industrial development efforts in Sri Lanka fall under two complementary organisations. The Greater Colombo Economic Commission (GCEC) is responsible for all development inside an Investment Promotion Zone located to the north of the capital city, and containing three designated industrial areas. Investment outside the Investment Promotion Zone (IPZ) is also welcome, and is governed by the Foreign Investment Advisory Committee (FIAC).

Within the IPZ, the incentive structure to new investors broadly includes the following measures:

- tax holidays for up to 10 years, depending upon employment created and foreign exchange effects of project;

- further concessionary period of up to an additional 15 years (exceptional) in which no corporation tax is paid, but is replaced by a 2-5% tax on turnover;

- duty free imports of inputs and machinery;

- exemption from taxes on emoluments of foreign personnel;

- exemption from taxes on royalties;

- exemption from taxes on all dividends paid to non-resident shareholders;

- exemption from taxes or dividends paid to resident shareholders out of exempt profits during the tax holiday period plus 1 extra year.

Foreign investment under FIAC rules is encouraged under the following conditions:

- Joint ventures are sought with Sri Lankan shareholders having a majority.

- Sectors of interest are specified.

- A number of bodies exists to assist, such as the Export Development Board, and the Sri Lanka Export Credit Insurance Corporation.

- Double taxation relief and investment guarantees have been negotiated with important countries.

- Repatriation of dividends is permitted freely.

- Foreign personnel may work in Sri Lanka for up to 3 years.

- Corporation tax for approved companies may be reduced from 50% to 40%.

- Other tax incentives include:

  - Export-oriented industries receive tax exemption on profits derived from non-traditional exports for a 5 year period.

  - Also, the same companies receive a rebate of customs duty paid on the importation of raw materials at the point of export of the finished product.

  - Small/medium sized industries, defined as having capital investment less than Rs 1 million (US$41,000), receive exemption from profits tax up to a limit of Rs 200,000 (US$ 8,200) per annum.

- Small companies, where the issued share capital is less than Rs 500,000 (US$20,500) pay profits tax at a concessionary rate only, i.e. 20% on the first Rs 50,000 (US$2,000) of chargeable income, 30% on the next Rs 100,000 (US$4,100) and the balance at 40%.

- Import Substitution/Pioneer Industries receive a 5 year tax holiday.

- Various other special incentives apply for designated activities such as tourist hotels and housing developments, agriculture, fishing, urban development and investment in the gem industry.

6.3.2 Philippines

In the Philippines, the investor can choose between four Export Processing Zones located at Bataan (the best known internationally), Mactan, Bagino City and Cavite. Within these zones, incentives are offered on the basis of tax credits rather than tax holidays. The main package of incentives is as follows:

- tax and customs duty free imports of machinery, equipment, raw materials and operating supplies;

- exemptions from - export tax
  municipal/provincial taxes
  property tax
  contractor's tax (on gross receipts of registered zone enterprise)

- net operating loss in any of the first 10 years' operation as a registered zone enterprise may be carried over as a deduction from taxable income for the 6 years immediately following the year of such loss;

- accelerated depreciation of fixed assets;

- tax assistance with labour training costs;

- tax allowances for pre-operational expenditure;

- repatriation of foreign investments and remittance of profits and dividends at any time in full at prevailing exchange rates is guaranteed;

- priority in the allocation of foreign exchange for imports of goods, equipment and raw materials;

- enterprises 100% foreign-owned and controlled are admissible into the zones;

- foreign technicians up to 5% of all personnel in each category are permitted to work in the zones for 5 years;

- documentation and procedures for clearance of imports and exports are guaranteed to secure release of goods within 48 hours.

6.3.3 Singapore

Singapore is effectively a duty-free country. Against this background the incentives structure is somewhat different from that in other countries, and is more highly specific to particular industries than in Sri Lanka or the Philippines. The basic incentive structure is as follows:

- Pioneer industries have the choice of either a tax holiday period for 5-10 years, or an Investment Allowance where tax exempt profits are limited to a specific percentage - up to 50% - of actual fixed investment on factory buildings and productive equipment for an approved product.

- Warehousing and Service Industries (i.e. where technical repairing skills can be fostered), receive a reduction in company tax from 40% to 20% for a 5-year period, and International Consultancy Services receive the same concession.

- Companies expanding can obtain tax relief on incremental profits arising from new investment for 5 years, plus accelerated depreciation provisions.

- Other incentives include:

  - tax exemption on approved foreign loans;
  - concessionary tax rates on income from approved royalties;
  - duty-free imports of equipment;
  - tax incentives for labour training.

Of particular interest to Mauritius is the

- Capital Assistance Scheme founded in 1975 with a budget of $100 million (US$47 million at current exchange rates), which was intended "to encourage companies with specialised projects of unique economic and technological benefit to Singapore". The CAS can provide equity in which Singapore's Economic Development Board can take up to 50% of a company's shares, usually with a sell-back option since the Board's aim is to act as a catalyst not to build up a large share portfolio. Loans are also available either directly or via a bank. Loans are for 5-10 years with an appropriate period of grace on principal repayments and can amount to up to 70% of the cost of fixed assets.

- Other provisions available to investors in Singapore include:

  - a Small Industries Finance Scheme
  - a Product Development Assistance Scheme
  - Export Incentives (whereby the 40% corporate tax rate is replaced by a 4% tax on export profits for 5-15 years under certain specified conditions)

- International Trade Incentives, (whereby companies trading in local manufactures or non-traditional items can obtain a reduction from 40% to 20% on profits tax rates relating to export profits).

For the foreign investor Singapore offers double taxation agreements with 20 countries, no restrictions on remittances abroad of interest from Singapore bank accounts, and no capital gains, value added, turnover or development tax of any kind. Investment guarantees are in force with 9 countries, and virtually all imports are entirely duty-free.

6.3.4 Hong Kong

In Hong Kong it may fairly be said that the main incentive is Hong Kong. The policy of the Government is essentially to create an attractive and unfettered environment in which commerce can flourish. No special incentives exist. There are no tax holidays and no tax incentives. There is no customs tariff, no tax treaties with other countries, and no special incentives of any kind.

Hong Kong's "Incentives" are based upon a low standard rate of tax, - 15% - which is applied to company profits, salaries, (a 5%-25% rate with provision for the burden not to exceed 15% overall), interest payments and property.

Corporation tax is 15% for unincorporated companies, 16.5% for incorporated companies. Property tax is levied on 80% of the assessed value at a rate of 15%. Tax on interest payments at 15% is in effect a 15% withholding tax.

6.4 Policy, Promotion and Administration

All four Far Eastern countries reviewed welcome industrial investment whether from within their territories or from outside. In each case, attempts have been made to ease the path for the new investor to get a project off the ground. In the context of the planned inauguration of MEDIA (Mauritius Export Development and Investment Authority) and the Ministry of Industry's Industrial Coordination Unit, it is relevant to describe briefly the main features of the "competitors" in the Far East.

6.4.1 Procedures for Launching New Projects

In all four countries, the basic procedures required are significantly more straightforward and clearly understandable than is the case in Mauritius at present.

In Sri Lanka, the investor deals either with the Greater Colombo Economic Commission (GCEC) if within the IPZ, or with the Foreign Investment Advisory Committee (FIAC) if not. The GCEC acts as a one-stop reference point; no approval other than that of the GCEC is required to start a business in the EPZ. The investor applies on a detailed application form, but is not required to submit a feasibility study. GCEC will reply to the application in 2-6 weeks. Once approval is granted, a Sri Lankan company must be formed to enter into a signed agreement with the GCEC. Business may then commence.

Outside the GCEC area, the investor presents his proposals, together with a letter from the foreign collaborator confirming his intentions, to the International Economic Cooperation Division of the Ministry of Finance. Projects are evaluated on grounds of (i) technology transfer, (ii) access to markets overseas, (iii) gains in foreign exchange, (iv) spread of skills involved, and (v) contribution to output and employment. A letter of approval is promised in 4-6 weeks provided the project is adjudged to be suitable.

In the Philippines, the "one-stop" concept is also being developed. A letter of intent followed by an application is to be submitted to the Project Evaluation and Review Department (PERD) of the Export Processing Zones Association (EPZA). A reply to the application is guaranteed within 30 days of submission, and no further approvals are required other than that of the EPZA. Once this approval is given, the new venture is on an equal footing with local companies. Applications to PERD have to be in 10 copies and accompanied by a feasibility study. PERD undertakes to evaluate the application within 2 weeks; its grounds for evaluation are:

(i) feasibility criteria based upon management and marketing, technical and financial aspects;

(ii) economic desirability criteria based on export and dollar-earning capacity, employment potential, tax generation, and utilisation of indigenous raw materials.

In Singapore, the government agency responsible for handling new investment enquiries is the Economic Development Board, (EDB), established in 1961. The EDB is responsible for dealing with new enquiries and evaluating applications for tax and other incentives. Its other main functions are to "help investors to obtain land and factory space, long-term finance, skilled manpower and other services".

The process of forming companies in Singapore is based upon British company law. Companies have to register with the Registrar of Companies: some special manufacturing processes may have to register with the Registrar of Manufacturers, and some service companies may require special operating licences as, for example, in the banking or insurance business. Companies may be of four types: (i) limited by shares: (ii) limited by guarantee: (iii) limited by shares and guarantee: (iv) unlimited.

Finally in Hong Kong, the freedom and simplicity of the system reflects the general policy of offering few "special" incentives against a background of open and advantageous operating conditions. Inquiries are handled by a "One Stop Unit" of the Hong Kong Department of Industry.

This Unit has established direct liaison procedures ("hot lines") with 23 key government departments and organisations to help resolve all-manner of pre-operational problems. These "hot lines" are to:

- Inland Revenue;
- Registrar General;
- Labour Department;
- Fire Services;
- Urban Authorities;
- Building Development Department;
- Electrical/Mechanical Services Department;
- Engineering Development Department;
- Lands Department;
- New Territories Development Department;
- Water Supplies Department;
- Rating and Valuation Department;
- Hong Kong Export Credit Insurance Corporation;
- Hong Kong Productivity Council;
- Federation of Hong Kong Industries;
- Hong Kong General Chamber of Commerce;
- The Chinese Manufacturers' Association of Hong Kong;
- Hong Kong Industrial Estates Corporation;
- Cable and Wireless (Hong Kong) Ltd;
- China Light and Power Co. Ltd;
- The Hong Kong Electric Co. Ltd;
- Hong Kong Telephone Co. Ltd

It is the "One Stop Unit's" job to take up problems and seek resolution of them on behalf of the investor wherever possible with any of these 23 bodies as may be necessary. The Unit also offers an "after sales service" keeping in touch with new companies.

There are only 3 basic registration requirements in Hong Kong. All companies must register with the Inland Revenue (tax authorities), companies must register with the Registrar General, and some companies planning to establish sizeable factories may have to register with the

Commissioner of Labour. All these requirements apply equally to Hong Kong or foreign companies: there are absolutely no special requirements for the foreign investor.

Overall, Mauritius does not compare too unfavourably with certain aspects of the Far East, but at the same time it has to be acknowledged that a major job needs to be done to update and modernise Mauritius' industrial image and enhance the effectiveness of its promotional efforts.

APPENDIX 7

7. A CRITIQUE OF POLICY ADMINISTRATION

7.1 Introduction

The industrial sector in Mauritius clearly has a central role to play in the country's future economic development. Equally clearly, the momentum of industrial development has to a significant degree been lost in recent years. In our judgement, this review of industrial and trade policy is particularly timely, since not only is there an immediate need to re-inject growth into the industrial sector, but it is also noticeable that the recently-elected Government is keen to undertake a strategic re-appraisal of industrial policy.

In considering specific areas where policy administration could be improved, a number of important general impressions were formed which may usefully be summarised as an introduction to this critique. These impressions were gained during the widespread discussions held with Ministers, Government officials and private companies, as well as based upon the consultants' own observations made during the field research. Several important general points should be made:

(a) Just as industrial policy itself has evolved piecemeal over recent years, so also the conventions of policy administration have been adopted progressively, and have often been characterised by an apparent response to short-term needs and an apparent disregard for longer term strategy. It is widely recognised within and outside Government that there is an urgent need to simplify procedures and to streamline administrative practice wherever possible.

(b) There has grown up an underlying reluctance on the part of Government to loosen the reins of control on the private sector, evidenced by an apparent lack of trust between the two. A result of this atmosphere is that Government and industry often give the impression of pulling in opposite directions, while the key objective in industrial development is that both groups should work together in developing an effective policy and administrative framework.

(c) In our judgement the traditional posture of the Government of Mauritius has developed to become unnecessarily interventionist. Procedures have been introduced, often in response to short-term expedience, which reduce the private sector's motivation and freedom of action, in the mistaken belief that such procedures are an essential part of successfully developing private industry. The effect has been to risk negation of commonly held policy objectives. Rather than stimulate development, the public sector has been stifling it, slowing down procedures and demanding increasing controls and monitoring procedures.

(d) In our view, a key feature of the present review is to establish the principle that it is Government's role to create the policy framework in which the development of the industrial sector can flourish. Government has an enabling role to play: it is the private sector's job to respond to favourable investment and operating conditions. "Policing" the performance of private companies becomes less problematic if the basic policy framework is correctly prepared and implemented.

(e) In particular, a number of general principles have guided the preparation of this critique, and form the basis for a number of policy recommendations made in Appendix 10;

(i) Individual discretion in the administration of policy should be minimised by means of a specific policy framework, thereby reducing the risk of inconsistency in the application of policy.

(ii) A particular effort should be made to improve communications between the public and private sectors, especially in making known the basic procedures to be followed.

(iii) There is a clear need for Government to liberalise its approach to the private sector, while at the same time ensuring that necessary safeguards exist against abuse.

(iv) The public sector should carry out only those tasks which are clearly necessary and which are within the capacity and skills of the Government service to administer. Government procedures which are unnecesary or ineffective should be abandoned.

7.2 Key Procedures

In considering the key procedures which affect new or existing industrial/maufacturing ventures, we have grouped our remarks for convenience under three main headings:

- Dealing with new investment.
- Managing the existing industrial structure.
- General policy aspects.

7.2.1 Dealing With New Investment

Applications made to the Ministry of Industry for DC or EPZ status are the principal areas where policy administration affects the development of the industrial sector directly. The basic procedures have been outlined in Appendix 1. Two features of existing procedures are especially noticeable: (a) the considerable detail which new investors have to provide, and the degree to which the investor is obliged to satisfy procedural and licensing requirements himself, and (b) the common assumption in Government that the Government itself has to undertake a fairly detailed and technical evaluation of an application before the status applied for can be granted.

In the first case, Appendix 1 has covered in detail the various licences, clearance and notification procedures that have to be gone through by an investor before he is able to start his business. The Government is aware of the need to streamline and simplify these procedures, and has already taken a number of steps in that direction, for instance by shortening the time available to lodge objections to proposed DC companies, and by proposing the introduction of the Industrial Co-ordination Unit. Nevertheless, a feature of new investment proposals in Mauritius is that the onus is on the investor to secure the necessary licences, liaise with the utility companies, and pursue with Government the detail of an application. We are aware that the Industrial Co-ordination Unit is designed to improve these aspects. In our judgement, there is a need for the ICU to take over most of this responsibility on the investor's behalf. Thus an application for DC or EPZ status would result in the issue of one operating licence which would cover all aspects of the proposed business, and would embody the wide diversity of licences and clearances that now have to be obtained individually. The onus of securing these various clearances would then be transferred to the ICU itself, and would become one aspect of the "incentive" to invest in Mauritius. Clearly, for this approach to be effective, the ICU would have to be adequately staffed and resourced, so as to ensure that the net result was to acccelerate and not slow down the process of gaining permission to start a business.

In the case of EPZ applications, and especially those made by foreign investors, there is no doubt that such a service would enhance Mauritius' attractiveness as a location for offshore manufacturing investment. It would also put Mauritius more closely in line with practices in force in the competing Far Eastern countries, as have been described in Appendix 6. The situation with respect to DC companies is more complicated, since Government has to take a view, under current industrial policy, of the eligibility of proposed DC operations within the context of the existing industrial structure. In the long term, as we have proposed in the main report and detailed in Appendix 10 we believe the solution lies in the complete phasing out of DC status. In the more immediate future ways need to be found to speed up the DC application process; some areas where improvements could be made are:

- conduct a file search immediately an application is received, as opposed to the current procedure of waiting until objections have been lodged;

- shorten the time available for objections (already in hand by the Government);

- simplify the basic evaluation procedure, (see below); and

- simplify the existing tariff structure (see below).

The second area of concern in processing applications for DC or EPZ status is the perceived necessity to carry out an evaluation of the proposed project by the Ministry of Industry. In discussion, within the Ministry and with other public and private interests, a number of features of the evaluation unit were evident.

- The Evaluation Unit is under-staffed and under-resourced to carry out the tasks which have been specified for it.

- The standard of evaluation varies quite widely, depending upon the data provided by the promoter, whether the promoter is based in Mauritius or overseas, and upon the precise nature and content of the proposal.

- In some cases, the Evaluation Unit is obliged to attempt a technical appraisal of a project for which it is patently unqualified. There is therefore a serious risk of inconsistencies in the application of pre-investment criteria.

- There are no set criteria against which an application has to be judged: each case is treated on its own merits, again giving rise to the risk of inconsistencies.

- The workload imposed on each of the three members of the Evaluation Unit, on average 5/6 project applications per month, means that no more than 3-4 man days can be spent on each application which is clearly inadequate for any detailed technical appraisal to be carried out to an acceptably consistent standard.

In our opinion, there is no justification for the Government to attempt to carry out a technical evaluation of new investment proposals. The Government is rightly concerned to ensure that investors proposing to establish new productive capacity in Mauritius can demonstrate the financial resources and experience needed to run the proposed venture, and it is a legitimate role of Government to request the necessary references and evidence of the bona fides of individuals, especially when they are foreigners and unknown to the Mauritian authorities.

Project appraisal should be limited to the broad strategic considerations. If it is felt necessary to set certain criteria against which proposals could be judged on a consistent basis, then we suggest that 3 key measures should be requested as part of the application procedure:

- proposed initial employment and anticipated employment after, say, 2 years' operation:

- anticipated net balance of payments effects of the project:

- proposed total investment in foreign and local currency components (e.g. whether funds including loans are raised locally or externally).

It would also be desirable, especially for EPZ applications, to make public the "normal" timescale within which the evaluation process will be completed. Given the simplified procedures which we believe should be introduced, and bearing in mind the practice of Mauritius' main competitors in the Far East, we suggest that in both cases, (EPZ and DC applications) a decision should be given within 30 days of the date an application is submitted.

There are three other areas of concern which particularly affect applications for EPZ status from foreign investors. These emerged as key features in our interviews with private companies in the Far East, as being high on the list of criteria against which Mauritius would be judged, in comparison with other countries, as a location for new export-based investment. They are:

(a) Dividend Repatriation Overseas investors regard as essential a guaranteed facility to repatriate dividends free of control from an offshore manufacturing base. It is essential that Mauritius is able to give and adhere to such a guarantee, and that the Government's administrative machinery is able to effect such repatriations efficiently.

(b) Expatriate Workers Almost without exception, Far Eastern producers who set up manufacturing plants in offshore locations require facilities to install their own technical, managerial and supervisory staff. While it is fully understood that Mauritius needs to exercise close control over expatriate residence and work permits, it is also essential to ensure that such permits are given freely where it is necessary to ensure the success and stability of new industrial investment. We suggest that where companies can demonstrate in their application for EPZ status the need for specialist expatriate staff, such permits are given for at least a 2-year period when the application itself is approved.

(c) Nationalisation Guarantees Since the amendment to the Constitution much uncertainty has entered the private sector's calculations for investment. Specific guarantees to manufacturing industry should be given.

During the course of our conversations with Government officials, reference was made to the problem of dealing with companies, especially DC companies, that abused the terms of their favourable status. Government officers were concerned about the need to police companies and stated that the sanctions available to control such abuses were re-scheduling of the tax holiday period and cancellation of the DC and EPZ certificate. It was also made clear that cancellation of certificates had never in fact been carried out. In our opinion, the Mauritius Government should have no hesitation in rescinding a DC or EPZ certificate as a last resort in cases where abuse had been proven and the company concerned has failed to respond to requests to conform to the terms of their privileged status. We believe that one well-publicised cancellation would prove to be a more effective policing measures than any other single decision, and would have the effect of bringing into line any other companies who were seriously abusing their privileged position. It is essential that Government is seen to be willing to take decisive action when circumstances merit it.

7.2.2 Managing the Existing Industrial Structure

Under this heading has been grouped a number of facets of policy administration which affect companies already in existence in Mauritius.

7.2.2.1 Price Control

Price control imposed upon companies servicing the domestic market (whether DC companies or not) is applied by Government in one of two ways:

- price fixing;
- maximum mark-up regulations.

Price control was introduced in 1976 and has been progressively extended since then. Over 1,000 items are now subject to price control. Controls are applied to a wide range of commodities, with particular emphasis being given to foodstuffs and "essential" consumables. Prices are fixed following either a review of company accounts (in the case of local manufacture) or a review of consignment notes (in the case of imported goods). In principle, price fixing for local manufactures allows for a "fair" rate of return, which is supposed to be arrived at in negotiations between the Government and the company concerned. In practice, we understand that it is common for a company to propose a "fair" rate of return and for the Government to accept this proposal.

In the case of locally-manufactured goods, an annual price review is carried out. In the case of imported goods, prices can be altered at every consignment and there is clearly a very frequent price change in imported commodities, based upon variations in world prices, shipping and insurance rates and so on.

The regulations applying to maximum permitted mark-ups on imported goods relate normally to a 33% mark-up on c.i.f. values plus the costs of all duties, taxes, landing and clearance charges, and any surcharges currently in force. The effective mark up on costs (c.i.f. values) is therefore invariably greatly in excess of 33%.

The economic case in favour of price control is very weak, with the possible exception of staple food commodities to protect the lowest income groups (in which case the more usual outcome of controlled prices is to introduce subsidies on key commodities). In Mauritius we observed a number of features of the price control mechanism - features which are not uncommon in other countries operating similar systems - which call into question whether price control actually achieves its aims. In theory, price control is aimed at protecting the consumer from monopolistic pricing abuses. In practice, we found in Mauritius:

- that a cumbersome and very costly bureaucracy has grown up to administer the price control system;

- that there is a very serious risk of major inconsistencies arising in the application of policy to domestic producers;

- that the mark-ups allowed on imported goods in fact offer the opportunity to (privileged) holders of import licences to make super-profits, especially since importers are permitted to mark-up the costs of Government-imposed duties, surcharges etc;

- that price control on imported goods has clearly failed (and indeed logically could never succeed) in insulating consumers from rising world prices, or the effects of progressive devaluation of the rupee.

The net result is that price controls in Mauritius are almost certainly having three effects for which we are sure they were not designed:

(a) raising prices to domestic consumers;
(b) incurring very significant administration costs through the maintenance of an expensive bureaucracy the costs of which ultimately are borne by the consumer through direct and indirect taxation;
(c) distorting the relative price structure.

Desirably, price controls should be phased out altogether, though it is recognised that the poorest sections of society require some safeguards as to the price of basic, staple commodities. As a first step to phasing out price control, where mark-ups are in force these should be related to c.i.f. values only. In general, market forces should be allowed to play the principal role in policing the system, and the Government should intervene to the minimum extent necessary to prevent dumping practices and monopolistic pricing. Even in these cases, the removal of quota restrictions and the imposition of realistic tariffs will largely ensure that monopoly pricing is not a problem.

7.2.2.2 Import Licensing and Foreign Exchange Allocations

Mauritius is an economy with an until now endemic shortage of foreign exchange. Its foreign exchange supply is primarily dependent upon receipts from sugar exports which by nature are volatile, and it is therefore understandable that rationing of foreign exchange as a scarce resource has been seen as a necessity.

On the other hand, the procedures for importing are highly complex and, as has been described in Appendices 1 and 5, give rise to great concern in the private sector. There is no doubt that the costs to companies in conforming to the basic system (in terms of the senior management resources involved) and in coping with shortages of urgent supplies, abnormally high stock levels and particularly the complications of variations between the consignment itself and the proforma invoice are very substantial.

In the long-term, the revisions to the trade and commercial policy of Mauritius that we are proposing (see Appendix 10, section 10.1) leading to the progressive dismantling of quantitative restrictions on trade and to the re-design of the tariff system, call also for the dismantling of import licensing, since this is the operating mechanism of the quota system.

During the adjustment process, it will be necessary to maintain a measure of import licensing, albeit on a gradually more liberal basis. The two principal areas of concern to importers are the need to secure urgent components, supplies or spares at short notice to avoid disruption to production schedules, and the problems caused by minor variations between the content and/or value of the consignment itself and the proforma invoice against which the original import licence was issued and the foreign exchange allocation made.

It would greatly assist importers, and reduce the costs of administration and the costs to production of delays, to be permitted automatically a small variance - say + or - 10% - on the c.i.f. value of the consignment anticipated in the proforma invoice. The Government could also ensure that a measure of flexibility was built into administrative procedures affecting importing. For example, a consignment of 10,000 polythene bags might be specified on the proforma invoice, while the consignment delivered might consist of 10,000 polypropylene bags. Under present rules, this would be ineligible for entry because it has not been accurately stipulated in advance. In practice, the end use and indeed c.i.f. value may be identical, in which case entry procedures should be automatic.

In general, we suggest that in the short term efforts should be made to liberalise the importing/foreign exchange system for companies wherever possible. At the same time, Government could greatly increase the penalties for the falsification of declarations and for all serious abuses of the system, and show its determination by rigorous prosecution of offenders when abuses were proven.

In the longer-term, the import licensing system should disappear altogether (see Appendix 10, section 10.4.2.2 for a more detailed argument).

7.2.2.3 <u>Duty Drawback Scheme</u>

For DC companies and other companies based upon the domestic market, there is provision for repayment of customs duty on imported items which are subsequently re-exported as part of an export order. This Duty Drawback Scheme, as it is known, was introduced to stimulate exports by domestic (non-EPZ) manufacturers.

In recent years the system has not worked, and a number of specific incidents were quoted during the interview programme to illustrate its failure. The essence of the system as it is proposed and intended to operate is that companies which export goods or services which have an import content and upon which import duties have been paid are entitled to receive repayment of that duty. The procedure is that exporting companies make an application to the Customs authorities who are required to verify the claim and recommend repayment where appropriate to the Ministry of Finance. It is the Ministry of Finance which is responsible for repaying the money.

A number of specific cases were quoted during the interview programme of repayments which were more than 12 months overdue - in some cases these amounted to very substantial sums, in excess of Rs 1 million. Enquiries by the companies concerned elicited such responses as that repayments could not be made due to a shortage of resources, or that repayments would be made in instalments over an extended period of time. In some cases, there is clear evidence that the inadequacies of this system prevented companies from pursuing export marketing opportunities. If companies could not rely on receiving repayments due and build into their price quotation the effects of the drawback scheme, it has been found that Mauritian products cannot compete on delivered price grounds with other suppliers. Where companies have to build in these costs, they can perceive that their products will not be price-competitive and they do not tender for the contract at all.

In some instances larger companies have now negotiated with Government an arrangement whereby the duty is not paid in the first place. Imports which can be shown to be destined for re-export (i.e. are intermediate inputs for finished goods to be re-exported) are imported under bond free of duty. They are drawn from bond as necessary for the maufacturing process. Companies have to post a guarantee (usually provided by a bank or insurance company at a cost of ½% of the value of the products) that duty will be paid in the event that any of the bonded goods are released on to the Mauritian market.

There are a number of comments to be made on this situation:

- It is incumbent upon companies to propose schemes to Government under which the duty-drawback scheme can be made to work;

- Government, rather than assisting companies to export and thereby earn foreign exchange has in the past been guided by suspicion and mistrust of the private sector, and has raised barriers to export development, as a result, some companies have felt an active disincentive to export;

- the Duty Drawback Scheme has clearly not worked well, and if it is still regarded as a legitimate and useful policy that exports by domestic companies should be encouraged, urgent attention is required to ensure that the scheme does work;

- in our opinion Government should take the initiative in improving the operation of this scheme. Recommendations on this aspect are presented in Appendix 10 to this report.

7.2.3 General Policy Aspects

7.2.3.1 Reform of the Tariff Structure

Appendices 2 and 3 concentrated on the features of the tariff structure in Mauritius, and more importantly, some of the principal economic effects of the tariff structure. It was suggested in these appendices that there are considerable costs associated with the existing structure of tariffs and quotas. In particular it would seem that the development of the export sector is certainly hindered by the protective structure. Later in Appendix 10 we suggest a programme of liberalisation which is directed at reducing Mauritian dependence on quotas. For the moment however we shall concentrate on the administration of the existing tariff structure. The simple fact is that even if the existing structure of tariffs were maintained the regime could be administered in a much less costly and more efficient manner.

The principal features of the Mauritian tariff schedule are as follows:

- customs duty which may be either general or preferential and which is levied on the cost, insurance and freight (c.i.f.) value of imports;
- fiscal duty which is invariably levied at a higher rate than customs duty and which is also calculated on c.i.f. value;
- stamp duty which currently is levied on all imports at a rate of 12% of c.i.f. value;
- import surcharge which is currently levied on all imports at a rate of 10% of c.i.f. value;
- special import levy which is currently levied on all imports at a rate of 10% on c.i.f. value plus the import surcharge.

Stamp duty, import surcharge and special import levy have all been introduced witin the last decade. In each case the proximate motive for introduction was to increase Government revenue from the foreign trade sector. Despite attempts to differentiate the instruments, like the fiscal duty and customs duty, they are nothing more than import tariffs. There is no rational economic reason for distinguishing between the different kinds of levy in this way. The reason behind the proliferation of a variety of import tariffs under different names is presumably political - at the time of introduction it may have conveyed the impression of a new duty, rather than one being added to the stock of existing duties in each case. Furthermore, from a bargaining standpoint (in an international context) it may serve the purpose of disguising certain duties since they do not appear in the tariff schedule. In practice however traders are fully aware of the duties for which they are liable, and in practice there is no real distinction to be made between the various duties. The principal impact of the various interventions is to raise the cost of compliance on the part of the trader, and to raise the costs of collecting the tariff revenue since all of the rates must be calculated separately. The same revenue would be collected at a lower cost if all these various duties were replaced with a single tariff. Even if the existing degrees of nominal protection were maintained, the revenue could be collected at lower cost.

A simple example might illustrate this. Suppose a commodity is imported to Mauritius which has a c.i.f. value of Rs 1000. Assume further that it is subject to a 5% preferential tariff and a 30% fiscal duty: these raise the Mauritius price to Rs 1,350. Stamp duty is then calculated at 12% (Rs 120), import surcharge at 10% (Rs 100) and special levy at 10% of c.i.f. + import surcharge (Rs 210). Together these raise the Mauritian value to Rs 1,780, that is a c.i.f. value of Rs 1,000 and tariff revenue of Rs 780. There have however been five separate valuations in the process. The same revenue could have been yielded by a single tariff at 78%. Not only would this be far less costly to collect from the standpoint of the customs authority, (one single valuation), it would also be far less costly from the standpoint of those individuals engaged in foreign trade. Importers could calculate their liability for duty very much more quickly and imported goods would spend less time tied up in bond. There are therefore considerable administrative gains to be made by moving towards a system whereby one single tariff, (the rate of which may vary from commodity to commodity), replaces the existing agglomeration of duties under different names. This recommendation stands irrespective of whether or not other recommendations with respect to tariff/quota liberalisation are accepted or not. It is a recommendation which will make the existing tariff structure far more transparent, easier for traders and administrators to understand, and less costly to operate.

7.2.3.2 Taxation

The aspects of Mauritius' tax law which have most direct impact upon the industrial sector are the provisions made for the taxation of company profits (and of course the tax holidays given to EPZ, DC and ESZ companies), and certain provisions relating to the taxation of private individuals.

Tax holidays are available to new investors as described in Appendix 1. Based upon the experience of companies operating under these concessions, and upon a number of discussions held with Government officers during the research for this study, there are several aspects of the tax holiday system which appear to merit reappraisal.

Firstly, as far as EPZ companies are concerned the tax holiday is clearly regarded as an important incentive. However, experience has shown that (i) many EPZ companies take many years to achieve profitability, and therefore the impact of the tax holiday may be deferred and (ii) there is some evidence to suggest that, so far, EPZ companies overall have not achieved the absolute levels of profitability originally envisaged, thus diminishing the effectiveness of the tax holiday itself. Furthermore, after ten years, the relief from taxation reduces from 100% to 50%, a recent measure, the effects of which have yet to become apparent. The behaviour of the EPZ sector historically suggests that promoters regarded the change from zero tax to the full rate as potentially damaging to their business. The evidence in support of this claim is that it seems relatively common for the initial EPZ company to be run down after 10 years to a loss-making or at best break-even position, and for the same proprietors to start a new EPZ business, in the same field of operation, thereby benefiting from a further 10 years of 100% profits tax relief. Perpetuation of this procedure clearly would mean that the Government's tax revenue remains at zero from EPZ companies. It may be that the step reduction now in force will mitigate this effect, but so far there is no indication of what effects it is having.

In the case of DC companies, very few seem to make any profits at all in the early years of operation, and thus the 5 year tax holiday which is afforded to them may in practice be worth very little as an incentive. Also, the end of the tax holiday brings with it a massive jump to the full rate of corporation tax, and, certainly on the basis of our interview programme with DC companies, very few appear to be in a position to sustain that level of taxation.

A balance therefore has to be found between achieving an acceptable revenue base for the Government from industrial companies, while at the same time ensuring that a genuine incentive is available to new investors which will stand comparison with international practice and will make Mauritius attractive for new investment. We suggest that an alternative to the tax holiday system might merit serious consideration. For "qualifying companies", which may be DC, EPZ or ESZ companies, a fixed concessionary rate of tax could be imposed from the start to apply indefinitely to a company's profits. To be effective, such rates would have to be genuinely concessionary: i.e. that fixed, long-term low tax rates, graded according to the desirability of the enterprise in national economic terms, which would provide a real incentive to investors, and a stable tax base to Government. Appendix 10 contains proposals for a radical restructuring of corporate tax provisions as a cornerstone of a new and, we believe, more effective package of investment incentives.

The area of personal (income) tax is relevant to a study of industrial policy only to the extent that it affects the success or otherwise of the industrial development effort. Where the tax regime on dividends received from the newly-established "qualifying" companies is part of the investment incentive structure, then it may be justifiable to consider the same principle of low, long-term tax rates that has been proposed for company profits. This would replace the tax holiday provisions on personal tax as has been proposed as a substitute for tax holidays on corporate profits.

In Mauritius, there is one particular area of concern relating to the process of encouraging investment in new enterprises which may be susceptible to modifications in the personal tax regime. It is especially noticeable that there has been scant provision for equity investment in new business (i.e. risk capital or venture capital) in Mauritius. In the discussion of the role of the Development Bank of Mauritius, (DBM) in Appendix 1, the low level of equity investment is commented upon. The absence of a vehicle to mobilise risk capital in new ventures creates the real risk that such ventures start life with a debt:equity ratio which diminishes their chances of survival. Although proposals now exist to improve the provision of venture capital through the Equity Financing Fund Bill, this has yet to make an impact and does not necessarily obviate the need for further sources of such funds.

We suggest that consideration be given to a scheme whereby individual Mauritian investors, (and conceivably also Mauritian companies) are given the chance to invest in new companies by offering tax concessions if such investments are made in "qualifying companies". Although it is beyond the scope of this study to propose detailed changes to the tax laws, the essence of such a scheme might be as follows:

- individuals (or companies) could be invited to contribute to an "Investment Trust" or similar body - (perhaps to the Equity Finance Fund itself) - by purchasing shares;

- the Fund would then invest in qualifying companies, with a view to ensuring that such companies were not unfavourably geared;

- the principle would be that such investments had capital growth as a prime objective over a medium term period, rather than individuals expecting an early pay-back in the form of annual dividends;

- in recognition of the riskiness inherent in such venture capital investment, and of the anticipated length of the pay-back period, the Government would grant relief against income tax for a period of years at the individuals' highest marginal rates of tax. This type of scheme, (which is based upon programmes being introduced in some European countries) would in our view satisfy two important criteria in Mauritius:

  (i) it would provide a source of local equity capital where none exists at present - i.e. private venture capital;

  (ii) it would encourage individual Mauritians to invest in the country's productive sector directly, rather than in, for example, local financial funds or even offshore investments.

7.2.3.3 Communication

The administration of Government industrial policy undoubtedly causes confusion and frustration amongst private individuals and companies. Hopefully, this will be progressively eased if the Mauritius Government sees merit in the proposals we have put forward, and introduces the changes suggested.

Recognising that policy change takes time, however, we believe that short-term gains could be secured if the Government undertook an urgent information programme to explain clearly existing procedures and provide perhaps a telephone advisory service where help with procedures could be obtained.

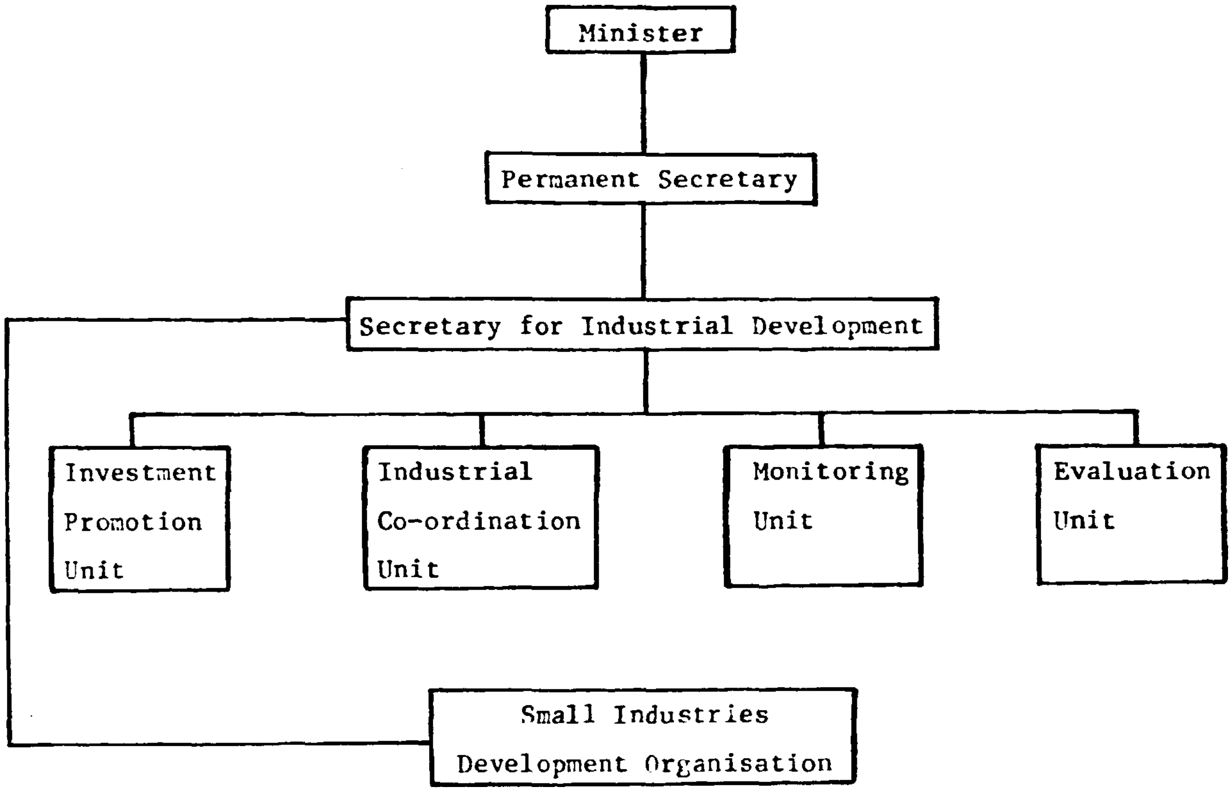
We observed that difficulties and misunderstandings arise particularly amongst smaller companies where perhaps the level of skill, educational standards or management quality of senior staff is relatively low. While the larger companies tend to have the capacity to solve administrative difficulties with the Government system themselves, small companies do not. Much of the confusion that arises is the result of ignorance. We would suggest that some simple fact sheets on, for example, the import procedures, could be a great help to relatively under-managed companies. A positive effort by Government to assist by means of a "Helpline" - type of telephone advisory service, adequately publicised and perhaps run in conjunction with the private sector (for example, the Chambers of Commerce) could be of considerable assistance in the short-term.

7.3 Institutions

The institutional framework of government, whether ministries or quasi-government bodies, is central to the administration of policy. In Appendix 10, detailed recommendations are put forward for the structure of new institutions, notably the Mauritius Export Development and Investment Authority (MEDIA) and the Small Industries Development Organisation (SIDO). The intention here is to highlight briefly the functions of existing institutions which directly affect the current industrial structure, and to suggest areas where changes to procedures might, with advantage, be made. (It should be emphasised, however that this study did not include a detailed examination of the day-to-day operations of principal institutions, and that suggestions for change are based upon preliminary discussions with officials and upon the consultants own observations.)

7.3.1 Ministry of Industry and Co-operatives

This Ministry has been recently created by the new Government as a separate entity from within the old Ministry of Commerce and Industry, Prices and Consumer Protection. Being relatively new in addressing specifically the industrial sector, the Ministry is anxious to carry out a strategic review - of which this study forms part - of the sector before making major changes. The current structure of the Ministry of Industry is broadly as follows:



There are a number of comments to be made on the way in which the current Ministerial structure impinges upon the administration of industrial policy:

- Since the creation of the new Ministry, a reappraisal of its tasks and responsibilities is underway.

- To undertake its present range of administrative responsibilities, the Ministry is relatively under-staff and under-resourced.

- Rather than necessarily seek to increase staff, we suggest that in some cases it may be more appropriate to seek to reduce some of its responsibilities.

- In particular, we proposed that less technical appraisal is attempted by the Evaluation Unit and that it restricts its role to strategic considerations only.

- The role of the Monitoring Unit has yet to be defined - consideration is given to this in Appendix 10.

- The Investment Promotion Unit is at present grossly under-staffed and as a result is not very effective. Its future is closely tied up with the proposed MEDIA organisation, a detailed blueprint for which, (reflecting our discussions with the Minister and his senior colleagues) is given in Appendix 10.

- The Industrial Co-ordination Unit is urgently needed to provide the "one-stop" concept for channelling investment enquiries and assisting in the foundation of new enterprises. We also give detailed consideration to this unit in Appendix 10.

- The Small Industries Development Organisation is at present able to make little more than a token attempt at developing the small business sector due to a lack of resources. In Appendix 10 we put forward innovative proposals for the creation of a new and potentially much more effective structure for SIDO, including proposals for the creation of a joint public/private sector agency.

We have offered no detailed analysis or criticism of the Ministry of Industry, for two reasons. Firstly, to enable us to do so would have required a more detailed analysis of the day-to-day role of the Ministry than was permitted in a study of this scope. Second, and more importantly, in view of the reappraisal of its role currently being carried out within the Ministry itself, this report has sought to contribute to the redefinition of the Ministry's main responsibilities. Recommendations put forward in Appendix 10 have been formulated with the emphasis on practicability, aimed to be of immediate assistance in improving policy administration, and at achieving the capacity to respond flexibly to policy changes as they occur in future.

There are, nevertheless, two points which merit specific mention:

(i) We formed the impression that, even for its present range of duties, the Ministry is relatively under-resourced. Looking to the future and bearing in mind the complexities of the programme we are proposing, it is clear that the Ministry will need additional technical support; we have put forward recommendations on this aspect in Appendix 10.

(ii) Following discussions with the Minister of Industry, we have considered whether it would be appropriate to divorce the management of Co-operatives in Mauritius from the management of the Industrial sector. Since we understand that Co-operatives are essentially based upon the agricultural sector and therefore present substantially different problems to those posed by Industry, we endorse the notion of removing the Co-operatives portfolio from the Ministry and thereby creating a single Ministry of Industry.

7.3.2 Ministry of Commerce

Although the division of the previous Ministry of Commerce and Industry, Prices and Consumer Protection was in part meant to separate out the responsibilities for industrial development, there remains some degree of overlap in three principal areas:

(i) Import licensing

(ii) The new Freight Study Unit

(iii) The export promotion brief.

A major organisational review would be inappropriate and beyond the scope of this study but we feel it pertinent to make a number of observations concerning the division of responsibility.

We have discussed the issue of the divided responsibility for promotion at some length with both the Prime Minister and the Minister of Industry, and, as we understand it, there are good reasons for maintaining the status quo. First that Mauritius' exports comprise agricultural produce, manufactures and services; second there is a close relationship between exports and shipping; and functional responsibilities are similar for coordinating and monitoring exports and imports. It is at present envisaged that the Ministry of Industry would correctly have executive responsibility for MEDIA, however if as envisaged executive responsibility for export promotion remains with the Ministry of Trade and Shipping it would not only create a triangulation of communications and responsibility but would restrict MEDIA's freedom of action and make more difficult the coordination of promotional activities. It would therefore be preferable to have a single executive ministry responsible for MEDIA's functions, and given de facto that the main concern of MEDIA will be with manufacturing industry the Ministry of Industry would be the most appropriate.

We believe the new Freight Study Unit will be a useful addition to the Government organisation and will have an important role to play in assisting manufacturing industry to reduce freight costs. It is essential, though, for the Freight Unit to be integrated with industrial development issues and we would recommend that a member of the Freight Unit is represented on the Industrial Development Committee, and has direct access to the manifold industrial units within the Ministry of Industry.

Elsewhere we have considered import licensing and have established that it is a very major influence on industrial development. We have further argued that following the reduction in quotas import licensing is also reduced, this is especially important given our recommendations to cease making distinctions between exporters and import substitution companies. With no clear categorisation of companies, import licensing could become very cumbersome and restrictive to future manufacturing growth.

7.3.3 Development Bank of Mauritius (DBM)

A number of criticisms were levelled at the DBM during the field research, and observations by the consultants demand consideration of the DBM's role in the context of Mauritius' industrial development. Areas of concern identified in this study fall into two broad categories:

- financing policy
- industrial estates.

7.3.3.1 Financing Policy

The DBM Act and subsequent amendments gives the DBM Board very wide powers and flexibility to determine the Bank's financial policy and, as has been pointed out in Appendix 1, gives the DBM protection against policy directives issued by Government. It is clear that it is the responsibility of the DBM Board to formulate and execute Bank policy. The comments offered here are therefore intended to reflect the consultants' concerns and those expressed to us by the public and private sectors, and it is hoped that these will be taken into account in the future formulation of Bank policy.

With respect to the Bank's general finance policy towards the industrial sector, the DBM by and large does not act as a catalytic risk-taker in promoting the industrial sector. In its basic financial policy, the DBM errs on the side of prudence and low-risk, and to that extent its developmental role is significantly less prominent than would typically be found in the majority of the developing world's development finance institutions. This innate caution is manifested in a number of ways:

- typically, the majority of loans extended directly to industrial companies are made principally in foreign exchange. The DBM effectively on-lends lines of credit from international sources at rates of interest incremental to the basic line of credit used. Thus the borrower is obliged to bear the foreign exchange risk inherent in a rupee which has been often devalued in recent years.

Borrowers undertaking loans at, say, 10% interest at Rupee 7=US$1.00, find that 2-3 years later they are servicing the loan at Rupees 12.3=US$1.00, raising the effective rate of interest in rupee terms to almost double the nominal rate.

- While the DBM does offer preferential rates of interest to qualifying EPZ and DC companies (e.g. 13-14½% against open-market rates of 17½% for medium term loans, and 19% for overdraft facilities), such rates are at best nominally concessionary against Mauritius' very high current market rates.

- Where the DBM lends foreign exchange to a company the Bank will disburse the loan only against the foreign exchange cost of imported items. Thus, where a company needs to import via a local agent, (in order to benefit from technical advice in product selection of example), the DBM will often not disburse against the local currency component and a financing gap therefore arises.

- The Export Credit Guarantee Scheme administered by the DBM operates under very stringent conditions. Firm orders are required before advances of money are made so that companies in, for example, the knitwear trade, where stock financing 6-9 months in advance of sales is required, and where production must by the nature of the business pre-date orders by many months, receive little benefit from the scheme.

- Although the Equity Loan Fund has now been introduced by the DBM, historically the Bank has not participated in equity financing other than in the hotel sector. Equity finance has been in very short supply within Mauritius, and it is not yet clear whether the DBM will in fact make relatively risky venture capital investments in industrial companies. A significant emphasis of the Equity Loan Fund is to act as a rescue operation for sick (and perhaps technically insolvent) companies, arguably a last resort policy which in specific cases may have been avoidable if companies' initial debt:equity ratios had been more advantageous.

As has been stated, it is up to the DBM Board to specify Bank policies. In our opinion the national development finance institution should take the lead in part-financing new ventures in order to encourage private sector financing, and should be willing to take more risks in the process. It should not act primarily as a commercial bank - and it is a commonly held view that the DBM is a quasi-commercial bank - but rather act as the leading risk-taker whose main role is to stimulate entrepreneurial initiative. We firmly believe that the DBM should liberalise its financial policies, and that Government should initiate discussions with the DBM to explore ways in which this could be achieved.

7.3.3.2 Industrial Estates

The two principal industrial estates in Mauritius, at Plaine Lauzun and Coromandel, both adjacent to Port Louis, are funded 50/50 by the IBRD and the Government of Mauritius, and are managed by the DBM. Plaine Lauzun is fully occupied and Coromandel about 60% full. Unit sizes range from 1,800 sq.ft. to 60,000 sq.ft. at Plaine Lauzun, and 1,000 sq.ft. to 17,600 sq.ft. at Coromandel.

Plans also exist for the DBM to build new estates, notably at Beau Vallon near the airport, plans for which were drawn up in 1975, and possibly also at Vacoas-Phoenix.

However, there are a number of uncertainties over the future of Mauritius' industrial estates. Firstly doubts exist over demand for more estates, in the light of the empty space still available at Coromandel. Second, the MEDIA Act states explicitly that MEDIA should assume responsibility for industrial estate development in future. Third, SIDO wishes to engage in the development of "mini" industrial estates to serve the small business sector.

Appendix 10 gives full consideration to the issue of industrial estates. At this point however it is relevant to make some general remarks about their role in industrial development.

- Unquestionably the ready availability of good quality, modern, advance units is essential for Mauritius to be seen as competitive in attracting external investment in export industries.

- It is fallacious to assume that no demand exists for more space because Coromandel is not full. Firstly, as the DBM itself acknowledges, the design of Coromandel on a multi-story basis is not optimal - most of the empty units are on the first and second floors without direct goods vehicle accesss. Second, the estates now available are both adjacent to Port Louis (the private estate at Goodlands is full, for example) and it is likely that not all new companies would wish to locate there.

- There is also the key question of unit sizes. SIDO's wish to develop small units addresses the need for a segment of the market - the small business - entirely different from that which would be attracted by units of, say, 2,500 sq.ft and upwards.

We have no doubt that further factory space is needed in Mauritius, of the right design, type and location, and Appendix 10 gives detailed consideration to the future development of industrial estates, and to the management and organisational structure required to plan and control what is in effect a highly specialised business.

APPENDIX 8

8. INVESTMENT AND EXPORT PROMOTION

8.1 Introduction

This appendix is concerned with the nature and performance of export and investment promotion activities in Mauritius over the last 10-12 years. It is divided into two sections, one dealing with investment promotion and the other with export promotion. Within each an examination is made of the present system and methods employed, the constraints limiting the promotion activities together with a critique in terms of the relevance, efficiency and shortcomings of promotion. The final section of each lays foundations for the recommendations outlined in Appendix 10.

In writing this critique we acknowledge that the previous structure and systems of export and investment promotion are about to change quite radically with the establishment of MEDIA. Its purpose is principally to provide pointers to the future direction of MEDIA'S activities and to assist the new agency in avoiding the pitfalls of the past.

8.2 Investment Promotion

Before proceeding further it is necessary to define more clearly the issues to be addressed in this section.

In previous sections of this report, in particular Appendices 2 to 4, an examination was made of the implications for resource allocation of existing and past policy, particularly in terms of fiscal assistance and protection in so far as they have influenced the aggregate flow and structure of new investment in Mauritius. It was demonstrated that the combination of fiscal and trade policy substantially favoured manufacturers of import substitutes and that export industries currently carried between 59 and 66% of the cost of the burden of these policies.

Hitherto the analysis has been largely concerned with the effects of policy on domestic investors and foreign-owned industry already located in Mauritius. For potential foreign investors another dimension of policy is important; the attractiveness of Mauritius in terms of internal cost levels and fiscal incentives available relative to other countries which are also competing for internationally mobile investment. This was examined in Appendix 6 in which it was concluded that the conditions in Mauritius are generally comparable to other countries.

Attention is now turned to the remaining aspects of investment promotion, those concerned with bringing Mauritius to the attention of potential investors and demonstrating the advantages of Mauritius over other locations: in other words the communications and selling aspects of promotion.

8.2.1 The Present System

8.2.1.1 Government Initiatives

As in most countries which adopt a positive view of promoting industrial investment both domestically and internationally, the Government of Mauritius has taken a leading role.

Prior to the last general election investment promotion was the responsibility of the Ministry of Commerce and Industry, Prices and Consumer Protection. Following the division of this Ministry, investment promotion is now within the portfolio of the newly-established Ministry of Industry, which largely comprises staff from the industries section of the former conglomerate Ministry.

Within the Ministry of Industry an investment promotion unit (IPU) has been established comprising an economist and two assistants. The unit is responsible to the Secretary for Industry. The objectives and functions of the IPU have neither been fully defined nor documented but it is generally recognised by the Ministry that the IPU functions to:

- prepare promotion programmes;

- attract industrial investment from abroad;

- encourage investors to further develop local industries; and

- ensure, as far as is possible, that those industries which are established in Mauritius benefit the country.

For many years the promotional efforts of the Government have been largely channelled into two activities; the participation in foreign trade fairs and the employment of foreign consulting companies to represent their interests in various European countries.

Probably the key promotional activity and certainly the one which can be monitored most easily in terms of performance is the use of foreign consultants. Initially, around 1973/74, only one firm was employed to explore the possibilities of attracting companies to Mauritius from France. Later, in 1979, a second company was commissioned to represent Mauritius in West Germany and most recently (1981) a British firm was appointed for the United Kingdom. Since 1976 the scheme has been financed by EDF at a total cost over the period of ECA/ECU 850,000 (approximately $720,000). The French company has been by far the most successful overall, even when comparing the last four years only. It must be recognised however that the number of positive new investments attributed to this company is exaggerated as they include repeat investments, expansions, and investments in shadow companies established to overcome tax holiday restrictions. Nevertheless by comparison the performance of the West German consultancy was disappointing. It generated only three investments in the three years it was operating on behalf of Mauritius. It was replaced in 1983 with another West German Company. The British Company has two projects attributed to it since it was appointed 3 years ago.

Overall the consultants' contribution to investment promotion has been significant accounting for 30% of all new EPZ companies in the last 10 years. Excluding any support costs that may have been funded by the Government directly this has been achieved at a cost of $20,000(1) per project or in 1983 prices $41,000(1). Although, as we shall argue later, this is not a particularly efficient way of promoting new investment, at least as it is currently conceived, the results are indicative of Mauritius' potential for attracting foreign investment.

The second major initiative undertaken by the Government is their representation of Mauritius at various trade fairs in Europe. Usually the senior IPU member is sent to trade fairs, supported where relevant by a representative of one of the appointed consultants as part of a public relations exercise to interest potentially mobile investors in locating new projects in Mauritius. The trade fair itself is seen as a suitable medium as it brings together manufacturers in certain trades, and through the exhibits provides a window into what is currently produced in the country.

Most of the funding for this initiative comes from the annual budget allocation for promotion. It is generally sufficient to meet the airfares and subsistence of the Government officer attending. Entertainment expenses are normally met by the consulting firms.

As must be expected within all public relations exercises the success, in terms of interest generated, of this initiative is difficult to monitor. As no records are available of which companies and individuals were contacted in these countries nor of which potential investors subsequently visited Mauritius little comment can be made on its effectiveness.

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(1) From 1976 onwards

The officers concerned with investment promotion are also aware of the value of and need for preliminary research. In the past they have been represented on steering committees of projects concerned with market research (usually commissioned as part of an export promotion initiative), and on one occasion were largely responsible for a market research assignment aimed at identifying products not at that time manufactured in Mauritius but which had large and growing markets in African countries. The results of the project were generally disappointing, not because the concept of project identification was incorrect but that the particular approach adopted was unsuitable.

It is recognised by the IPU personnel that the network of High Commissions throughout the world would also offer substantial scope but at present do not have commercial officers assigned to them. We are advised that the Government is considering appointing commercial officers to selected High Commissions in the future.

As far as promotional literature is concerned Mauritius is disadvantaged. There only exists a series of seven fact sheets covering most areas of interest to potential investors who might be evaluating Mauritius as a possible location for investment, and a general promotional brochure published jointly by the Government and the Chamber of Commerce and Industry.

8.2.1.2 Role of the Private Sector

The private sector does not play a direct role in attracting new investment from abroad but does, through a number of private sector organisations - the Chambers of Commerce, the Indian and Chinese Trade Associations, MEPZA - give encouragement to their existing members to invest in new projects locally.

As far as investment promotion of foreign investors is concerned the contribution of these organisations can understandably be termed supportive. Their main objective is to promote the interests of their current members. To directly aid new companies to enter the industrial sector would lead to a conflict of interest. First, in some industries, especially in knitwear and readymade garments, Mauritius faces or is nearly facing EEC and other export market quotas or Voluntary Export Restrictions. Thus to encourage new investors in these established industries would be to limit the overall scope of the present members to expand in those markets. Secondly the effect of new projects entering the industrial sector is to compete for, and bid up the prices of, some major inputs and factors of production. Consequently whilst the overt attitudes of these organisations is very positive to Government efforts to expand the industrial sector they must be considered in the above context. Somewhat counteracting these limitations is the overall desire of the organisations to increase the number of their members.

8.2.1.3 Constraints to Promotional Initiatives

As will be argued in the following section there are many shortcomings in the existing commitment and approach to investment promotion. This is hardly surprising, however, given the constraints within which this work has to be undertaken, in particular the financial stringency of the budget allocation, the attitudes of previous Governments, and their low degree of appreciation of what was possible, what was required and what could be achieved by an efficient and effectively marketed programme of promotion.

Perhaps the most restricting of all the constraints is the amount of money made available each year. In all probability this reflects the attitudes of previous Governments to the importance of investment promotion, but must to some degree also reflect the strength of the departments responsible for this activity.

The budget for investment promotion is minimal compared to both the tourism budget and the money made available from the EDF. The size of the budget allocations for investment promotion can be attributed to two factors: certainly to the short term pressures facing the Government which have tended to divert their attention away from longer term solutions, these have included, for example, foreign exchange shortages, rising social tension, and increasing unemployment; but also to the general lack of appreciation of what can be achieved by a well-planned and coordinated programme of promotion which in itself reflects the low degree of sophistication in Mauritius' own communications industry.

The latter point is largely responsible for the second main constraint, a shortage of internationally experienced people in the fields of marketing, public relations and the communications industry in general. At present the IPU is staffed with civil servants, albeit those most experienced in the field of investment promotion, and cannot be expected to have the depth of experience of professionals in this discipline.

Finally the IPU in its current form, and its predecessors in former ministries, does not have access to high calibre research facilities, and most of the planning is undertaken with inadequate resources.

8.2.2 Critique

In presenting this critique we do not wish to imply the individuals responsible for investment promotion are at fault, indeed we consider them to have performed well within the limitations imposed on them. The purpose of this critique is to make clear the problems they have faced and to provide a basis for future promotional planning.

A considerable amount of attention is given to attracting and promoting new investment by most countries in the industrial and industrialising worlds. Each is able to offer investors a package of attractive features, which for example might include sizeable markets or preferential access to them; good transport and telecommunication links; efficient and cheap productive capacities; skillful, dextrous labour, etc, and they usually complement these by offering a range of fiscal incentives. The most successful combine some particularly attractive features with highly developed commercial and industrial infrastructures, but it is also the case that most of the successful countries approach promotional activities in a comprehensive and coordinated manner and attach a high priority to providing adequate financial and manpower resources.

In planning investment promotion there is no single working model that can be adopted. Each programme of activities must be tailored to the specific requirements of the country concerned. Having said this, there are four broad aspects to be covered: (i) planning and research, to identify which industries are most suited to the country, (ii) the targeting of prospective investors, (iii) communicating with prospective investors, and (iv) the securing of the investment.

As we have outlined above in the case of Mauritius most aspects need strengthening, in particular planning and research, and most attention is devoted to the identification of potential investors. The remainder of this section discusses some of the more important issues which need to be addressed when planning an investment programme and highlights the main shortcomings in the present system adopted in Mauritius.

8.2.2.1 Planning and Research

Arguably the most important of these is the planning and research function as it is this aspect of promotion which defines the possibilities and the direction of subsequent initiatives.

The fundamental step in any investment promotion programme is to obtain a detailed understanding of which projects are in the long term most suited to the country's resource base (its labour force skills, location and communications, raw material availability, financial and commercial infrastructure etc) and which therefore potentially offer the greatest benefit. It is also important to monitor continually this information to take into account differential industry growth rates, new technologies and technological developments so as to keep abreast of changing world circumstances and be in a position to adjust downstream marketing initiatives accordingly. Such information also provides pointers to what conditions will be necessary for the establishment of future industries. As the concept of comparative advantage is dynamic (a country's resource base can be changed over time) it also provides a perspective to policy makers on where the economy must move in the future to maintain a steady flow of appropriate investment.

Moreover such research can also provide information on the competitive position of the country in its export markets relative to its competitors (for new investment projects) and assist in identifying those industries and countries which offer the most lucrative source of outward looking investors and internationally mobile industry.

As far as we are aware from our investigations during this project and during previous assignments in Mauritius over the last ten years only minimal attention has been given to this aspect of investment promotion. With the exception of the previously mentioned market research assignment in 1981 which was intended to identify a list of projects that could be established in Mauritius to supply African markets and a UNIDO financed study in 1982 to identify projects for the export processing zone, no systematic work has been carried out in this area. Consequently what investment promotion work has been undertaken has necessarily been carried out on an ad hoc basis.

Selectivity in investment promotion is an issue that tends to be overlooked in Mauritius.

We acknowledge that in many instances, particularly when there is unemployment of factors of production, any new investment may, at least in the short term, be beneficial, but a generally non-selective policy can lead to serious distortions in the industrial structure over the longer term, which has indeed occurred in Mauritius. These include:

a predominance of footloose, highly mobile companies established to take advantage of short term measures of tax relief and other assistance;

a concentration of investment in one or two leading industrial activities resulting from a "follow-my-leader" growth pattern;

a growth of longer term industries, basically unsuited to the country but which have been allowed to establish under the general protective umbrella of investment legislation.

Whilst a more selective approach to investment promotion would not avoid these pitfalls entirely it would certainly help to minimise them as marketing and promotional efforts would focus on those projects and industries most suited to the existing and future conditions in Mauritius. For this to happen, of course, would require considerably more attention being given to the research aspects of promotion. Alternatively, (and we have argued previously that in Mauritius' case this is unlikely to be possible) an effective system of project/investment preappraisal would be necessary to vet all proposed projects so as to avoid those which are least suitable. But even if this were possible it would not avoid the necessity for the type of research we have suggested because without it the project evaluators would have no criteria against which to appraise applications.

That this research has not been carried out systematically over the last ten years has meant that the Authorities, in particular those concerned with investment promotion, have been left in a virtual vacuum as regards what is and what is not desirable for Mauritius in terms of new industry. To avoid future efforts following a similar pattern will require the Government to attach a high priority to this issue and provide the proposed MEDIA with the necessary finance and manpower resources.

In Appendix 10, concerned with recommendations, we have indicated the broad areas of research required and have made proposals for initiatives for carrying out this work both on an immediate and longer term basis.

8.2.2.2 Audience Identification

The previous initiatives of the Government have centred on the identification of potential investors but have done so in quite an unstructured manner allowing the marketing consultants the widest discretion in the selection of projects. The work of these consultants can be criticised on three counts:

(i) Virtually no investigations have been made of which industries could most benefit Mauritius and which could most efficiently be based in Mauritius.

(ii) The countries to which they have been appointed are major competitors to Mauritius in the attraction of foreign investment.

(iii) The activities of the consultants have been spread too thinly with at least one consultancy looking for investors outside of its appointed area.

The consultants themselves are not entirely to blame as their remit was wide and open to considerable interpretation; no structure or guidance has been forthcoming from the Government and less than adequate support has been available within Mauritius. With proper guidance it would have been possible, and we contend preferable, to appoint specialist consultants with regionally wider areas but with an in-depth knowledge of the industries or sectors identified.

Many techniques are available for the identification of potential investors and future work by the Mauritian authorities should pay particular attention to selecting the most appropriate of these once target countries/regions and industries/sectors have been identified. Also, those selected should be coordinated within the broader communications programme.

8.2.2.3 Communications

Once projects have been identified and potential investors targeted it is essential to communicate with them efficiently and effectively. Very little attention has been given to this aspect of promotion in the past and it has been one of the main contributing factors to the very low profile Mauritius has amongst foreign investors. Not only are the promotional aids of very poor quality but a wider international communications programme is conspicuously absent. We have commented upon this previously and have explained it in terms of:

(i) insufficient financial resources devoted to promotion;
(ii) a lack of understanding of the effectiveness of international communication by previous administrations; and
(iii) the absence of communication skills in Mauritius.

Essentially a communications programme may be divided into two parts. Those indirect aspects concerned with developing a higher profile for Mauritius amongst the international investment community, and those concerned with direct contact. Examples of the former might include attractive, informative sales documents such as promotional brochures, project prospectuses, guides to Mauritius in various markets, and advertising campaigns (as distinct from ad hoc advertisements), aimed at particular countries or sectors through a variety of media such as television, press and billboards. Public relations initiatives; press articles, reviews, documentaries, exhibitions can also be very effective in bringing Mauritius to the forefront of investors' minds. The direct methods would include overseas representation, either specific investment offices, aggressive commercial attaches with a promotional brief, the continuation of private marketing company efforts, and continual mail shots of promotional literature to target groups.

Some or all of those methods have been used with mixed results by most of the competitors to Mauritius. Often they have been adopted on an ad hoc basis in an uncoordinated series of initiatives. Few if any countries have approached investment promotion in an aggressive and coordinated manner with the possible exeption of some European countries and perhaps Hong Kong and Singapore.

Appendix 10 sets out our recommendations to the approach that we consider Mauritius ought to follow in planning its future communications strategy.

8.2.2.4 Securing the Investment

There is a great deal of awareness within Mauritius of the need to improve the reception facilities for potential investors visiting Mauritius and the concept of a "one stop shop" has attracted considerable attention and culminated in the establishment of a department within the Ministry of Industry to liaise with and assist visitors interested in investment opportunities - the Industrial Coordination Unit (ICU).

Whilst we are in agreement with the need for such an organisation, as presently conceived we anticipate a number of problems, first as a result of the possibility of friction between MEDIA and the ICU, and second in the role and approach of ICU.

As we understand the present view of the authorities, MEDIA should have responsibility for attracting potential investors to visit Mauritius, but, once there, their dealings would be through the ICU. We believe that a continuity of involvement would be desirable for two reasons.

(i) By the time potential investors visit Mauritius they should already have established good working relations with MEDIA.

(ii) It could lead to communication difficulties between MEDIA and ICU with potential investors in the middle.

In our discussions with the Hon. Minister of Industry we discussed the possibilities of merging the two organisations but it was felt that the ICU could most effectively work as a unit within a ministry thereby giving it more direct access to other Government Departments than might be possible if it were part of MEDIA. In Appendix 10 we propose alternative arrangements that, whilst keeping the two organisations separate, would help to eliminate communication problems.

Concerning the approach of the ICU we understand that it would be charged with taking away from the investors the "hassle" of Government procedures so as to "allow them to enjoy the island" during their visit. It is our contention that most investors would be anxious to monitor progress and to collect as much information during their stay as possible. We would therefore recommend that the ICU in dealing with potential investors agrees a daily meeting to discuss and provide a set list of descriptions and introductions to key organisations, freight shippers, banks, architects, engineers, accountants etc., which the investors may wish to visit and to be in a position for them to meet existing industrialists both within their own industry or in others to obtain an insight into working conditions in the island.

Follow up to potential investors enquiries once they have returned should be handled promptly by the liaison officer who dealt with them in Mauritius.

8.2.2.5 International Comparison of Promotion Policy

Our brief visit to the Far East did not permit a detailed enquiry into individual countries' promotional programmes, budgets etc. The principal features apparent from published literature and from brief discussions with the relevant authorities are summarised in the following paragraphs.

Sri Lanka concentrates its promotion upon the efforts of the Greater Colombo Economic Commission (GCEC). No overseas offices are maintained though extensive use is made of Sri Lanka's embassies in Singapore, Tokyo, Dusseldorf, London, Washington, Stockholm and Copenhagen (each of which have a specially designated officer in charge of promotion) and other Sri Lanka overseas missions. GCEC officers carry out visits to potential investors on a direct sell basis, and a list of strong prospects has been built up based on direct enquiries, contacts by offices, newspaper and magazine reports and so on. GCEC does not sponsor air fares, hotels etc. GCEC receives some 200-300 enquiries per annum, of which perhaps 100 are fairly specific, and around 20 actually get converted into projects.

The Philippines', Export Processing Zone Association (EPZA) has a representative in Japan and have had a (UNIDO-sponsored) representative in New York. Ideally EPZA would like to have the budgets for offices in Japan, USA and Europe. EPZA tries to make use of Philippines' Ministry of Trade representatives overseas, and also visits foreign embassies in Manila. International advertising has been abandoned due to its high cost. 2-3 investment missions are mounted annually, and brochures are distributed widely at trade exhibitions internationally. The direct marketing is based upon specific company targeting: 75 serious enquiries may be received per annum and EPZA aims to convert 10%. EPZA pays for local transportation and hotel bills for visiting potential investors.

Singapore and Hong Kong have similar promotional styles. Both maintain a number of overseas offices - in UK, USA, Germany and Japan for Hong Kong; in the USA, UK, France, Germany, Sweden, Switzerland, Japan, Hong Kong and Australia in the case of Singapore. Specific details of promotional programmes were not collected for these two countries. As an indication of the level of effort, however, Singapore's Economic Development Board in fiscal 1983 spent a total of $12.32 million (US$5.73 million), of which $8.32 million (US$3.87 million) were accounted for by staff costs. Of the remaining $4.00 million (US$1.86 million), roughly 22% went on overseas travelling and entertainment. It is particularly noticeable that the EDB spent only $6,776 (US$3,150) on advertising, less than a fifth of 1% of its total expenditure after deducting personnel costs.

(ii) Promotional Literature

Specific mention should be made of the quality of promotional literature produced by the four Far Eastern countries compared to that produced at present by Mauritius.

In each case, the Far Eastern countries' basic information pack is well-produced by professional brochure designers and is as attractive as it is informative. As an indication of the basic "pack", compared to the current output of Mauritius, the following list summarises the contents of each country's material.

MAURITIUS	SRI LANKA	PHILIPPINES	SINGAPORE	HONG KONG
7 "Fact Sheets"	"Investment Promotion Zones": (High quality "glossy")	"Board of Investments" Information Pack ("Glossy")	"EDB Annual Report" (High Quality "Glossy")	"Glossy" Hong Kong Pack
(No photographs: factual documents:	"Newest Growth Centre in Asia" (High Quality "Glossy")	Philippine Export Processing Zone Authority Annual Report and Small Brochure: "A Decade of Growth" ("Glossy")	"Investor's Guide to the Economic Climate of Singapore": (High Quality Glossy)	containing
no marketing content)	"A Guide to the Foreign Investors" (High Quality Glossy)	Sundry Information Sheets		"One Stop Unit"
		The Omnibus Investments Code		Industrial/ sector profiles;
		Comment: Less marketing content than others, but still more high quality material than Mauritius		Mini-facts;
				Information pamphlets
				"Grow with us" (Industrial land and premises)
				"Industrial Investment"; (major glossy brochure)
				Sundry marketing and information documents

8.2.2.6 Conclusions

It is clear from the above that at present the Mauritian approach to Investment Promotion is lacking in many respects, but most severely in the areas of planning and communications. Appendix 10 sets out in detail our recommendations to improve the position in the context of the structural changes being brought about with the establishment of MEDIA.

8.3 Export Promotion

The combination of poor long term prospects for the world sugar market as evidence by the performance of the industry during the last decade and the limitations to the growth of domestic manufacturing industry imposed by the size of the Mauritian market, focussed the Mauritian Government's attention on encouraging industrial exports. Following the establishment of the export processing zone in 1971 manufactured exports have increased their share from 3.5% in 1972 to 31.0% in 1982.

Despite this apparent success there remains a number of key problems limiting the rate of growth of exports. There is little doubt that the most important of these is the bias in policy which favours new investment in import substitution ventures at the expense of the export sector, but additional factors have also come into play.

Firstly, partly as a result of the approach to investment promotion which has been followed over the last ten years, but also as a result of the comparative advantage enjoyed by Mauritius, exports are increasingly becoming dominated by knitwear and ready-made garments, particularly shirts. Secondly, there is a growing regional concentration of Mauritian manufactured exports, with the EEC now accounting for 87% of domestic exports and North America 9%. The combined effect has been to increase the Mauritian economy's vulnerability, laying it open to possible trade restrictions from the export markets. Indeed the seriousness of this is reflected in the VER imposed on Mauritius by the EEC, the quotas levied by the USA on knitwear and the forthcoming quota on knitwear by Canada.

The third problem facing Mauritian exporters is transport costs. Mauritius is neither on major air or sea freight routes, and is not large enough in terms of total trade to become regarded by international carriers as a major freight point. Thus, although its domestic costs are lower than its main competitors, this advantage is being eaten into by higher freight costs. The remoteness of Mauritius also has an additional disadvantage for exporters in that the country has a very low international profile as an industrial nation.

The final problem, which we shall discuss more fully in section 8.3.1.1, concerns its low level of indigenous marketing and promotional expertise.

As a result of these problems the Mauritian Government has adopted an interventionist role in export promotion to complement and assist the efforts of the private sector. In the remainder of this section an examination will be made of the Government's export promotion programme in terms of its relevance, efficiency and its shortcomings and evaluating these alongside initiatives made by the private sector and the financial and manpower constraints.

8.3.1 The Present System

8.3.1.1 Initiatives by Export Companies

During our interviews with the private sector it became clear that the degree of sophistication in marketing and sales is generally very low. This is not a new observation: it is widely recognised by many sections of the business community and by the Government themselves.

Three factors help to explain this. First, in domestic markets the high level of protection enjoyed results in low levels of competition thereby avoiding the need for aggressive selling. Second, in the export sector most of the marketing is carried out by foreigners; either foreign partners are responsible for marketing and sales, foreign based commission agents are used to secure orders, or the company is an offshore production unit supplying a parent company with finished or intermediate goods.

Finally there is only a very basic marketing support industry, the growth of which has been constrained partly by the low levels of competition and partly by the stage of development that Mauritius has reached, which although relatively high by other African standards does not have income levels sufficient to support heavy branding costs.

Thus not only is the present degree of indigenous marketing ability limited but there is little indication that it will significantly change. This has important implications for future export growth. Investment in new export industry will be curtailed as investors will continue to concentrate their efforts on the softer domestic markets where, amongst other things, marketing skills are not at a premium. What new investment does find its way into the export sector is almost certain be channelled into established industries in which Mauritius already has a worldwide reputation. Sales from such investors will also be mainly in those countries where marketing considerations are least important, namely EEC, America and South Africa.

8.3.1.2 Private Sector Organisations

Unlike the case of investment promotion there is no conflict of interest for the trade associations in carrying out export promotion activities and most of the organisations adopt a positive attitude not only in supporting the Government's programme but also in developing their own intiatives.

The most active trade associations in this respect appear to be the Chamber of Commerce and Industry and the Mauritian Export Processing Zone Association which maintain a high degree of liaison. Essentially the activities pursued by the private sector trade associations can be categorised into 4 groups:

(i) Trade Missions:

In a number of instances trade missions have been arranged to important export markets and to countries which appear to be potentially lucrative for Mauritian exporters. These are usually funded either exclusively by members or with some assistance obtained either from the Government or through international organisations such as the UN. Two recent examples of such missions were to Australia at the invitation of the Australian Chamber of Commerce and to the Gulf States with the assistance of UN ECAFE. In most instances the missions are well attended but have attracted some criticism in terms of cost and organisation.

(ii) Hosting of Foreign Trade Missions:

Often there is a high degree of reciprocity in the organisation of trade missions and the Trade Asociations are often called upon to host missions from abroad. These comprise not only salesmen but also foreign buyers.

(iii) Trade Fairs:

Most of the organisations are represented at the major trade fairs and the Chamber of Commerce holds a permanent exhibition in its foyer of products manufactured in Mauritius.

(iv) Market Information:

Although many of the organisations purport to keep market information this is essentially limited to trade directions and is neither in general up to date nor comprehensive.

(v) Representation of Members' Interest:

This is probably one of the most important functions of the organisations to act as the representative of the private sector in discussions and negotiations with the Goverment and other bodies. Of particular interest in this respect is the Joint Economic Commission which provides the Government with discussion papers on a wide range of topics of interest to the private sector. The Commission can be and is called from time to time to discuss various issues with Members of the Cabinet.

In discussions with the private sector companies most opinion suggested that the organisations provided a useful service in terms of export assistance. No data were available, however, to permit us to review the achievement of these organisations in export development.

8.3.1.3 Government Initiatives

Although the principal responsibility for export marketing rests with the individual export companies the recent performance of exports both in terms of growth and structure has been sufficiently disappointing to persuade the Government to take it upon itself to encourage and assist the export sector in its sales initiatives. Traditionally this support has been in the form of Mauritian representation in foreign trade fairs. More recently, and reflecting the Government's concern over the market concentration of exports, a number of further initiatives has been undertaken to encourage exporters diversify away from traditional markets.

Essentially these initiatives have comprised the commissioning of market research and the subsequent arrangement of exploratory missions in one form or another.

Within the Government, responsibility for export promotion activities falls on the recently created Ministry of Trade and Shipping which grew out of the former Ministry of Commerce and Industry, Prices and Consumer Protection. To a large extent the initiatives pursued are dependent on the amount of resources available from foreign aid. The most important source of aid finance for export promotion activities is from the EEC countries through a five year indicative programme. It has the advantage over other sources of export promotion aid of being made available on a regular basis over the five year programme period rather than being made available on a project by project basis. As its name implies the indicative programme is also very flexible in that expenditure allocations can be transfered between budget heads with the minimum of fuss.

The indicative programme finances Mauritian participants in approximately seven trade fairs per year, five of which are usually concerned with exports and two with tourism. The aid may cover the rental and decoration of the stand, and the cost of transporting the exhibits to and from Mauritius. The remaining costs, (translators, furniture, rental, telephone and the tickets and subsistence of the stand director - without exception a civil servant) are met by the Government from the annual allocation for promotion. To date all the trade fairs financed from the EEC programme have been located in EEC countries. The specific trade fairs are chosen each year in consultation with the private sector companies, both EPZ and DC, and the trade organisations. A list is prepared and in January each year the EEC allocates a budget, the list is finalised and notice sent to all manufacturing companies. Three months prior to each fair a reminder is sent to relevant companies giving them 15 days to apply. A working session/briefing is held before departure to advise on samples, the display area etc.

The fairs selected are chosen because of their broad appeal to industry and it is generally hoped that approximately eight firms would be represented at any one fair. The Ministry officials recognise that this precludes the participation in specialist fairs and justify this in terms of the high unit cost of sending one or two firms to specialist fairs. A possible departure from the current practice is being discussed in that consideration is being given to Mauritian representation in a leather goods fair in 1984.

The other main source of foreign export promotion finance is the Commonwealth Secretariat through the Commonwealth Fund For Technical Cooperation. In recent years one or two export promotion projects have been financed by CFTC. These have generally been concerned with market diversification and have comprised market potential studies and the financing of exploratory missions. To date two projects have been arranged, one to the Middle East and one to North America. We estimate the total cost of these projects has been approximately $100-150,000 over the 3 years since 1981. The main problems of the CFTC aid is that it is project based and essentially reactive to Government requests. This means that each project has to be negotiated on an ad hoc basis and has to be initiated and justified by the Government, but it does have the advantage that long lead-in times are not necessary.

Although Mauritius receives substantial bilateral and other multilateral aid, little if any is devoted explicitly to export promotion. Through the UNDP programme a trade mission was, as we have already mentioned, organised to the Middle East, in conjunction with the Chamber of Commerce, and UNIDO financed a study in the early 1970s to attract export industries to Mauritius.

As part of its own allocation to investment and export promotion the Government occasionally finances advertisements in European newspapers.

No precise information was available to us on the annual export promotion expenditure, but it is estimated that on average each trade fair costs about $15,000 of which the EEC provides approximately 75%. The remainder comes from the annual budget allocation together with an assumed average annual CFTC element of $35,000, suggesting a total export promotion budget of $100-130,000 per year.

Manpower also imposes a constraint on export promotion activities by the Government. Apart from the Secretary for Trade no other person in the Ministry has any formal training in marketing. The experience that exists has been built up over the years as on-the-job training, it has not been brought into the Ministry from outside so the fund of experience available to draw on is small and limited to ministerial initiatives.

Understandably the amount of proactive and creative thinking that is possible under these circumstances is negligible, particularly as most of the time of the Secretary for Trade is concerned with administrative and management matters. The limited experience of those working in the Ministry is a particularly important constraint when it comes to identifying and requesting new projects as required by the aid agencies.

Attempts are made to monitor the success of the initiatives. After each Trade Fair the director responsible sends a questionnaire to the participants to identify orders received on the stand and follow up orders. These data are then used to compare the growth in orders from year to year. Assessment reports are then made on each initiative. Unfortunately the information was not available to us nor were any details of the representation at each trade fair.

8.3.2 Critique

8.3.2.1 Role of the Public Sector

Unlike investment promotion, which as we argued in section 8.2 is principally the responsibility of the public sector, with export promotion the interests of private industry essentially coincide with those of the public sector and therefore responsibility for export promotion can and should be left in the hands of the exporters. Intervention in export promotion activities by the Government is only justifiable if it can be demonstrated that it is more in the national interest than without it. On these grounds there appear to be four occasions when it can be justifed.

The first concerns the structure of exports. The higher the proportion of a country's imports that is supplied by an exporting country the greater the likelihood that action will be taken to restrict future imports either to protect the importing country's own industry or to reduce dependency on one source of supply. Whilst individual exporters, particularly the larger supplier in any one market, recognise the threat of retaliation given that the objectives of exporters are typically to increase sales and to maintain or expand market shares it is unlikely in the absence of any to maintain or expand market shares it is unlikely in the absence of any outside influence that action to reduce sales to an important market will be taken by individual exporters. In those instances the Government can play a valuable role in assisting export companies, (particularly the smaller ones which are not those likely to have the resources to pursue diversification exercises), to find new markets, thereby reducing the pressure on important markets to impose restrictions such as quotas, licences, tariffs and VER.

The second occasion is also important to Mauritius as it concerns the cost and economies of scale in providing information and market intelligence.

Being a remote island economy the collection of up to date market information is expensive and considerable savings can be made if this exercise is centralised with the information being made available to the private sector. In several countries this is undertaken by Chambers of Commerce and Industry or similar trade associations but can equally be undertaken by a govenment department.

Thirdly, the Government can play a major role in export promotion by making representations at international negotiations with, for example, international carriers to reduce freight costs and by negotiating tariff and volume reductions.

Finally, it is arguable that governments are the most appropriate bodies to undertake broad country-promotion exercises, to establish a high profile for a country's export sector in the minds of existing and potential export markets. Although individual product promotion is the responsibility of each company, this type of promotion is made much more effective against a backcloth of country promotion.

8.3.2.2 Evaluation of the Government Programme

This section attempts to evaluate the Mauritian Government programme against three criteria:

1. the correctness of what is done;
2. the efficiency with which the programme is carried out; and
3. the shortcomings in the programme.

These are then used as a basis for proposing changes.

(i) Correctness

Our impressions of the current programme are that the individual initiatives undertaken are relevant and should form part of any future programme, but their emphasis should change.

Overall it appears to us that the effect of the combined package of assistance, at least as it is operated at present, is to maintain the status quo. Export growth is seen as the principal objective to be achieved (so it appears) at any cost and efforts are centred on expanding the sales of well-established products in traditional markets. Emphasis is therefore given to the short term results, while the longer term growth potential concerned with the structure of exports is given a very low priority.

This is best exemplified by reference to the trade fairs held each year. Without exception those chosen have been in the major European countries. (Records of company participation were not available for inspection but our impressions from discussions with officers concerned with the trade fair programme is that the products displayed involve a high proportion of products already successful in those markets). Some justification for this concentration on the EEC was put to us on the grounds that EEC aid money is tied to EEC countries. This is not the case. All Lome convention countries are also eligible. Moreover, recent discussions with the EEC in Brussels suggests that for some commodities, particularly those of a sensitive nature to the EEC such as knitwear and garments, a sympathetic ear may be given to requests to finance Mauritian participation in trade fairs in non-ACP States.

In support of the present bias the trade fairs are recognised by the private sector as being a reliable medium through which to maintain contacts with clients and do serve a useful function in the overall sales strategy of companies. During our interviews a considerable number of companies nevertheless voiced some criticism over the way they were organised or apparently organised by the Government. We deal with this aspect in the next section.

We also acknowledge that there is a growing concern about product and market diversification and a discussion with the Secretary for Trade indicated that serious attention is now being given to possible representation at specialist fairs, in particular leather goods fairs.

A further indication of the growing awareness of the need to diversify is given by the recent CFTC-financed market research projects to the Middle East and North America and future projects to be concerned with Scandinavia, South America and Australia. Two criticisms can be levied at this type of activity or more specifically in the way it is being pursued at present. The first is that these initiatives are being undertaken in an ad hoc manner, no comprehensive planning has been undertaken to indicate the preliminary potential of regions and therefore priorities which would help to focus resources most efficiently cannot be assigned. Second, from our own experience of carrying out the export promotion work in the Middle East and from discussions with Ministry officials, it is clear that some importance is attached to encouraging import substitution companies to venture into export markets, and this necessity has to be accomplished at the expense of assistance to export companies. As we have demonstrated, the import substitution companies are operating under very favourable conditions in the domestic markets which allow companies to maintain higher cost structures and lower level marketing capabilities than would be possible on world markets.

To foster their involvement in export markets under present conditions is almost doomed to failure. More sensible would be to focus attention on EPZ companies, and only to move towards helping DC (or equivalent) companies once they have demonstrated some success in international markets themselves.

We would emphasis here that despite the two criticisms mentioned we consider the movement towards diversification initiatives to be one of the most encouraging features of recent export promotion initiatives. We are also encouraged by the establishment of the International Freight Unit and we see this as a main step in representing the interests of the export companies in a way that is conceivably more efficient than individual company attempts. Given that the Unit had not been fully established during the fieldwork stage of this study we do not feel qualified to evaluate it further.

Although the whole issue of communications is one that we feel is not seriously considered in Mauritius, and one that we argue should be strengthened in the future, we consider the effectiveness of ad hoc newspaper advertisements to be at best minimual, and possibly negative in that occasional pleas in the press to consider Mauritius either as a place to invest or as a source of imports emanating from Mauritius cannot change the country's standing in the international communities. To be effective, advertising needs to be incorporated within a coordinated communications strategy designed to promote the concept of Mauritius as an industrial producer. Uncoordinated action does more harm than good. We turn to this issue later in the section.

Although both the Government and private sector organisations combine to provide market intelligence data to export companies the flow of information is sparse and is not comprehensive even for the most important markets. In earlier studies we have addressed this problem and have suggested that the Government adopts a more positive attitude to the provision of a market intelligence library.

(ii) Efficiency

Having considered the relevance and usefulness of the current export promotion initiatives we are concerned here with how well they are carried out. Essentially our criticisms are twofold, first that once again short term considerations tend to dominate the implementation of the initiatives and second that there is a very low level of communication and coordination between the private sector and the Government which tends to inhibit the success of initiatives.

As an example of the first, the private sector interview programme revealed a criticism of the Government's promotional efforts frequently voiced by businessmen, concerning the organisation and administration of trade fairs. On a number of occasions circumstances have contrived so that only a few days notice has been possible to notify the private sector of Mauritius' representations at an international trade fair and to request participation by companies. One particular occasion in recent years arose because of a last minute cancellation by an exhibitor which allowed the Fair's organisers to offer the place to Mauritius at short notice having previously advised that no places were available. To a large extent these instances are taken by the private sector as arising from poor organisation by the Ministry and criticisms are levied on the Ministry accordingly. In terms of organisation the Ministry is not justifiably held to be at fault. Where it is in the fact at fault, however, is that it even considers accepting late invitations to trade fairs and expecting a high standard.

This attitude and approach by the Ministry reflects once again overwhelming concern with short term export promotion and ignores the longer term costs that are associated with poor presentation. We would favour a stance by the Ministry which did not attempt to assemble at short notice a group of exhibits and businessmen to represent Mauritius, but to concentrate efforts on those fairs where adequate time is given for businessmen to plan a trade fair into their working year and prepare top class samples.

To a certain extent criticisms of poor coordination and administration are justified and as result last minute decisions have from time to time been necessary and inadequate time has been allowed for private sector briefing and preparation. A recent example of this was on the Middle East Contact Promotion Programme. A private sector briefing session was scheduled and the consultant arrived only to find that the participants for the mission had not yet been selected let alone informed of the briefing.

The second criticism has been mentioned in this report in connection with other issues and concerns the entrenched mutual mistrust between the Government and the private sector. This has grown up for reasons mentioned earlier and will continue until an efficient dialogue is established to communicate their respective aspirations, problems and motivations. Until this is resolved, the lack of understanding will continue to inhibit the efficiency of promotion initiatives as cooperation between the Government and the private sector will remain fraught with friction.

(iii) Shortcomings

It is not surprising that the main shortcomings that we have identified with the existing programme of export promotion activities reflect closely those of the investment promotion programme. Fundamentally the problems have been caused by inadequate financial and manpower resources being given to export initiatives. Those resources that have been made available have therefore incorrectly (though understandably) been devoted to the very short term, relatively fast acting initiatives of trade fairs. Essentially the longer term aspects of export promotion, planning and research, communications and training have been ignored.

At present the approach adopted to export promotion activities is neither systematic nor comprehen- sive and suffers from a lack of discipline, a lack of clearly defined working objectives set within a long term strategy of growth and diversification, supported by well-researched information on international possibilities open to Mauritius.

We cannot emphasise too strongly the importance of having detailed knowledge of the relative strengths of Mauritian export industry (and potential export industries) in existing and future markets compared to its main competitors. In the absence of such intelligence, working in the area of export promotion will be blind and the limited resources available wasted. With such information, priorities can be assigned to different activities in different regions, and initiatives selected favouring those industries most suited to Mauritius and to the foreign markets being considered. This information would also provide a substantial basis for preparing requests for international aid to finance subsequent promotion work.

Practical and relatively simple techniques are available to assist planners identify their comparative advantage in different markets, and to assess their relative competitiveness to other major suppliers in the area.

A second feature of the existing system of export promotion which needs strengthening is in the field of communications. We are not concerned here with individual product promotion but the promotion that can most effectively be done by the Government and which should be concerned with bringing Mauritius as a country and as a serious supplier of exports to the attention of potential buyers which would increase the effectiveness of individual company/product promotion and against which trade fairs and exhibitions can be arranged both overseas and in Mauritius.

Some of the possible features that such a country promotion programme might include would be, public relations work - articles, press coverage, newspaper reports, national advertising on radio, television and the press, sponsorship of competitions, introductory visits by major retailers/wholesaler, specialist holidays catering for industrialists, regular publications from Mauritian institutions covering major world market development and trends. Clearly to propose an export communications strategy would be beyond the terms of reference of this study, but the above list serves to indicate the diversity of media and techniques available and which are used by the competitors of Mauritius.

Despite the fact that a number of organisations, including the Government, attempt to offer assistance to the private sector in terms of market intelligence, none can claim to have a comprehensive library of data, or a specialist library focussing on one or two countries. Certainly, none offers any intelligence support, ie facilities to respond to requests for information efficiently and promptly. Information gathering is virtually left to individual companies.

The final area where the Government ought to be making a positive contribution is in the field of training, specifically in the development of marketing skills. As far as we were able to ascertain in our fieldwork, no asistance in the form of grants or loans is available to either individuals or companies for formal training overseas in marketing and selling skills. Furthermore, few if any companies offer on-the-job training schemes for salesmen and marketing specialists, and few participate in any international training. We are not aware of any training offered within Mauritius to strengthen marketing skills in the form of international aid assistance, short courses, workshops or seminars. Careful consideration needs to be given by the Government to providing some marketing support services in the future.

Having outlined these major shortcomings we do recognise the potential contribution that can be made by the new MEDIA organisation and our recommendations in Appendix 10 are tabled with MEDIA in mind.

APPENDIX 9

9. COMPARATIVE ADVANTAGE

We have argued in the previous Appendix of this report that one of the major shortcomings of the current systems of export and investment promotion is the absence of any quantitative or other research to guide those concerned with promotion in their work. Specifically, little or no work has been undertaken to identify the comparative advantage of Mauritius vis-a-vis different markets and competitor countries. Such information is a fundamental requirement as it can guide future work by suggesting which industries are most suited to the resource base in Mauritius and in which markets private companies and the Government should be concentrating export marketing efforts.

As an indication of what is possible, and we stress that other techniques are available to measure other promotion parameters, in the following section we have attempted to provide preliminary guidelines for the most immediate future and until more comprehensive research can be carried out.

For this work we have limited our investigations of Mauritius' comparative advantage to the performance of six countries - the Philippines, Hong Kong, Singapore, Sri Lanka, Kenya and Jamaica - in the EEC market.

Note: Readers not interested in the detailed methodology may refer directly to section 9.2 where an indication of Mauritius' competitive position vis-a-vis selected countries is provided.

9.1 Methodology and Data

Given the absence of a unique approach to the (ex-ante) measurement of comparative advantage, three alternative lines of investigation have been explored. These involved the computation of export similarity indices, export market share indices and an inter-country comparison of labour productivity and costs.

9.1.1 Export Similarity Indices

A number of issues in international trade and competitiveness can be examined by the use of an index measuring the similarity of the exports of any two countries to a third market.

The index of export similarity(s) is defined as:-

$$S(ab,c) = \quad \text{minimum } (X_i\ (ac),\ X_i\ (bc))\ 100$$

where a,b are the two exporting countries

c is the importing, third market

X_i (ac) is the share of commodity i in a's exports to c

X_i (bc) " " " " " i in b's exports to c

The index measures the similarity of the export patterns of countries 'a' and 'b' to market 'c' . If the commodity distribution of a's and b's exports to c are identical (i.e. X_i (ac) = X_i (bc) for all i), there is total similarity and the index will take on a value of 100. If a's and b's export patterns are totally dissimilar (X_i(ac) 0 and X_i(bc) = 0 or X_i(ac) = 0 and X_i(ac) 0 for all i) and then the index will have a value of zero. (Note that the exports of each country are scaled or expressed as proportions of its total to the third market, and as a result the index compares only patterns of trade across product categories and not the absolute size of exports to the third market.)

A simplified numerical example may be instructive. Suppose that two countries (a and b) sold the following amounts of each of two commodities to a further country or group of countries:-

	Exporter a		Exporter b	
Product	Value	X_i(ac)	Value	X_i (bc)
1	£ 100	0.1	£ 5,000	0.5
2	£ 900	0.9	£ 5,000	0.5
TOTAL	£1,000		£10,000	

S(ab,c) = (minimum (0.1, 0.5) + minimum (0.9, 0.5) x 100 = 60%

Hence of a's (scaled) total exports 60% is "matched" by b's exports.

The attraction of such an index is that it requires only international trade data, which are available on a standardised basis for all countries. For the present exercise data from the United Nations publication Yearbook of International Trade Statistics for the year 1980 were used. The export values used for the computation were therefore commonly classified according to the Standard International Trade Classification. Product and commodity groupings for exports at the 1st and 2nd digit (occasionally at the 3rd digit) of SITC were used in the analysis. (Since the comparison throughout was against Mauritius, it is only necessary to set out the relevant section divisions of the SITC for Mauritius' exports. These are set out in Table 9.2.)

The export similarity indices were calculated for Mauritius for the six countries mentioned; these were selected on the basis of prior judgements about potential competitors for export markets and direct foreign investment within the 'region' (or at similar) stages of the industrialisation process (Sri Lanka, Kenya, and Jamaica), and about established competitors in industrialised, export markets at later stages in the industrialisation process (Hong Kong, Singapore and Philippines). The (common) third market chosen for the comparison was the EEC. This is the dominant market for exports from Mauritius and a major market also for the other countries chosen. The exports from Mauritius to the EEC in 1980 are set out in Table 9.1. (The importance of the EEC market can be demonstrated by a comparison of the total exports in each digit 2 of the SITC to the EEC and the whole of OECD Europe, including the EEC. In many instances there were no exports to non-EEC Europe.)

The scaling of exports and calculation of the indices was undertaken for total exports at the 1st digit level (section 0 to 9 of the SITC) and for total manufactured exports at the 2nd digit level (within sections 5 to 8 of the SITC). This permitted a comparison of both the broad pattern of exports and a more detailed comparison of the manufactured exports. (The results are set out and discussed in section 9.2.1 of this appendix.)

Table 9.1

ANALYSIS OF MAURITIAN EXPORTS (1980)

PART A

EXPORTS OF MAURITIUS TO EEC AND OECD COUNTRIES BY SITC SECTION

(in thousand US$)

SITC SECTION	EEC	scaled	OECD (Europe)
0	341165	(0.7634)	341943
1	4	(0.0000)	4
2	592	(0.0013)	611
3		(0.0000)	
4	697	(0.0015)	697
5	80	(0.0002)	80
6	10827	(0.0242)	11052
7	5881	(0.0132)	6649
8	8751	(0.1950)	88266
9	485	(0.0011)	485
TOTAL	446883	(1.0000)	449787

PART B

TOTAL MANUFACTURING EXPORTS OF MAURITIUS BY SITC DIVISION

SITC DIVISION	EEC	scaled	OECD (Europe)
51	49	(0.0005)	49
55	29	(0.0003)	29
58	2	(0.0000)	2
62	17	(0.0002)	17
63	144	(0.0014)	148
64	3	(0.0000)	3
65	7045	(0.0675)	7100
66	3510	(0.0335)	3687
69	152	(0.0015)	152
71	5	(0.0000)	5
72	41	(0.0004)	41
73	6	(0.0000)	6
74	344	(0.0033)	344
75	22	(0.0002)	23
76	469	(0.0045)	469
77	4974	(0.0476)	5741
78	19	(0.0002)	19
82	319	(0.0031)	319
83	225	(0.0022)	225
84	79699	(0.7632)	79872
85	71	(0.0007)	71
87	41	(0.0004)	41
88	3358	(0.0322)	4266
89	3439	(0.0329)	3472
TOTAL	104425	(1.0000)	106101

Figures in brackets may not add to 1 due to rounding

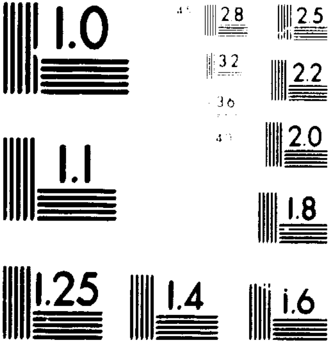
Table 9.2

MAURITIAN EXPORTS TO THE EEC (1980), SITC DESCRIPTIONS
PART A
SECTIONS OF THE SITC IN WHICH MAURITIUS EXPORTED TO THE EEC

0	Food & Live Animals Chiefly for Food
1	Beverages & Tobacco
2	Crude Materials, Inedible, exc. Fuels.
3	Mineral Fuels, Lubricants & Related Materials
4	Animal & Vegetable Oils, Fats & Waxes
5	Chemicals & Related Products nes
6	Manufactured Goods Classified Chiefly By Material
7	Machinery & Transport Equipment
8	Miscellaneous Manufactured Articles
9	Commodities & Transactions Not Classified Elsewhere in the SITC

PART B
DIVISIONS OF THE SITC IN WHICH MAURITIUS EXPORTED TO THE EEC

51	Organic Chemicals
55	Essential Oils & Perfume Materials
58	Artificial Resins & Plastic Materials, + Celluose Esters & Ethers
62	Rubber Manufactures nes.
63	Cork & Wood Manufactures (exc Furniture)
64	Paper & Paperboard + articles of
65	Textile Yarn, Fabrics, Made-up Articles nes.
66	Non-Metallic Mineral Manufactures nes
69	Manufactures of Metals nes.
71	Power Generating Machinery & Equipment
72	Machinery Specialised for Particular Industries
73	Metal Working Machinery
74	General Industrial Machinery & Equipment nes
75	Office Machines & Automatic Data Processing Equipment
76	Telecommunications & Sound Recording & Reproducing Apparatus & Equipment
77	Electrical Machinery, Apparatus & Appliances & Parts
78	Road Vehicles
82	Furniture & Parts thereof
83	Travel Goods, Handbags & Similar Commodities
84	Articles of Apparel & Clothing Accessories
85	Footwear
87	Professional, Scientific & Controlling Instruments & Apparatus nes
88	Photographic Apparatus, Equipment and Supplies & Optic Goods, nes; Watches & Clocks
89	Miscellaneous Manufactured Articles nes.



MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS
STANDARD REFERENCE MATERIAL 1010a
(ANSI and ISO TEST CHART No. 2)

9.1.2 Export Market Share Indices

The export similarity indices can be used to identify, on an across-the-board basis, competitor countries for export markets and for foreign direct investment. But the comparison is in scaled terms and there is no indication therefore of a country's absolute importance in export markets. Indices of Mauritius' market share in selected commodities were therefore calculated for 1980. The data were also obtained from the Yearbook of International Trade Statistics (United Nations, 1980).

The index of export market share (M) for a particular commodity(i) is defined as:-

$$M_i = \frac{X_i\ (ac)}{\sum_n X_i\ (nc)} (100)$$

where X_i are total exports of commodity i

c is the importing market

a is an exporting country

n is an only exporting country (including a) in a selected grouping.

The export market used in the calculation was again the EEC. The comparable countries were again restricted to the six countries used for the export similarity indices; calculations for the whole group (with and without the dominant exporter within the group for the particular commodity) were made. The restriction of the analysis to the EEC market rather than the total world market and to a limited number of comparable countries is more appropriate in this instance. Mauritius is a small country and exporter of manufactured goods in global terms. Sensible selectivity is therefore appropriate. The commodities chosen for the analysis at digit 3 of the SITC are set out in Table 9.3. These were identified by their dominance at the digit 2 level for exports from Mauritius to the EEC, as set out in Table 9.1. (65 = Textile Yarn, Fabrics etc; 77 = Electrical Machinery, Apparatus etc; 84 = Articles of Apparel etc.)

Table 9.3

COMMODITY CLASSIFICATION AT DIGIT 3 OF SITC USED IN THE CALCULATION OF EXPORT MARKET SHARE INDICES

SITC Digit 3	Commodity
651	Textile Yarn
776	Thermionic, Cold and Photo-Cathode Valves, Tubes and Parts
842	Outer Garments; Mens of Textile Fabrics
843	" " ; Womens of Textile Fabrics
844	Under Garments of Textile Fabrics
845	Knitted Outer Garments and Other
846	Knitted Under Garments
847	Clothing Accessories of Textile Fabrics

Actual market share is again an export indicator as a proxy for international competitiveness, which may be suggestive of existing and potential comparative advantage but which also must be interpreted with care. Export indicators capture the effects of both competitive and non-competitive (trade policy measures etc) influences. The need is to examine market share information alongside other influences on competitiveness, such as wages and productivity.

9.1.3 Wages and Productivity

The classic test of comparative advantage tests the hypothesis that a country will have a comparative advantage over another country in those goods for which the ratio of its output per worker to that of the other exceeds the ratio of its money wage rate to that of the other country. Data limitations and incompatibility prevent a formal testing of this type of hypothesis for the case of Mauritius. (Indeed given these difficulties the emphasis of the methodology is on ranking and the consistency of ranking rather than on the specific values of particular ratios.) However the study does investigate the relationship between money wages, productivity (variously defined) and exports initially for Mauritius in isolation and then on a comparative, international basis. The following indicators and ratios were estimated for Mauritius.

9.1.3.1 Average Wage Costs

Average numbers employed in 19 industry groupings were calculated from the March and September 1980 data in the Bi-Annual Survey of Employment and Earnings in Large Establishments (C.S.O. Mauritius). The year 1980 was used for two reasons: for compatibility with the earlier calculations and because it is the most recent year for which adequate comparative data were available. Estimates of total wage and salary costs for the same industry groupings were obtained from the Input-Output-Table-Manufacturing Sector (large Enterprises) 1980 (C.S.O, Mauritius). These employment and total wage cost data are set out in Table 9.6.

Given the compatibility of the employment and earnings data in the Bi-Annual Survey of Employment and Earnings, the observations from the September 1980 survey were used to calculate the 'average' wage cost values set out in Table 9.6. The data on total earnings for monthly paid workers and daily paid workers, assumed to be paid for 26 days each month in accordance with C.S.O. (Mauritius) practice, was multiplied by 12 and divided by the September employment levels to produce an estimate of the annual, average wage per employee in particular industries or industry groupings.

9.1.3.2 Value-Added per Employee

The total valued-added data on an industry grouping basis was obtained from the Input-Output Table, (C.S.O., Mauritius) (op.cit). The total employment data used was again the arithmetic average of the March and September observations from the bi-annual surveys of employment and earnings referred to above.

9.1.3.3 Value-Added per Unit of Labour Cost

This ratio was calculated by dividing annual value-added by the total earnings or wage costs in each industry. These wage cost data were taken from the 1980 input-output table.

Each of the above ratios and the totals from which they are calculated are also set out in Tables 9.8) and 9.9) for Hong Kong and Singapore respectively. The calculations are based on similar industry groupings as Mauritius and are also for the year 1980. The data for Hong Kong were obtained from the 1980 Survey of Industrial Production (Census and Statistics Dept. Hong Kong) and for Singapore from Economic and Social Statistics, Singapore 1960-1982 (Dept. of Statistics, Singapore, 1983).

9.2 Empirical Results

9.2.1 Export Similarity Indices

Export similarity indices are useful indicators of the similarity of countries' patterns of specialisation and therefore of the extent to which countries are competitors in common export markets. In broad terms examination of Table 9.4a would suggest that the pattern of specialisation and trade in Mauritius is very similar to that of the other lower income countries chosen. Over three quarter's of Mauritius' exports to the EEC in 1980 were in section 0 of the SITC (Food), and thus resulted in a matching of over 80% of its exports with the scaled exports of Kenya and of virtually 70% with Sri Lanka. By contrast the higher income, industrialised countries chosen for this comparative exercise have economic structures geared towards manufacturing rather than primary activities. Over 65% of Singapore's and virtually the whole of Hong Kong's exports were in sections 5 to 9 (Manufactures) of the SITC in 1980. Thus the similarity indices of digit 1 between Mauritius and these two countries are only 26.6% and 23.9% respectively. (The similarity is likely to have been even lower in markets other than the EEC.)

Table 9.4

INDICES OF EXPORT SIMILARITY (Sac)
(1980)

a) Total Trade by SITC Sections (Digit 1) to the EEC

	(Si) %
Mauritius/Kenya	80.5
Mauritius/Sri Lanka	69.8
Mauritius/Philippines	47.6
Mauritius/Jamaica	35.3
Mauritius/Singapore	26.6
Mauritius/Hong Kong	23.9

b) Manufactured Goods by SITC Divisions (Digit 2) to the EEC

	(Si) %
Mauritius/Hong Kong	63.1
Mauritius/Philippines	46.0
Mauritius/Sri Lanka	39.3
Mauritius/Singapore	27.9
Mauritius/Kenya	17.8
Mauritius/Jamaica	15.0

There are however some interesting changes in the ranking of the similarity indices when the comparison is restricted to scaled manufactured goods and at a more disaggregated level (digit 2 rather than 1 of the SITC). The indices for Sri Lanka and Kenya fall to 39.3% and 17.8% respectively. Kenya in particular is not therefore at present a major competitor with Mauritius in its existing markets. To the extent that the bulk of Sri Lanka's manufactured exports fall in sections 8 and 6 of the SITC then there is some matching of Mauritius' exports. This matching is taken further however in the case of Hong Kong, nearly 75% of whose exports fall in section 8 of the SITC. Section 8 records miscellaneous manufactured goods such as knitwear, clothing, footwear, watches and clocks etc. Thus, although Hong Kong exported about 40 times more manufactured goods (by value) to the EEC in 1980 than Mauritius, in scaled terms there was more than a 60% matching of manufactured exports by the two countries at digit 2. This was, as examination of Table 9.1 shows, due to the fact that over 80% of manufactured exports from Mauritius to the EEC were also classified in section 8 of the SITC. The top ranking of Hong Kong and the Philippines in part b) of Table 9.4 provides a powerful justification for the subsequent comparative analysis in this report. These countries provide an appropriate point of reference for both manufacturing performance and conditions against which Mauritius must seek to compete, and for the formulation of policy rules and institutional reform.

9.2.2 Export Market Share

The export market share indices for the exports of the selected group of countries provide a useful complement to the similarity indices. By scaling the similarity indices obscured any inter-country differences revealed by the absolute level of exports to the EEC market. Exports of knitted outer and under garments for instance (SITC digits 845 and 846 respectively) constituted about 52% of Mauritius' exports in 1980, but as Table 9.5 shows these two categories captured only 10.8% and 0.6% of the selected group's total exports to the EEC in these particular categories. The market share for knitted outer garments is nonetheless significant in terms of international comparison. Indeed the market share (31.9%) for digit 651 (textile yarns) is substantial.

Table 9.5

EXPORT MARKET SHARE INDICES (Mi) OF MAURITIAN EXPORTS FOR A SELECTED GROUP OF COUNTRIES AND COMMODITIES

SITC Digit (4)	(Mi) All Countries*	(Mi) All countries except dominant exporter
651	31.9%	31.9%(1)
776	0.4%	0.9%(2)
842	1.2%	7.4%(3)
843	0.8%	5.5%(3)
844	1.2%	7.1%(3)
845	10.8%	51.6%(3)
846	0.6%	2.4%(3)
847	4.2%	23.4%(3)

* Mauritius, Sri Lanka, Philippines, Hong Kong, Singapore, Kenya, Jamaica.

(1) Mauritius is the dominant exporter

(2) excludes Singapore

(3) excludes Hong Kong

(4) descriptions of these digits are set out in Table 9.3.

The ratios in Table 9.5 do therefore give some evidence of the activities in which Mauritius has ex post or in the recent past been most successful in competing against the reference countries. In addition to describing the existing position, the data might also shed some light on potential prospects. The data clearly indicate the considerable extent of the potential market and of the potential market to be captured from a restricted group of competitors. The capture of 5% of Hong Kong's exports alone to the EEC in 1980 in section 8 of the SITC (activities in which Mauritius already has export capability), would have produced a 100% increase in Mauritius' exports in those activities. (The increase would have been considerably greater in as much as the ability to displace Hong Kong exports would result in the displacement of exports by other countries.) The importance, however, of the need for Mauritius to set its competitive standards in terms of Hong Kong is borne out again by the comparison between the export market shares for the whole group of countries and for the group without the dominant producer. For the categories in section 8 shown in Table 9.5 the market shares for Mauritius in the absence of the dominant exporter (in all cases Hong Kong) are at least five times greater than when the dominant exporter is included.

9.2.3 Wage Costs

The prior expectation that wage costs are important influences on international competitiveness in labour-intensive, manufacturing activities such as textiles and clothes is confirmed by the evidence on wage costs in Mauritius set out in Tables 9.6, 9.7 and 9.10. Table 9.6 sets out average wage costs for 19 industry groupings in Mauritius. These wage costs are ranked from low to high wage cost industries in Table 9.7; wearing apparel and textiles top the list.

Table 9.6

MANUFACTURING INDUSTRY PRODUCTIVITY AND WAGE COSTS MAURITIUS (1980)

Industry Group	Value Added (factor cost) (R.mn)	Labour Input (numbers employed)	Labour Cost (R.mn)	(1) Average Labour Cost (R'000/ year per employee)	Value Added/ Head (R'000)	Value Added/ Unit of Labour Cost
(Beverages and Tobacco):	(81.5)	(2,567)	(42.8)	12.9	(31.7)	1.9
Beverages	64.9		32.2			2.0
Tobacco	16.6		10.6			1.6
Textiles	67.5	2,124	20.7	9.7	31.8	3.3
Wearing Apparel	212.3	16,946	111.2	7.0	12.5	1.9
Footwear	16.3	444	6.4	12.0	36.7	2.5
(Wood and Furniture):	(19.1)	(1,105)	(11.4)	11.9	(17.3)	(1.7)
Wood Products	8.3		4.4			1.9
Furniture	10.8		7.0			1.5
Paper Products	7.0	342	2.1	9.4	20.5	3.3
Printing and Publishing	35.8	1,076	18.9	15.8	33.3	1.9
Chemical Products	58.7	1,035	18.9	13.8	56.7	3.1
(Rubber and Leather):	(18.2)	(598)	(6.8)	10 5	(30.4)	(2.7)
Rubber	10.2		4.0			2.6
Leather Products	8.0		2.8			2.9
Plastic Products	10.6	135	3.3	10.0	78.5	3.2
(Non-metallic Mineral Products):	(49.4)	(1,689)	(21.1)	12.5	(29.2)	2.3
Stone and Concrete	48.9	1,418	20.9		34.5	2.3
Base Metal	38.2	431	17.4	15.6	88.6	2.2
Metal Products	21.1	735	7.4	11.6	28.7	2.9
Machinery	25.2	780	17.3	18.6	32.3	1.5
Electrical Machinery	20.3	1,932	15.2	9.8	10.5	1.3
Transport Equipment	10.1	777	3.4	16.0	13.0	3.0
Watches, Clocks and Lenses	12.5	279	3.6	10.1	44.8	3.5
Jewellery	14.8	455	4.8	9.6	32.5	3.1

(1) The "labour cost" data shown in the table are taken from the 1980 Input-Output table. "Average labour cost" has been estimated from the Biannual Survey of Employment and Earnings in Large Establishments, (September 1980)

Table 9.7

EXPORT SHARE, WAGE COSTS AND PRODUCTIVITY IN MAURITIUS (1980)

	Rank orders by:			
	A	B	C	D
	Share of Exports to EEC (by value)	"Average" Wage Costs (1=lowest cost)	Value-Added/ Head	Value-Added per Unit of Labour Cost
Wearing Apparel	1	1	11	9
Textiles	2	2	5	2
Electrical Machinery	3	3	12	12
Non-metallic Minerals	4	9	7	8
Watches, Clocks, etc.	5	4	2	1
Wood and Furniture	6	7	9	10
Machinery	7	12	4	11
Rubber and Leather	8	5	6	6
Metal Products	9	6	8	5
Footwear	10	8	3	7
Chemical Products	11	10	1	3
Transport Equipment	12	11	10	4

RANK CORRELATION

BETWEEN A and B $r_{AB} = 0.734$ (significant at 5%)

A and C $r_{AC} = -0.343$ (insignificant)

A and D $r_{AD} = -0.280$ (insignificant)

But wage costs are important also in other industries than textiles, given the comparatively labour-intensive nature of many of Mauritian manufacturing activities by high-income country standards. This is confirmed by the high, positive (rank) correlation between wage costs and share of exports for the 12 industries set out in Table 9.7. (The exports to the EEC set out in Table 1 were re-classified according to domestic industry definitions and ranked as tabulated.) Simple causal relationships should not of course be implied by this consistency in the ranking, capital-, skill-intensities etc. and barriers to trade vary substantially between (potential and actual) export activities, but the evidence is instructive about the need to protect potential sources of comparative advantage. There is considerable qualitative evidence (see Appendix 5 on the private sector survey) that Mauritius has a relative abundance of competitively priced and skilled labour.

The comparative cheapness of Mauritian labour is demonstrated by the evidence in Table 9.10. The Hong Kong data on wage costs and productivity (for 1980 also) from Table 9.8 have been re-expressed in Mauritian rupees, and compared with the Mauritian evidence on an industry grouping basis. In all cases (except machinery) average wages are at least twice and usually three times as high in Hong Kong than Mauritius. This, obviously, is the consequence of higher productivity in Hong Hong. To the extent however that the productivity standards of Hong Kong can be approached by Mauritius through improved technology and skill levels, then the wage cost advantage of Mauritius offers an incentive for investment and export promotion. Significantly Table 9.10 again demonstrates the importance of wage costs in textiles and wearing apparel. For these dominant manufacturing export industries in Mauritius average wage costs in their Hong Kong counterparts are about four times higher; in all other cases, except beverages and tobacco, the multiple is lower.

Table 9.8

MANUFACTURING INDUSTRY PRODUCTIVITY AND WAGE COSTS
HONG KONG (1980)

Industry Group	Value Added (factor cost) (HK$mn)	Labour Input ('000 employed)	Labour Cost (HK$ mn.) (3)	Average Labour Cost (HK$000/ year per employee)	Value Added/ Head (HK$000)	Value Added/ Unit of Labour Cost
(Beverages and Tobacco):	(677.3)	(5.17)	(179.2)	(34.7)	(131.0)	(3.8)
Beverages	355.6	4.36	149.8	34.4	81.6	2.4
Tobacco	321.7	0.81	29.4	36.3	397.2	10.9
Textiles	4386.7	136.93	3053.8	22.3	32.0	1.4
Wearing Apparel	7880.1	306.79	6223.4	20.3	25.7	1.3
Footwear	240.6	9.47	203.3	21.5	25.4	1.2
(Wood and Furniture):	(473.8)	(17.69)	(364.8)	(20.6)	(26.8)	(1.3)
Wood Products	186.1	7.59	135.8	17.9	24.5	1.4
Furniture	287.7	10.10	229.0	22.7	28.5	1.3
Paper Products	428.7	15.45	326.7	21.1	27.7	1.3
Printing and Publishing	1287.6	33.02	791.3	24.0	39.0	1.6
Chemical Products	430.8	8.27	191.3	23.1	52.1	2.3
(Rubber and Leather):	(331.7)	(13.47)	(265.0)	(19.7)	(24.6)	(1.3)
Rubber	126.0	5.00	105.9	21.2	24.2	1.2
Leather Products	205.7	8.47	159.1	18.8	24.3	1.3
Plastic Products	2383.0	85.60	1695.6	19.8	27.8	1.4
(Non-metallic Mineral Products):	(289.3)	(4.73)	(114.6)	(24.2)	(61.2)	(2.5)
Stone and Concrete	217.3	4.17	102.7	24.6	52.1	2.1
Base Metal	273.9	5.39	153.1	28.4	50.8	1.8
Metal Products	2811.2	97.22	2002.2	20.6	28.9	1.4
Machinery	624.2	22.48	458.0	20.4	27.8	1.4
Electrical Machinery	4092.0	141.83	2700.5	19.0	28.9	1.5
Transport Equipment	780.0	18.56	623.1	33.6	42.0	1.3
Professional and Scientific Measuring and Controlling Equipment	1589.1	54.56	1149.5	21.1	29.1	1.3

Table 9.9

MANUFACTURING INDUSTRY PRODUCTIVITY AND WAGE COSTS SINGAPORE (1980)

Industry Group	Value Added (factor cost) (S$mn.)	Labour Input ('000 employed)	Labour Cost (S$ mn.) (3)	Average Labour Cost (S$000/ year per employee)	Value Added/ Head (S$000)	Value Added/ Unit of Labour Cost
(Beverages and Tobacco):	(161.6)	(3.93)	(49.9)	(12.7)	(41.1)	(3.2)
Beverages	109.0	2.65	34.6	13.1	41.1	3.2
Tobacco	52.6	1.28	15.3	12.0	41.1	3.4
Textiles	157.6	9.71	71.7	7.4	16.2	2.2
Wearing Apparel	266.4	27.19	150.7	5.5	9.8	1.8
Footwear	19.2	1.52	9.7	6.4	12.6	2.0
(Wood and Furniture):	(265.0)	(16.53)	(124.5)	(7.5)	(16.0)	(2.1)
Wood Products	180.7	10.38	80.1	7.7	17.4	2.3
Furniture	84.3	6.15	44.4	7.2	13.7	1.9
Paper Products	94.5	4.29	34.7	8.1	22.0	2.7
Printing and Publishing	277.9	12.10	118.6	9.8	23.0	2.3
Chemical Products	413.6	6.44	82.3	12.8	64.2	5.0
(Rubber and Leather):	(52.6)	(3.1[illegible])	(24.6)	(7.7)	(16.5)	(2.1)
Rubber	39.2	1.94	17.2	8.9	20.2	2.3
Leather Products	13.4	1.24	7.4	6.0	10.8	1.8
Plastic Products	173.8	9.23	63.9	6.9	18.8	2.7
(Non-metallic Mineral Products):	(199.0)	(4.66)	(54.8)	(11.8)	(42.7)	(3.6)
Stone and Concrete	217.3	4.17	102.7	24.6	52.1	2.1
Base Metal	153.7	2.34	35.3	15.1	65.7	4.4
Metal Products	416.3	17.67	157.3	8.9	23.6	2.6
Machinery	744.8	20.27	288.7	11.3	36.7	3.3
Electrical Machinery	2025.6	87.66	644.3	7.3	23.1	3.1
Transport Equipment	1060.2	27.42	363.5	13.3	38.7	2.9
Instrumentation Equipment etc.	172.4	10.46	76.0	7.3	16.5	2.3

9.2.4 Productivity

To some extent the relative competitiveness of wages in Mauritius is reflected in the favourable evidence on value-added per unit of labour cost. In Table 9.10 for instance value-added per unit of labour cost is higher in every industry (except beverages and tobacco, non-metallic minerals, and electrical machinery) in Mauritius than Hong Kong. The comparison with the values of this ratio for Singapore is less supportive of Mauritian performance; in only about half the cases is value-added per unit of labour cost higher in Mauritius than in Singapore. But the evidence on labour productivity performance must be handled with care. Productivity has been expressed throughout in terms of value rather than physical output, and as a result the measure will be distorted by any distortions to prices. Indeed, given less efficient markets and diverse effective rates of import protection (see Appendix 2) in Mauritius, then the dispersion of the ratios of value-added to labour costs is much greater in Mauritius than Hong Kong. Value-added per unit of labour cost is higher in leather products and watches, clocks and lenses in Mauritius (2.9 and 3.5 respectively) than in both Hong Kong (1.3 and 1.4) and Singapore (1.8 and 2.3) for instance, but these two industries have the highest effective tariff rates in Mauritius. (Value-added is inflated by positive effective tariff rates.) Nonetheless low wages do also serve to raise this productivity index (value added per unit of labour cost) in the case of Mauritius. Table 9.7 does not however indicate any significant relationship between this index and export performance in Mauritius on a cross sectional basis. Given inter-industry variations in capital-intensity this is not surprising.

In comparative terms these industries do, nonetheless, appear to have "performed" better than others. In terms of value-added per head and per unit of labour cost "watches, clocks and lenses" ranks highly within Mauritius, while electrical machinery (another relatively highly protected industry) is bottom of the rank order (see Table 9.7). While from Table 9.10 it can be seen that value-added per head is as high and value-added per unit of labour cost higher in "watches, clocks and lenses" in Mauritius than in the counterpart category in Hong Kong, by contrast "Electrical Machinery" is outperformed on both productivity indices - considerably so in terms of value-added per head.

Table 9.10

A COMPARISON OF WAGE COSTS AND PRODUCTIVITY IN MAURITIUS AND HONG KONG IN RUPEES(1), 1980

Industry Group	"Average" Wage Costs (thousand rupees)		Value-Added per Head (thousand rupees)		Value-Added per Unit of Labour Cost	
	Mauritius	Hong Kong	Mauritius	Hong Kong	Mauritius	Hong Kong
Beverages and Tobacco	12.9	(53.4)	31.7	(201.7)	1.9	(3.8)
Textiles	9.7	(34.3)	31.8	(49.3)	3.3	(1.4)
Wearing Apparel	7.0	(31.3)	12.5	(39.6)	1.9	(1.3)
Footwear	12.0	(33.1)	36.7	(39.1)	2.5	(1.2)
Wood Products and Furniture	11.9	(31.7)	17.3	(41.3)	1.7	(1.3)
Paper Products	9.4	(32.5)	20.5	(42.7)	3.3	(1.3)
Printing and Publishing	15.8	(37.0)	33.3	(60.1)	1.9	(1.6)
Chemical Products	13.8	(35.6)	56.7	(80.2)	3.1	(2.3)
Rubber and Leather Products	10.5	(30.3)	30.4	(37.9)	2.7	(1.3)
Plastic Products	10.0	(30.5)	78.5	(42.8)	3.2	(1.4)
Non-Metallic Minerals	12.5	(37.3)	29.2	(94.2)	2.3	(2.5)
Base Metal	15.6	(43.7)	88.6	(78.2)	2.2	(1.8)
Metal Products	11.6	(31.7)	28.7	(44.5)	2.9	(1.4)
Machinery	18.6	(31.4)	32.3	(42.8)	1.5	(1.4)
Electrical Machinery	9.8	(29.3)	10.5	(44.5)	1.3	(1.5)
Transport Equipment	16.0	(51.7)	13.0	(64.7)	3.0	(1.3)
Watches, Clocks, Lenses etc (2)	10.1	(32.5)	44.8	(44.8)	3.5	(1.4)

(1) taking an exchange rate of 1 HK$ = 1.54 Rupees

(2) within "Professional and Scientific Measuring and Controlling Equipment" for Hong Kong.

Table 9.10 shows a general picture of Hong Kong outstripping Mauritius in value-added per head terms (despite high effective tariff and protective rates in Mauritius). But this is also the case where Mauritius has had success in export markets; namely textiles and wearing apparel. This fact serves to emphasise that there are no simple rules or guides to identifying potential areas of competitive advantage. Physical productivity gains, competitive wage costs and a whole gamut of influences on skills, product quality, reliability of supplier etc. can create an opportunity for export growth. The policy environment and incentive structure in turn affect firms' marketing horizons. Without good information about export markets and the capability to sell in distant markets, however, their efforts at producing internationally competitive products may be wasted.

9.3 Conclusion

We have not set out here to undertake an exhaustive analysis of comparative advantage in Mauritius; that would be beyond the scope of this study. What this appendix does confirm is that an analysis of comparative advantage would be a very useful step in planning future export and investment promotion exercises. Even with the limited work undertaken here, a number of pointers for future promotion strategy are suggested to indicate where new markets for existing Mauritian products may be sought and where ideas may be obtained for new industries.

As argued in Appendix 10 we strongly believe one of the most immediate priorities would be to undertake further research in this area.

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POLICY STUDY

VOLUME III

TECHNICAL APPENDICES

10-11

RECOMMENDATIONS

Prepared for:

THE UNITED NATIONS
INDUSTRIAL DEVELOPMENT
ORGANISATION

June 1984

MAURITIUS INDUSTRIAL POLICY STUDY

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APPENDIX 10

10. RECOMMENDATIONS

At the heart of this study has been the analysis of the inter-relationship between trade and commercial policy in Mauritius, and the development of the industrial sector. The coverage of the study is wide, and therefore the diversity of recommendations is also substantial.

We see the process of re-structuring policy to encourage industrial development as having a logical sequence, and it is on the basis of that sequence that our recommendations are presented here. There are four broad areas covered:

- Commercial and Trading Policy

- Incentives

- Institutions

- Systems and Procedures

While there are individual elements within this appendix upon which action can be taken at an early stage without prejudice to the programme as a whole, the bulk of the programme needs to be seen within this overall framework (presented schematically in section 5.1 of the Summary Report). Thus the first "package" relates to a long-term adjustment in trading and commercial policy which permits the second aspect - incentives - to be designed in a way which maximises their effectiveness. In support of this revised and more relevant policy structure for industry, the third element - institutions - needs to be considered, and finally, certain practices and procedures require revision to complete the restructuring of policy.

Central to our whole argument is the dismantling of the artificial classifications of industry, DC and EPZ, in favour of a more comprehensive system where eligibility for tax and other operating incentives is not dependent on the pre-production classification. We believe this to be desirable as it would:

(i) be more flexible than the current system;

(ii) be dynamic in that changes to international competitiveness and export capabilities of individual companies would be automatically catered for;

(iii) be less likely to cause distortions in the pattern of resource allocation as future changes in policy would be applicable to all companies and their relative effects, to the export and import substitution sectors, would be more transparent;

(iv) increase the incentives to non-export companies to seek export opportunities; and

(v) be more administratively efficient.

In preparing our recommendations we have given particular emphasis to the costs of implementation in terms of the effects of policy change on existing companies, and to contain these costs we envisage a considerable initial overlap period where existing companies can opt to retain their present package of incentives in preference to adopting those proposed. Nevertheless, we are recommending a limited time period for the transition within which the transfer should be completed.

For the transition period, which is defined as the period remaining for eligibility to existing incentives or 10 years whichever is the shorter, we propose that:

(i) existing companies enjoying the advantages of DC or EPZ status can have the option to transfer immediately to the new system of incentives;

(ii) no new DC or EPZ status are to be granted henceforth; and

(iii) market guarantees by way of quotas or tariff protection on existing DC companies are to be progressively reduced as from the introduction of the new system.

With the exception of quota protection which affects both new and existing industry we are proposing to be generous and flexible in the transfer of incentives. Our principal aim is to establish a coherent industrial policy which favours and encourages new investment in export rather than import substitution industry. We are less interested in restructuring existing industry and prefer to maintain it except where it impinges on the incentives to new investment.

Whilst proposing to remove the dual classification of industry we also prefer to allow those export industries who are only looking at foreign markets to opt for a "hassle free" status which does not enjoy any preferential fiscal incentives but, because there is no market interaction with the domestic economy, can cut out a number of otherwise necessary bureaucratic procedures.

A final comment is required on implementation. A substantial proportion of the changes proposed has been tailored to the precise requirements of Mauritius, they are in some cases extremely simple but potentially powerful in effect and novel. Consequently they will need considerable fine tuning before implementation. We recognise this and allow for some short term assistance in the implementation phase to the Ministry of Industry and Co-operatives.

10.1 Trading and Commercial Policy

10.1.1 Background and Objectives

The effective protection analysis of Appendix 2 demonstrated that there are wide disparities in effective protection in Mauritius. The shifting analysis of Appendix 3 demonstrated that exporting activities in

Mauritius bear a substantial burden of the cost of protection. The general policy prescriptions which followed from these appendices are that relative incentives must be altered to encourage greater orientation towards the export market, and greater neutrality in the tariff structure. The recommendations presented in this section form a coherent programme designed to achieve these objectives with minimum costs of adjustment. The centrepiece we have termed the "quasi-liberalisation" strategy. This is a mixed strategy which allows the Government to make it clear that the orientation of commercial and industrial policy will be towards the export sector. The strategy does not envisage complete abolition of trade interventions on the import side. It does however allow the Government to move away from a dependence on quotas towards a greater dependence on tariffs, and ultimately towards a more rational tariff structure which would be designed to generate greater certainty, simplicity and transparency in commercial policy and which would be directed to fostering industrialisation rather than frustrating it. This central theme sets the scene for the revisions to most aspects of industrial policy that we have considered. It is our firm belief that adoption of the policies proposed here will substantially enhance Mauritius' prospects of economic growth and diversification away from traditional exports by means of an expansion in the industrial sector.

The objectives which underlie the proposed reforms in Mauritius' commercial policy are sixfold:

(i) to change relative incentives to investors in the export sector vis-a-vis the import substitute sector;

(ii) to encourage greater local participation in exporting activities;

(iii) to simplify the existing tariff structure;

(iv) to replace existing quotas with tariffs;

(v) to rationalise the tariff structure; and

(vi) to minimise costs in terms of closures.

10.1.2 Phasing

As explained in detail below, the proposed reforms should be phased in over a period of time to allow adequate opportunities for adjustment. The timetable for reform can be thought of in three overlapping phases:

Phase 1: (a) Replacement of stamp duty, special import levy and import surcharge (i.e. quasi tariffs) with equivalent nominal tariffs;

(b) announcement of a programme for the planned elimination of quantitative restrictions.

Phase 2: (a) Implementation of quota programme: replacement of quotas with existing customs duties;

(b) design of a rationalised tariff structure.

Phase 3: (a) Implementation of new tariff structure;

(b) Implementation of safeguard provisions.

Phases 1 and 2 should be implemented over the next four years. Phase 3 would be implemented shortly after completion of Phases 1 and 2.

10.1.3 Anti Dumping Legislation

It is unlikely that an economy as small, and as geographially remote as Mauritius would be likely to be exposed to dumping on any scale. On the other hand however the small size of the economy does mean that dumping could have significant resource allocation effects even when it occurs on a comparatively modest scale. Thus as liberalisation proceeds it may be felt necessary to make provisions which would permit a response to actual dumping. There are however a great many problems in precisely defining dumping and proscribing the conditions under which action can and should be taken. If legislation is not carefully thought through any anti-dumping provision may merely become an avenue for protectionist pressure. The consultants recommend therefore that prior to the introduction of any anti-dumping legislation in Mauritius, a careful analysis of the operation of established schemes, (in the US, Australia and the EEC), is undertaken in order to highlight the economic and legal problems associated with anti-dumping. In the meantime greater use could be made of Article VI of the GATT and the supplementary Anti-Dumping Code. These specify the circumstances under which anti-dumping actions can be taken within the GATT Charter.

10.1.4 Recommendations

(i) The nominal tariff equivalent of stamp duty, import surcharge and special import levy should be calculated for each item in the tariff schedule. These nominal (visible) tariffs should replace the mixture of existing duties as soon as possible This will simplify considerably the existing system and will result in savings in Government expenditure (through lower administrative costs).

(ii) In order to change relative incentives as between the import substitute sector and the export sector, and attract greater local investment in the latter, the "quasi-liberalisation option" of Appendix 4 should be implemented. In essence, "quasi-liberalisation" means that quotas shuld be reduced and ultimately eliminated in accordance with a pre-announced timetable and some opening up of the domestic market to international competition should be permitted, (the degree of exposure depending upon the nominal tariffs in force). The case for adopting this option is extensively argued in Appendix 4.

(iii) An immediate commitment should be given to phasing out of import quotas. It is important that a time limit for existing quotas be announced. The consultants propose that a period of four years should be appropriate. Not only would this give a reasonable time for adjustment, it would also be within the mandate of the present Government.

(iv) A commitment should also be given to afford no further quota protection.

(v) Quotas should be phased out. A variety of formulae for phasing out is available depending on whether one wishes quota reduction to proceed on an accelerating basis, or whether one wishes it to be evenly spread over the four years. In the case of the former one could increase the quota by 10% in the first year, 25% in the second year and so on until quota controls are eliminated at the end of the fourth year. In the case of the even spread option, the quota would be relaxed by a given amount each year. Administrative convenience leads us to recommend the latter course of action.

Phasing out has two distinct advantages: first it creates certainty in the minds of potential investors; second it smooths the process of adjustment to increased imports. As quotas are relaxed and ultimately eliminated a number of tangible benefits would accrue:

- relative incentives for local investors are changed with no net increase in Government expenditure;
- Government revenue will increase. (This follows because commodities which are subject to 100% import quotas currently pay no tariff. As the quotas are relaxed, tariffs, at existing rates, will be levied on imports.);
- the benefits of greater certainty and efficiency which are associated with tariffs would be reaped as tariffs replace quotas; and
- because some quota protection initially remains, import competing activities continue to enjoy some measure of import protection.

(vi) This "quasi-liberalisation option" should be implemented <u>in preference to</u> the "constant protection" option of Appendix 4, which relied upon the wholesale calculation of tariff equivalents. The calculation of tariff equivalents is an extremely costly exercise and the replacement of quotas with <u>equivalent</u> tariffs need not <u>in itself</u> change relative incentives. In order to change relative incentives and encourage additional local investment into the export sector, additional incentives would therefore have to be provided. Furthermore, the constant protection option delays the process of liberalisation, whilst the quasi-liberalisation option initiates the process.

(vii) Since quotas would ultimately be eliminated, and a tax regime implemented which calculates tax liability by reference to the proportion of total sales exported, (see section 10.2.1 below), Development Certificate status (which would become redundant) should be eliminated. EPZ status could remain for companies exporting 100% of their output, although the incentive regime proposed would be more responsive than that currently in force (see section 10.2).

(viii) Since the proposed tax regime relies on the proportion of total sales exported, exporters should be unconstrained with respect to marketing their output on the domestic market, provided always that the appropriate nominal tariffs on imported inputs are paid.

(ix) The calculations on effective protection in Appendix 2 revealed wide disparities in the amount of protection given to different sectors. Once quasi-tariffs are converted into visible tariffs, and whilst visible tariffs are replacing quotas, work should begin on the redesign of the existing structure of nominal tariffs. Rationalisation should proceed with the objectives of lowering existing effective protection and narrowing the spread of effective rates. The latter will guarantee greater neutrality across import competing industries and will eliminate many of the more perverse and undesirable resource allocations of the existing structure of effective rates.

(x) The criteria for conferring infant industry protection under the new tariff regime should also be thought out at this stage. If, as part of a "mixed strategy", encouragement is to be given to certain import-competing activities which are capable of generating backward linkages, this should be via <u>temporary</u> tariff protection. The criteria for any such preferential treatment must however be very carefully considered. Experience with import substitution in Mauritius has shown the dangers inherent in such a strategy when it is pursued in an ad hoc manner. Not only can it stimulate considerable inefficiency, the costs of this inefficiency can be shifted in large measure to the export sector.

(xi) The rationalisation of the tariff structure should be completed in readiness for implementation when quantitative restrictions are eliminated. This will require the assistance of outside expertise. It is however an enterprise which we believe will attract the support of multilateral aid agencies.

(xii) Although adjustment to quota elimination will be eased by existing tariffs and by phasing out, immediate consideration should be given to using increased tariff revenues to provide adjustment assistance (e.g. mobility and retraining grants), to workers displaced from the import substitute sector.

(xiii) Once the new tariff regime is implemented consideration may be given to safeguard provisions. The phasing in of quota elimination and tariff rationalisation will provide adequate time for consideration of such provisions. It is important that a realistic time scale is provided as experience with safeguard provisions elsewhere has revealed a great many practical problems with their implementation. Besides which phasing in obviates the need for an immediate safeguard mechanism.

10.1.5 Summary

Our proposals for trading and commercial policy are for a 4 year programme based upon the "quasi-liberalisation" approach. During the course of this programme, a number of the elements proposed in the remainder of this appendix may be undertaken and implemented. We see the overall programme as moving forward on a broad front to produce an ever-improving industrial investment climate and culminating in the establishment of an industrial policy framework conducive to the development of export-led growth. The key feature of this whole programme, however, will be the willingness of the Mauritian Government to undertake, with assistance, the commercial reforms proposed here, recognising that adjustment will bring with it some costs as well as the outweighing benefits we have highlighted.

10.2 Incentives

10.2.1 Taxation

A key feature of the package of incentives offered to industrial investors is the tax holiday. This features prominently in Mauritius' industrial promotions and our private sector survey also revealed its importance.

Unfortunately, the effectiveness of the tax holiday concession is much diminished. As the analysis of effective protection and trade policy shows, incentives to invest in the vital export sector serve only partly to offset the disincentives against this sector imposed by the present protection afforded to import substituting companies. Although it is our intention that this should be corrected (as the recommendations in the previous section describe), this will clearly take time. But there are other reasons why, in our judgement, the tax holiday regime is relatively ineffectual. In particular (i) experience in Mauritius has shown that companies take so long to achieve profitability that the incentive value is questionable and (ii) EPZ companies have developed ways of avoiding taxation on profits which appear to be permanent.

The formulation of our recommendations has been guided by two important considerations in this area: first, company tax should in our view be set at a level which both permits an acceptable inflow into the public treasury as well as enabling the private sector to retain enough earnings for the initial investment to be worthwhile. Second, it is vitally important that the taxation system is such that it can be used to direct incentives towards desired sectors - in the case of Mauritius, this will primarily be the export sector.

Our proposals for the corporation tax system, which we see as the foundation stone of the incentive structure, are based upon the introduction of a two-tier tax system whereby exporting companies pay a corporation tax rate much reduced in comparison to the rate applying to non-exporting companies. At the heart of this scheme are two proposals:

a) introduce a lower, permanent rate of corporation tax; and

b) grant substantial or total exemption from this in relation and in direct proportion to one simple criterion: the proportion of a company's sales made to export markets.

The implication of this system would be that the current designations of DC, EPZ and ESC would be phased out: under this proposal, they would become redundant.

It would clearly be for the Mauritius Government to set the basic corporation tax level: the important aspect to be borne in mind is that the current level of 65% is very high by international standards (c.f. Appendix 6) and should be reduced to a less penal level <u>in order to encourage investment in the productive sector</u>.

In order to illustrate the way in which this system would work, we have constructed the following hypothetical examples:

<u>Tax Regime</u>	<u>Scheme A</u>:	Basic corporation tax rate - 40% Tax rate on profits from exports: 0%
	<u>Scheme B</u>:	Basic corporation tax rate - 50% Tax rate on profits from exports: 10%
<u>Company Illustration</u>		Annual value of ex-factory sales - Rs 50 million Gross profit margin 20%
	<u>Example 1</u>	Sales are 90% in export markets: 10% domestic
	<u>Example 2</u>	Sales are 50% in export markets: 50% domestic
	<u>Example 3</u>	Sales are 10% in export markets: 90% domestic

Hypothetical Tax Regime

	Scheme A			Scheme B		
	Value (Rs mn) Profits	Tax	% Tax Rate	Value (Rs mn) Profits	Tax	% Tax Rate
Example 1						
- local sales	1.0	0.4	40	1.0	0.5	50
- export sales	9.0	-	0	9.0	0.9	10
TOTAL	10.0	0.4	4	10.0	1.4	14
Example 2						
- local sales	5.0	2.0	40	5.0	2.5	50
- export sales	5.0	-	0	5.0	0.5	10
TOTAL	10.0	2.0	20	10.0	3.0	30
Example 3						
- local sales	9.0	3.6	40	9.0	4.5	50
- export sal s	1.0	-	0	1.0	0.1	10
TOTAL	10.0	3.6	36	10.0	4.6	46

Thus, an "EPZ" company selling entirely in export markets would pay no tax under Scheme A, and 10% under Scheme B. The "EPZ" company shown here, selling 10% of its output domestically, would have an average tax rate of 4% under Scheme A, and 14% under Scheme B.

The "DC" type of company illustrated in Example 3, able to pick up occasional export orders, but essentially based upon the domestic market, would pay 36% tax under Scheme A and 46% under Scheme B. The important aspect is that the company would perceive that the basic tax rate is not penal, and that there is a built in incentive to maximise profits.

It is clear that the choice of tax rates will be largely governed by two factors:

1. the effect on export incentives; and
2. the effect on the Government's revenue.

Initial discussions of our draft recommendations held in Mauritius with representatives of the Ministry of Finance suggest that a 40%:5% structure would be acceptable on grounds of the second criteria. We would support these rates as in our opinion there would not be a detrimental effect on export incentives. We would strongly argue however that 5% should be seen as the absolute maximum level of taxation on the proportion of profits deemed to be arising from export earnings. Higher rates will have a significant disincentive effect, particularly on foreign investors considering Mauritius as a location for new investment.

We contend that this scheme has a number of benefits. First, it is eminently straightforward and easy both to understand and administer. Second, it abolishes the concept of the tax holiday and therefore the possibility of tax avoidance, and thereby respects the integrity of Government revenue. Third, it directs incentive specifically at the export sector, and fourth, it encourages companies to make money. Finally, by enabling EPZ type companies to sell on the local market, it increases the efficiency of local companies and provides more competitive goods to the consumer.

In terms of accountability the system has an additional benefit in that the proportion of export receipts from total receipts is easily verifiable from records at the Bank of Mauritius. To ensure receipts can be attributed to any one particular year it may be necessary, however, to improve the referencing system at the Bank of Mauritius to uniquely associate revenues with invoices thereby enabling foreign receipts to be apportioned between years.

Inevitably problems will arise to complicate matters in the implementation of any new tax scheme but from our own thoughts and from initial reaction to our proposals from representatives of the interested Ministries in Mauritius we anticipate none associated with this scheme would be insurmountable, or of sufficient gravity to render the scheme inoperable. One such problem that has already been identified by the Income Tax Department is the incentive for companies to minimise their domestic sales via artificial means. The example sighted was of textile companies accepting work from local wholesalers and importers on a CMT basis only rather than purchasing outright the inputs, manufacturing and then reselling to the wholesaler. For this particular problem the frequency of this was not seen to be a major deterrent.

To assist in overcoming these problems, and to essentially fine tune the recommendations generally, we are proposing an adviser be appointed to the Ministry of Industry for approximately six months to assist in the implementation of these proposals.

We believe that this system, tailor-made for Mauritius and incorporating a continuously variable tax scale which maintains an incentive to export at the margin, regardless of the relative importance of exports, would constitute an imaginative and highly-effective inducement to the export sector. Together with the other incentives listed below, which are based closely on the existing system, it would stimulate industrial investment and would be administratively easy to understand and relatively cheap to collect.

It became evident during discussions of the of the draft report that the proposed system of taxation ought to be extended to ESZ companies. Although these companies fell strictly outside our original area of enquiry it appears sensible to include them in future proposals. We would therefore also recommend that ESZ companies be allowed to sell on the domestic market, if they so wish, and be subjected to the same tax regime as manufacturing exporters. Of course the "hassle free" status option would also be open to them if they wished to limit their business activities to the export sector.

It is unlikely that, even the short run, the effects on Government revenue may be adverse despite the reduction in the basic rate of corporation tax. Recently, Government's yield from taxes on income has been relatively low, as the following table shows.

MAURITIUS GOVERNMENT REVENUE ACCOUNT

(Rs million)

	1978/79	1979/80	1980/81	1981/82 (est.)
1. Total current revenue	1,417.0	1,810.7	2,059.1	n.a.
of which:				
2. Total tax revenue	1,260.7	1,601.5	1,801.1	n.a.
of which:				
3. Taxes on income and capital	328.9	296.2	392.9	414.0
of which:				
4. Taxes on company profits	128.4	118.5	180.9	205.0

Taxes on income and capital in Mauritius accounted for between 16% and 23% of current Government revenue. By international standards this is low, as the following table illustrates:

Income Taxes as a Proportion of Current Government Revenue: International Comparisons (percent)

	1978/79	1979/80	1980/81	
Mauritius	23	16	19	
Kenya	32	29	30	
	1979	1980	1981	1982
Singapore	32	35	37	36
Malawi	32	28	24	28

Sources: Government/Central Bank Publications

While detailed enquiry would be necessary to determine the cause of Mauritius' abnormally low tax yield, there must be a strong suspicion that a combination of the tax holiday, low company profitability, and outright tax avoidance are to blame. The scheme we have proposed is designed to tackle all these problems.

Given a climate in which industrial investment and profit-making is encouraged, we believe that the longer-term effects of the new regime proposed will tend to increase Government's income from corporation taxes.

In Appendix 7, mention was made of the need to ensure that the personal tax regime is also conducive to encouraging industrial investment, in addition to corporation tax. For purposes of presenting all the recommendations included in this report together in this Appendix, we repeat here the argument relating to personal taxation which was discussed in Appendix 7.

In Mauritius, there is one particular area of concern relating to the process of encouraging investment in new enterprises which may be susceptible to modifications in the personal tax regime. It is especially noticeable that there has been scant provision for equity investment in new businesses (i.e. risk capital or venture capital) in Mauritius. In the discussion of the role of the Development Bank of Mauritius, (DBM) in Appendix 1, the low level of equity investment is commented upon. The absence of a vehicle to mobilise risk capital in new ventures creates the real risk that such ventures start life with a debt:equity ratio which diminishes their chances of survival. Although proposals now exist to improve the provision of venture capital through the Equity Financing Fund Bill, this has yet to make an impact and does not necessarily obviate the need for further sources of such funds.

We suggest that consideration is given to a scheme whereby individual Mauritian investors, (and conceivably also Mauritian companies) are given the chance to invest in new companies by offering tax concessions if such investments are made in "qualifying companies". Although it is beyond the scope of this study to propose detailed changes to the tax laws, the essence of such a scheme might be as follows:

- individuals (or companies) could be invited to contribute to an "Investment Trust" or similar body - (perhaps to the Equity Finance Fund itself) - by purchasing shares;

- the Fund would then invest in qualifying companies, with a view to ensuring that such companies were not unfavourably geared;

- the principle would be that such investments had capital growth as a prime objective over a medium term period, rather than individuals expecting an early pay-back in the form of annual dividends;

- in recognition of the riskiness inherent in such venture capital investment, and of the anticipated length of the pay-back period, the Government would grant relief against income tax for a period of years at the individuals' highest marginal rates of tax. This type of scheme, which is based upon programmes being introduced in some European countries, would in our view satisfy two important criteria in Mauritius:

  (i) it would provide a source of local equity capital where none exists at present - i.e. private venture capital; and

  (ii) it would encourage individual Mauritians to invest in the country's productive sector directly, rather than in, for example, local financial funds or even offshore investments.

10.2.2 Other

10.2.2.1 Duty-free Imports

The importation of intermediate inputs and capital equipment duty-free in support of manufacturing for export is also an important feature of the incentive structure. The principle to be followed is similar to that underlying our proposed tax system: i.e. that inputs to production destined for export markets should continue to be allowed into Mauritius duty-free, and that therefore the duty-free component in a given company's import flow should pro rate to its export sales. Broadly, our recommendations are that the current system should continue and that efforts should be made to ensure that the system functions as smoothly as possible.

With proposed tax system, the designation of DC and EPZ companies would become redundant and disappear. Duty-free imports would therefore relate to the proportion of manufacture/output which was for the export market, and would be subject to the same process of verification which obtains at present. It is nevertheless important to distinguish between those cases where companies can indicate in advance that a certain proportion of the goods on their import manifest/bill of lading are destined for qualifying export production, and those who claim duty-free entitlement ex-post (i.e. under the duty drawback provisions).

In the first case we recommend, despite its inherently cumbersome nature, that companies continue to practise the existing advance claimant system, and that the Customs Department (see section 10.4.2.3 below) makes every effort to administer the system as smoothly and expeditiously as possible.

In the case where companies secure unforeseen export contracts, or are in a position to claim duty-free imported inputs ex-post, it is vital that (i) such companies must know that duty refunds are guaranteed, so that they may take account of this in their pricing, and (ii) that the repayment of such duty is guaranteed within a maximum period of delay. Without such guarantees, we consider the duty drawback scheme to be worthless in commercial terms.

The duty drawback scheme has not been an effective promoter of exports for Mauritian industry, and as such may be classified as a failure. It clearly is important that companies are able to count upon the fact that they will receive repayments of duty paid on imported inputs when pricing or quoting for export orders. Also, it is important that companies can rely upon that repayment being carried out.

The practical difficulties in the operation of the scheme seem to derive from the necessity on the Government's part physically to repay money to the importing company. Thus, when the Customs authorities have satisfied themselves that a given export consignment contains a certain quantity of imported inputs upon which duty has been paid and a refund is therefore due, the actuality of repaying the money causes difficulties, often, as we understand the position, because the Government does not have the resources at the time.

Duty drawback is designed to address two circumstances: (a) where the importer already has a firm order for exports, but is not a holder of an EPZ certificate and therefore has to give notice of his intention to claim the duty drawback, and (b) where a non-EPZ company secures an export order, perhaps as a windfall opportunity, after inputs have been imported and the duties thereon paid. At present, quite stringent conditions apply to the operations of the scheme, and companies find that very long delays occur before any refund actually takes place.

We suggest that a way of improving the scheme's operation might be for companies which have shipped an export order which has in turn been verified by the Customs department as containing duty paid imports, to be issued by the Customs department with a credit note. On the next import consignment by that company, the duty payable would be calculated as normal, but the company would then present its credit note and the full value of the refund due would be deducted from the amount payable. In the event that the refundable amount exceeds the duty payable on the new consignment, a further credit note would be issued to the importer by the Customs department for use in the future.

In the event that the Customs Department fails to issue credit notes when they are due (this should be no later than the day on which the export ship/aircraft leaves Mauritius), the credit entitlement should begin to earn interest - say after an initial period of perhaps 1 week's grace - which would become the importer's entitlement once the credit note is eventually issued. This would be entirely equitable since the Government would have had the use of the duty paid originally by the importer for a period, and the duty paid may well be a de facto interest-free loan to Government for some time if there is a substantial delay before the next import consignment takes place.

During discussions with representatives of the Customs and Excise Department and the Ministry of Finance it became clear that the system we propose would need to be amended.

The amended system would require any manufacturing company which had not specified that particular import consignments were scheduled for re-export after further processing but which had subsequently won an export order requiring the use of the previously imported material, to notify the Department of Customs and Excise and request an officer to verify the existence of the material prior to the start of manufacturing the export order. Once verification had taken place other inspections at the factory would be made as the Department of Customs and Excise deemed necessary.

The amendment to our original system ensures that adequate checks are possible on imported materials which become eligible for a duty credit note and scope for abuse by importers/exporters is minimised.

We believe that this sytem would remove many of the practical operating difficulties which currently arise from paying back money to importers. It appears that, even when the Customs Department verify that repayment is due the Ministry of Finance which is actually responsible for the repayment does not do it. Under this proposed system, no money needs to change hands and the Ministry of Finance would not need to be involved.

Concerning imports of capital equipment, two important questions arise. First whether capital equipment for export production should be treated any differently than for local market production and second should spare parts be treated any differently to complete machines?

Although to maintain consistency with our central theme (to provide greater incentives to export production than to import substitution production) imports of capital equipment should be eligible for duty relief in proportion to the ratio of exports:local market product. This is impractical as it is unlikely that the information required will be available at time of entry.

We therefore propose that all imports of manufacturing machinery and equipment should be duty free. In so doing substantial incentives would be given to new industries to establish in Mauritius and the adminstration of capital equipment imports simplified.

We would also prefer to see a system of import duties which allowed in duty free spare parts for capital equipment used in manufacturing industry as duties levied on spare parts act to some extent as a deterrent to regular maintenance and repair. However, keeping in mind considerations of Government revenue a modest level of duty would not be unacceptable. Our discussions with representatives of the Ministry of Finance suggested a level somewhere between 10-15% would satisfy revenue requirements and would not unduly dissuade manufacturing from following a regular programme of maintenance.

10.2.2.2 Repatriation Provisions

Addressing specifically the case of the non-Mauritian investor who may respond to Mauritius' promotional efforts or perhaps be appraising Mauritius against other potential off-shore locations, the facility to repatriate dividends and profits freely in hard currency will always be seen as important. It is clearly unrealistic to expect a nation such as Mauritius, in which foreign exchange is a scarce resource, to permit uncontrolled exchange, and it is entirely proper that the Government should exercise control of the day-to-day flows.

However, from the foreign investor's point of view, it is equally clear that Mauritius has to stand reasonable comparison with "competing" locations for off-shore investment or else that investment will not materialise.

We recommend that:

(a) profit repatriation to external investors as a result of export sales be guaranteed indefinitely. The calculation of this will be simple in the light of the proposed taxation system, which will automatically calculate the ratio of ex-factory export sales to total ex-factory sales. If the foreign shareholder has say, 50 shares and the dividend per share is Rs 10, his total entitlement would be Rs 500. Repatriation would be permitted on the proportion of this Rs 500 related to the company's export sales in the year in which those profits arose, a ratio already avaiable from the corporation tax calculation.

(b) In the event of a company being wound up or liquidated, the initial value of the investment from overseas should be allowed, based upon the company's residual net assets.

10.2.2.3 Work and Residence Permits

There is no question that a small nation such as Mauritius with substantial unemployment needs to maintain strict control upon in-migration. Equally, the process of persuading foreign investors to come to Mauritius will commonly bring with it a demand to install some key staff of the investor's own choosing from outside Mauritius. From our interviews with the private sector and our research visit to the Far East, we believe that it is especially likely that Far Eastern investors will wish to do this.

Clearly Mauritius will wish to decide upon such conflicting issues in the light of the nation's best interests. As a general guide, we believe it would be helpful if work/residence permits could be freely given only where the presence of foreign management staff is clearly a pre-requisite for the investment to take place. This aspect should be explicitly covered on the investor's pre-investment documentation.

In cases where the need for expatriate staff is proven, we recommend that the Government give consideration to extending the validity of the initial permit from 1 year to 2 years. This would be seen as helpful by the investor, and would be included in his estimation of Mauritius' attractiveness as a positive incentive to him to invest.

One particular aspect of the foreign work/residence permit system that can cause unnecessary problems is the delay in processing of applications. Without prejudicing the control of immigration policy we recommend the introduction of a system of a temporary but automatic 6 months work permits, which would give new investors much more flexibility in the planning stage and would reduce considerably the existing degree of uncertainty. Providing that pre-determined criteria were published as guidelines to the type job functions and persons permitted to work in Mauritius then the onus of correct selection would be put on to the businessman. Immigration authorities would of course continue to have the option of cancelling the temporary work permit if either the information supplied was incorrect, the job specification did not meet the guidelines, or the individual was considered an undesirable one, and would maintain their principal power of selection in the normal work permit system.

10.2.2.4 Industrial Estates

We have felt it right to include the provision of industrial estates in our recommendations on incentives, since in our judgement the availability of advance factories is a key element in the decision to invest in Mauritius, especially from the point of view of attracting the overseas investors.

Mauritius' two public industrial estates at Plaine Lauzun and Coromandel have been developed and are managed by the Development Bank of Mauritius. It is currently proposed by the Ministry of Industry that MEDIA should take over responsibility for industrial estates, including possibly the management of the two DBM estates. Additionally, SIDO has expressed a wish to develop mini-estates for small businesses at various points in the country.

It is clear that a renewed approach is needed to industrial estate development in Mauritius, for a number of reasons:

(i) the existing estates are in some respects inappropriately designed - for example, multi-storied industrial units are unsatisfactory from the point of view of goods vehicle access - and this in part accounts for the empty space at Coromandel;

(ii) although there is much merit in providing cheap, basic space, when it comes to using advance factories as part of the incentive to locate in Mauritius, the existing estates have no prestige value and little intrinsic attractiveness as a relatively high quality real estate development;

(iii) in our judgement, there is no doubt that Mauritius has to be in a position to offer good quality premises (or at least the capacity to provide such premises at short notice) to the incoming industrial investor. This is not done at present, but will be a necessary part of the increased investment promotion programme which we have recommended in Section 10.4.1.2 of this Appendix. Certainly, to be unable to offer such facilities would put Mauritius at a disadvantage compared to many other countries, as Appendix 6 illustrates in the case of the Far East.

In considering the optimal structure for the development and administration of industrial estates, in most countries it would be normal to think in terms of either an industrial estates corporation as a separate and autonomous entity (such as, for example, Kenya Industrial Estates) or a separate department of a development or development finance corporation. In Mauritius, such an approach is unlikely to be justifiable given the relatively small scale of the problem. For the provision of standard industrial buildings therefore (i.e. single storey industrial units of 2,500 sq.ft and upwards) it does not seem inappropriate to establish a division within MEDIA, provided that:

(i) the Mauritius Government is satisfied that the responsibility for industrial estates should be taken away from the Development Bank, and

(ii) the fundamentally different nature of an industrial estates division within MEDIA compared to its other primary functions is recognised.

On that basis, our recommendations on the development of industrial estates for units of approximately 2,500 sq.ft and upwards may be summarised as follows:

A separate division of MEDIA should be set up on the following basis:

- the head of division should be an experienced architect/planner with direct experience of industrial estates. If necessary, an expatriate recruit should be sought to train a Mauritian in the first year or two;
- the head of division should report directly to MEDIA's director;
- the division's basic staffing should at least reflect that currently engaged on estate's management by the DBM (2 engineers plus necessary on-site maintenance staff, plus a project accountant and supporting secretarial staff). As new estate facilities come on stream, additional staff may be necessary;
- an immediate priority should be to prepare, design and cost schemes for the development of further advance industrial buildings at perhaps 2-3 sites in Mauritius. We suggest that one should be located adjacent to the airport at Beau Vallon;
- these proposals should be used to seek funding for these developments probably from an international aid agency - such funding to be seen as entirely separate from that sought to fund the mainstream activities of MEDIA;
- the funding of the estates division (i.e. personnel and administration costs) could be seen as part of MEDIA's overall funding, especially since a relatively large proportion would probably be in local currency. We tentatively estimate these costs on an annual basis as about Rs 1 million, which would be additional to the costs estimated for MEDIA in section 10.4.1.1.

In addition, we have suggested to the Ministry of Industry that advice be sought on the broad concept of industrial estate design and development by means of a short visit (2 weeks) to Mauritius by a suitably-qualified expert under aid terms. We suggested that Mauritius might perhaps approach the British Government to secure the services of someone from the English Industrial Estates organisation. The principal purposes to be served by such a visit would be to provide a specialist view on how the design, layout and concept of Plaine Lauzun and Coromandel might be improved upon in the next phase of development. We formed the impression that the first stage of development in Mauritius' industrial estates had been undertaken without the benefit of such specialist advice, and on the assumption, mistaken in our view, that this type of estate development is a straightforward unspecialised procedure. This is certainly not the case, and the provision of specialist advice could substantially improve the quality of subsequent developments.

Turning briefly to small units of less than 2,500 sq.ft. it is proposed that SIDO might take on this responsibility. The formation of an "enterprise agency" type of authority fc Mauritius has been proposed in this report, (see section 10.3.3) and it would be a legitimate responsibility of such a body to undertake the provision of starter units and cheap, small units of space for the small business. We recommend that an agency of this type should have this task, since the type of space required and the approach to its design and management is fundamentally different to that proposed for "standard" units. In this area in particular external advice should be sought on the design and realisation of the managed workshop concept, and we recommend that this is seen as a prime task for "Enterprise Mauritius" once it is established.

10.2.2.5 Development Finance

For the new industrial investor, whether from within Mauritius or outside, the provision of development finance may be seen as an important element in the incentive package offered to investors. The Development Bank of Mauritius already offers finance at preferential rates t qualifying companies, though, as we have argued, the preference is marginal when set against the high absolute cost of money in Mauritius, and in other respects DBM policy may be justifiably regarded as conservative and largely non-developmental.

The DBM has been discussed at some length in Appendix 7 (see Section 7.3.3) and specific recommendations on its future conduct, within the context of our overall proposals for industrial policy reform, are contained in the next section of this appendix at paragraph 10.3.5.

It is sufficient to state at this point therefore that we see the facility to offer genuine developmental finance to industrial investors as an important feature of the incentive package, and as one which has so far been poorly provided for in Mauritius.

10.3 Institutions

10.3.1 Introductory Remarks

It is not uncommon for developing countries to group the institutional aspects of the promotion and development of manufacturing, industry, agro-industry, tourism and exports under one central organisation, such as a development corporation. Thus, for example, many of the small island economies in the Caribbean have a development or development-finance corporation which acts as government's executive arm; countries such as Sudan have a major development corporation which, where foreign exchange may be scarce, has hard currency resources for investment as loans or equity in new ventures. One of the prime functions of such bodies is to take reasonable risks to stimulate and to lead economic development initiatives.

Other countries adopt a disaggregated approach whereby the institutional functions required to manage and implement development policy are distributed amongst a number of ministries and quasi-government organisations. This has been the approach adopted by Mauritius. Thus the Development Bank (DBM) has undertaken financing and industrial estate development, the Industrial Co-ordination Unit of the Ministry of Industry and Co-operatives is intended to act as the "one-stop" agency for new investment, the Mauritius Export Development and Investment Authority (MEDIA) is to take care of promotion and to take over control of industrial estates, the Small Industries Development Organisation (SIDO), part of the Ministry of Industry, is intended to cater for the small business sector, and so on.

As specified in the terms of reference for this study and requested by the Mauritius Government during the fieldwork, the institutional aspects form part of the ground to be covered in this report. Recommendations on the institutional framework are seen as an integral part of the design of new policies and procedures.

A pre-requisite for the preparation of recommendations on policy management on the "Mauritius Model" (where a number of bodies are to be involved) is to underline the importance of liaison, co-ordination and communication between the organisations involved. Where all these functions come under the umbrella of, say, a development corporation, in principle such communication is easier to ensure. Where different organisations are involved, it is vital that the allocation of tasks is effectively carried out. As an illustration, it is possible to envisage a case where an overseas investor is attracted to Mauritius by the efforts of MEDIA, which may have had a number of meetings with the individuals/companies concerned and have developed an initial relationship as a result. On arrival in Mauritius, the investor would address the ICU who would be responsible for processing the project proposal, but would also need to deal with MEDIA if an advance factory was needed, and with the Development Bank for possible financing. Even this model, highly simplified compared with current practice, would require very careful co-ordination to ensure that the service received by the investor was efficient and well-organised.

The pros and cons of a development corporation-type of approach compared with the Mauritius approach could be debated at length and is a subject beyond the scope of this study to examine in detail. On balance, the notion of combining these services in Mauritius under one roof appears to have great merit but clearly is not a practical proposal for the immediate future. The assumption made here is that the intention is to maintain the institutional structure as now is and has been proposed, although it is a recommendation of this study that opportunities for merging organisations in this area should be kept under constant review. However, we do recommend that, as a "half-way house", the ICU should be located in the same premises as MEDIA, and that the two organisations should be linked (for example the head of the ICU could be on MEDIA's Board) so that risks of confusion arising in their respective responsibilities is minimised.

In considering recommendations on institutional developments, amongst the most important relate to MEDIA. Since MEDIA is to be the prime vehicle for investment and export promotion, we have presented our recommendations in this area under a separate section, 10.4.1 below.

10.3.2 Key Ministries

It was clearly outside the scope of this study to undertake a detailed examination of the functions and operations of all those ministries having an input into the design and administration of industrial policy. Our comments are therefore confined to those areas which are directly part of our brief. In Appendix 7 we have considered the broad organisation of the new Ministry of Industry and Co-operatives and have dealt with most of the Ministry's functions elsewhere in this Appendix.

For completeness we have repeated here our recommendations set out in Appendix 7 on the function of the evaluation unit of the Ministry of Industry, since this is an especially key area and impinges directly upon the process of receiving new investors in Mauritius.

10.3.2.1 Evaluation

In Appendix 7 we argued that, in our opinion, there is no justification for the Government to attempt to carry out a technical evaluation of new investment proposals. The Government is rightly concerned to ensure that investors proposing to establish new productive capacity in Mauritius can demonstrate the financial resources and experience needed to run the proposed venture, and it is a legitimate role of Government to request the necessary references and evidence of the bona fides of individuals, especially when they are foreigners and unknown to the Mauritian authorities.

Project appraisal should be limited to the broad strategic considerations. If it is felt necessary to set certain criteria against which proposals could be judged on a consistent basis, then we suggest that 3 key measures should be requested as part of the application procedure:

- proposed initial employment and anticipated employment after, say, 2 years' operation:

- anticipated net balance of payments effects of the project: and

- proposed total investment in foreign and local currency components (e.g. whether funds, including loans, are raised locally or externally).

It would also be desirable, especially for EPZ applications, to make public the "normal" timescale within which the evaluation process will be completed. Given the simplified procedures which we believe should be introduced, and bearing in mind the practice of Mauritius' main competitors in the Far East, we suggest that in both cases, EPZ and DC applications a decision should be given within 30 days of the date an application is submitted.

10.3.2.2 Organisation

Following discussions with the Minister of Industry we have considered whether it would be appropriate to divorce the management of Co-operatives in Mauritius from the management of the industrial sector. Since we understand that Co-operatives are essentially based upon the agricultural sector and therefore present substantially different problems to those posed by industry, we endorse the notion of removing the Co-operative portfolio from the Ministry and thereby creating a single Ministry of Industry.

10.3.2.3 Technical Support

We previously argued that as currently operated, the Ministry of Industry had no direct or immediate access to high calibre technical advice/ support. If the programme of industrial development as proposed in this document is carried out, and it is to be effectively orchestrated and coordinated, a need will arise for additional technical support. This will especially be the case given, as we have argued earlier, that many of the proposals are new and will need considerable fine tuning before they are implemented. We therefore recommend that a short term adviser is appointed responsible directly to the Minister of Industry and Co-operatives whose responsibility it would be:

1. To coordinate the implementation of the various elements of the new industrial strategy.

2. To supervise the establishment of MEDIA, SIDO, and the policy changes proposed.

3. To respond to the specific requests for advice from the Minister.

4. If required, to contribute to the establishment of the policy review committee.

5. To assist in defining and implementing the short and long term promotion strategy.

Initially we would see the appointment for no longer than say 6 months, during which time procedures and institutions could be established and running. Thereafter the adviser might make regular visits, say every 2-4 months, to monitor progress and consult with the Minister on strategic changes and other matters as may arise.

Perhaps the most flexible approach would be to appoint a specialist industrial/trade economist from a firm of economic consultants, through which other specialist inputs could be called upon at short notice and be provided within the overall brief. This system has worked and continues to work effectively for many developing countries throughout the world.

10.3.3 Small Industries Development Organisation (SIDO)

It has been argued earlier in this report (Appendices 1 and 7) that SIDO is grossly under-resourced at present and as a result is able to make only a minimal impact upon the small firms sector of the economy. This sector is estimated to employ some 25,000 people in Mauritius and to involve 5,000 small businesses. It is therefore of considerable absolute size and importance, and in the judgement of the consultants has the capacity to make a further substantial contribution to employment.

We recommend that special consideration is given to the small businesses sector in developing new policy measures for industry as a whole. The needs of small businesses are substantially different from those of large enterprises and demand a different approach. In our view an exciting opportunity exists in Mauritius to create an organisation involving both the public and private sectors aimed at stimulating the rate of new business formation and at improving the survival rate of such businesses.

In proposing the establishment of a new body, the assumption is made that the Mauritius Government is in favour of a special effort being made to encourage the small firm's sector. The existence of SIDO is taken to indicate that support. It should also be made clear that no feasibility appraisal could prove in advance the existence of adequate demand to support such a service. The essence of the organisation we are proposing is that it should be flexible and responsive to such demand as arises - we have no doubts that it will generate a strong response - and should evolve progressively according to such demand.*

(i) The Background International recesssion has sharpened awareness, in developed and developing nations of the need for imagination in job creating initiatives. In particular, the potential contribution of the new, small firm to creating new jobs has been increasingly appreciated as internationally mobile investment in major productive capacity has become less readily available. In Europe, for example, severe recession has given rise to a surge in the rate of new (small) firm formation, and also to a sharply increased understanding of the elements needed to improve survival rates amongst new starts.

Many of the principles underlying developments in Europe are directly transferable to the less developed countries of the world. In particular, we judge current conditions in Mauritius to be especially favourable to a new initiative for the small firm's sector.

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*Note:

We have set out our proposals in great detail in this section in response to a specific request to give special consideration to the small business sector by the Secretary for Industrial Development, to whom SIDO currently reports.

(ii) The Proposal Using SIDO as a base upon which to build, it is proposed that a new organisation be created which will have a range of functions similar to those provided by the Enterprise Agency concept in Great Britain, and to the Boutiques de Gestion in France, but which can be adapted to the particular needs of Mauritius. For convenience, this new body will be referred to here as "Enterprise Mauritius".

The basic objectives of Enterprise Mauritius (EM) will differ somewhat from those of SIDO. In SIDO's case, it is intended as an advisory and research body with the additional role of developing mini-industrial estates at strategic points in the country. EM would be intended to fulfil all those functions, but would additionally and as a prime function be concerned with the day to day practical problems of helping a new business get started and providing an appropriate level of "after care" support to maximise that business's chances of survival.

(iii) Key Elements The starting point for EM may conveniently be based upon the provision of premises in two centrally-important aspects:

(a) a headquarters, located in a prominent ground floor retail unit in Port Louis. This would act as a "job shop" for Mauritius, in the sense that individuals wishing to start their own business, or existing entrepreneurs in need of help and advice, would be able to come to the EM shop and receive immediate practical help. It cannot be over-emphasised that the success of this agency depends critically upon its accessibility and its "image": it would not be acceptable to locate the agency inaccessibly in, for example, part of a Government office complex. Indeed, as is argued below, the connection between the Government sector and the agency should be minimised from the point of view of its day to day operations;

(b) the development of managed workshop complexes (i.e. mini-industrial estates as planned by SIDO) at strategic points throughout the island. The managed workshop complex is described in detail below: the essence is to provide a supportive and cost-effective environment located close to people's homes in which individuals can set up their own businesses. Without the provision of suitable premises, the chances of success of such programmes will be sharply diminished.

In addition to the question of physical space, there are a number of other important elements in this proposal. First, it is crucial that EM is able to relate directly to the individual entrepreneur, actual or potential, and to secure a position of trust in assisting him/her to start or develop their own business. This means that it is vital that EM does not give the appearance of being a department of Government, because (a) psychologically, governments do not relate well to the small businessman, and (b) it is rare that a government employee can offer the practical experience and skills necessary to the successful operation of a small business.

Second, and deriving directly from the above, EM should involve the active participation of the private sector, which would be invited to provide staff and funding for the agency. Preliminary discussions in Mauritius indicated a readiness on the part of the private sector to respond to such a request. Third, the calibre of staff would be a critical factor in EM's success, again arguing in favour of involving the private sector. To be successful the agency's staff would have to possess a high degree of business skills and experience and to be able to operate over a range of levels. Communicative skills would be needed to deal, at one end of the scale, with a relatively unskilled potential entrepreneur needing help to found his own business and at the other end of the scale to lobby on the entrepreneur's behalf at senior financial and political levels.

(iv) The Managed Workshop Concept A pre-requisite for the establishment of a new business is to have available suitable premises from which to operate and to be able to secure such premises rapidly and on the basis of minimum risk. The property market in Mauritius for industrial/ commercial property exhibits characteristics common in many countries, i.e. that relatively large units or prestigious office accommodation is not especially hard to find, whereas an individual looking for a "starter unit" in the size range 200-2000 sq.ft in an attractive and supportive environment will find the task almost impossible. A number of companies interviewed during the private sector survey had been obliged to locate in sub-standard, isolated units which in practical terms could retard their growth prospects.

We propose that an early task of Enterprise Mauritius should be to build a range of cheap space (or, if possible, convert existing buildings) in the form of workshop complexes located in the more important village/town communities throughout Mauritius. The characteristics of such complexes should include:

- A range of industrial, commercial and "studio" type units, between 200 and perhaps 1500 sq.ft, located in a complex designed to achieve both operating economies of scale and a supportive community environment; typically, 10-40 units might be provided in each complex depending upon the size of the settlement in which it is located.

- Units of space would be available for rent <u>on fully commercial terms</u> (indeed, small units invariably command higher rentals per square foot than larger units) on the basis of a simple licence to occupy (a one-page agreement) and "easy-in, easy-out" terms. Tenants would therefore not be obliged to enter into long term legal agreements nor to undertake long-term liabilities for disposal of a lease in the event of business failure.

- A range of common servies would be provided in each complex. For example, small business opportunities exist to provide secretarial, photocopying and reception facilities to tenants on a pay-as-you-use basis, and to provide canteen facilities to serve the tenants and their employees on site.

- Each complex would have a manager on-site to supervise the operational aspects of the buildings, and to liaise with the main EM team in terms of providing management help and support to individuals as necessary.

Two of the most important features of the managed workshop concept are that it is seen as being financialy self-supporting, and therefore its construction can be commercially-funded over a "normal" investment period of, say, 10-15 years, and that it provides an excellent physical environment for the new small business to start up in and grow. This latter aspect is extremely important in achieving a good survival rate amongst new starters.

(v) Structure of Enterprise Mauritius It is proposed that EM is established as an entirely autonomous, non-profit making body. Under UK law, a company limited by guarantee would be a suitable vehicle, and under French law an Associaton Sans But Lucratif would be suitable. This independent structure would be important to the operations of EM, and would also provide a vehicle which would be empowered to act as a recipient of funds for (i) the sponsorship of the management team and operating costs and (ii) the financing of investment programmes, for example, the building of workshop complexes.

EM should have an (unpaid) Board of Directors, chaired by a leading figure (probably from the private sector, the professions or perhaps the university) and upon which representatives of the public and private sectors should sit. It is strongly recommended that the private sector is in the majority on the Board. It should be the Board's responsibility to set and supervise EM's operating policy.

(vi) Staffing It is proposed that the private sector of Mauritius be approached to provide, on secondment for a period of at least 2 years, the Director and Chief Executive of EM. The principle of such an approach has already been tested informally with a leading financial institution in Mauritius and the initial reaction to the proposal was favourable. Similar staffing arrangements would be sought for key personnel from both the public and private sectors on a financial basis as described in Section (vii) below.

At the outset, a modest staff complement would be required, based upon the retail unit headquarters in Port Louis. This complement would grow as a result of the establishment of workshop complexes, each of which would require a manager, and as a result of the wide geographical spread of "clients" of the agency which eventually would require some mobile staff.

In the first year, and assuming that no workshop complexes were operating within that first 12 month period, staff requirements would be as follows:

	No.
Enterprise Mauritius Director	1
Financial/Marketing Expert	1
Engineering/Technical Expert	1
Senior Secretary/Office Manager	1
Typist (perhaps after 1st 6 months)	1

(vii) Financing Funding the basic operations of the agency itself would be sought by means of sponsorship from the public and private setors in a variety of ways, together with external financial support if appropriate from international agencies. A basic principle would be that no charge is made by EM to individuals for the services provided.

The professional staff illustrated above (3 people in the first year) could hopefully be provided by their current employers on a secondment basis. Thus the Director, who may have a secure position in a private company or financial institution, would be supplied to EM for 2 years as part of his experience and career development. The employer would agree to pay the individual and he would retain all his employment privileges and rights, but would simply devote his time to EM for 2 years rather than to his employer. Similar arrangements could be sought for the other professionals.

To provide continuity, it is suggested that the post of office manager/senior secretary should be made a permanent position at EM for which EM itself pays a salary. The employment of a second typist in due course could be done on the same basis.

Sponsorship may also be achievable by, for example, a company owning a city centre building providing a shop-front unit to EM as its headquarters without charge, or at a nominal rent. Financial resources would be needed, however, to meet operating costs, advertising, printing, local travel costs and so on.

Another potential source of sponsorship would be for the staff of EM to establish early working relationships with key professionals such as accountancy and legal services. Thus, when an individual needs help on setting up in business, preparing a business plan or financial forecast or similar process, EM can call upon suitable professionals to give some help free, up to a maximum agreed number of hours per week.

Expansion of EM's staff, such as adding workshop managers for example, or developing SIDO's concept of "field officers" would take place according to demand and subject to adequate sponsorship being obtained (including a contribution from rents generated by the workshop centres themselves).

As an illustration of the likely costs involved, the first year's direct financial costs of EM have been estimated as set out in the table on the next page.

Estimated Year 1 Direct Operating Costs of "Enterprise Mauritius"
(Rupees)

Staff

Director	Seconded
Financial/Marketing Expert	..
Engineering/Technical Expert	..
Senior Secretary	20,000
Typist	12,000

Other

Rental (say 2000 sq.ft at Rs 20 per sq.ft. p.a. if charged at all)	40,000
Office running costs, say	30,000
Local travel (say 10,000 miles at Rs 3 per mile)	30,000
Office equipment rental, say	10,000
Printing and advertising budget	100,000
	242,000

Basic running costs (allowing for the approximate nature of the above figures) could therefore be in the range Rs 200,000-250,000 per annum provided that sponsorship for the three key staff members could be secured.

Financing the construction of managed workshop complexes would normally be regarded as a commercial venture. Since the complex would have the capacity to generate rentals at commercial levels, it should be possible to recoup the initial capital cost over an acceptable period, typically 8-12 years.

The running costs of the building itself (other than those associated with each tenant's own unit which the tenant would pay for himself, such as electricity consumption) would be met by the addition of a small service charge to the rent. This would meet the costs of, for example, the cleaning and maitenance of common areas, up-keep of the site and so on.

As an illustration, a building of 10,000 sq.ft gross might contain the equivalent of 7,500 sq.ft. in small units for rent. Using current rental levels in Mauritius, such small units would probably command at least Rs 20 per sq.ft. per annum, giving a total potential rent roll of Rs 150,000 per annum. Building costs would need to be carefully estimated according to the site topography and building design, but it seems intrinsically likely that the costs of new building to the modest standard required in this case could be accommodated based upon these rental levels.

(viii) Summary We believe that the establishment of Enterprise Mauritius along the lines we have proposed could make a substantial contribution to employment in the small business sector in Mauritius and offer an immediate and practical service. Further, the creation of a model along these lines would to a degree be innovative in a small developing country, and we feel sure that it would attract the interest and support of major international development agencies.

10.3.4 Industrial Co-ordination Unit

The "one stop" concept for the handling of investment enquiries is intended to be provided in Mauritius by the Industrial Co-ordination Unit (ICU). As has been argued elsewhere in this report, the simplification of investment procedures is an urgent necessity in Mauritius.

In our opinion, the ICU should be modelled upon the "One Stop Unit" of the Hong Kong Department of Industry, What is most needed in Mauritius is to develop the services of an executive agency which will take upon itself the process of securing licences, operating permissions, clearances to investment, work permits etc, and provide a genuine service to the investor.

For the ICU to perform this service effectively, it is essential that its role and its staff members are fully understood and respected by all

Government departments. The staffing of the ICU, especially the appointment of the senior staff member, should be carried out with this in view. We suggest that:

(a) the senior staff member of the ICU should be at least Assistant Secretary and possibly Permanent Secretary level, and

(b) that the senior member of staff should have an "urgent procedures" arrangement whereby the non-performance of a Government department in response to the ICU's request could be backed up by, for example, a further requirement for action from the Prime Minister's office.

It will be crucial to the ICU's success that Government departments react promptly to its requests, and that the Unit itself is able to follow up such requests and obtain the results sought. Also, as we argue above, ideally the ICU should form part of MEDIA, but we understand that, initially at least, the intention is to keep the two separate. We have proposed very close liaison between these two organiations, and specifically that the ICU is located in the same building as MEDIA, and that the head of the ICU sits on MEDIA's Board.

The principal functions of the ICU should be as follows:

- to publish simplified application forms for privileged industrial status, and to be responsible for processing applications within a publicly-declared timetable;

- to be directly and solely responsible for all necessary liaison between Government, municipal and other authorities on the investor's behalf in respect of applications for new ventures;

- to act as "trouble shooter" to existing industry in Mauritius, and to undertake executive responsibility for unravelling the procedural or administrative problems with Government experienced by the private sector;

- to liaise closely with promotional bodies (such as MEDIA and perhaps also Mauritius' ~~overseas~~ diplomatic missions), so that any firm prospect for new investment in Mauritius is efficiently and promptly dealt with by the ICU.

Further suggestions which might assist the ICU in maximising its impact are:

- select a more punchy name, and design a logo and modest publicity material to promote the ICU's role;

- establish the type of "hot-line" intra-governmental communications that the One Stop Unit in Hong Kong publicises;

- operate from premises which are self-contained and reserved for the ICU, possibly on the same street level, retail principle as proposed for Enterprise Mauritius; and

- maintain an emergency telephone line for problem solving as a feature of ICU's service to established industry, and advertise this facility widely.

It would be especially important that the ICU is an organisation autonomous in its day-to-day operations and that it is free of "red tape" and delaying bureaucratic procedures. Its prime function is to serve the investor and to extract quick action and results from the Government machine. It is not intended to perform any evaluation of appraisal function of investors: rather, its atmosphere and image should be clearly on the side of the investor and dedicated to helping him/her turn a concept into a reality as rapidly as possible.

The proposed staffing of the ICU is 6 people; our immediate reaction is that this should be adequate for the initial operating period and may prove permanently adequate. We nevertheless cannot over-emphasise the importance of the calibre of the ICU's staff and the need to provide the unit with a status adequate to its role.

We have assumed that the ICU will be financed as part of the Ministry of Industry and Co-operatives vote, and believe this to be entirely appropriate. In order that the Ministry is able to secure adequate funds to make the ICU effective, it may be desirable to retain the possibility of seeking financial assistance from development agencies outside Mauritius. As with Enterprise Mauritius, we believe that such a role could be a legitimate area of interest for such agencies.

10.3.5 Development Bank of Mauritius (DBM)

It was not part of this study to conduct a detailed examination of the DBM. Therefore, the recommendations we make, and which are based upon the critique given in Appendix 7, Section 7.3.3, relate only to the role of the DBM in the industrial policy environment in Mauritius.

We have already argued that it is up to the Board of the DBM and the Mauritius Government to decide upon the Bank's operating policy, and in particular the extent to which it should perform an explicitly developmental role. In our opinion the development finance facility is an important one in industrial development, and one which has not traditionally been much in evidence in Mauritius. Whether the DBM should fulfil this role is thus something of an open question: on the assumption that the Mauritius Government believes it should, our recommendations may be summarised as follows:

(a) The DBM should take a much greater share of the financial risk associated with loans made to the industrial sector in foreign exchange. Either loans should be made more in rupees where appropriate to the needs of the borrower, or the foreign exchange risk should be spread between the borrower and the DBM by permitting a proportion of the borrower's debt servicing to be met in rupee repayments.

(b) Within the framework of the revised industrial policy we have proposed, the DBM should give consideration to providing genuinely concessionary lending terms to priority ventures - notably those developing export projects.

(c) Venture capital should feature in the DBM's activities to a much greater extent than hitherto. In particular, equity investment in new industrial ventures with the prospect of dividends arising in the medium term should be encouraged, and equity investment not merely confined to rescue operations for sick companies.

10.3.6 Policy Review Board/Monitoring Function

During our field research in Mauritius we had the opportunity of discussing with the Prime Minister and the Minister of Industry and Co-operatives the broad direction of our study and the areas which were to be covered by our recommendations. During these discussions, the prospect of a Policy Review Committee, a "Think Tank", was raised, and MSA undertook to consider this with respect to our recommendations on industrial policy.

In considering the function of the monitoring of the results of industrial policy, at present carried out by a senior official in the Ministry it seemed appropriate to consider combining this role with that of a Policy Review Board.

Dealing first with the Policy Review Board, such a body would clearly have an advisory role much wider than that related directly to the industrial sector. To that extent, the plans for such a body are clearly outside the scope of this study. Where we believe a "Think Tank" could be of help in the industrial development field would be in applying the long-term strategic thinking to specific industrial policy measures which, as we have argued extensively in this report, has been missing in recent years in Mauritius. The introduction of new measures has often been in response to short-term needs - such as the raising of revenue or the need to regulate some range of activities - without necessarily considering how such measures fit into longer term objectives. A Policy Review Board, advising either the Prime Minister directly or perhaps a committee of Senior Cabinet Ministers, could provide this important function, and would have the additional benefit of not only employing the best intellectual resources and experience in Mauritius but also being able to involve outside specialist advice when necessary.

The principal function of the Policy Review Board would be to assess and advise on the implications of individual Ministry's policies on those of other ministries, and economic sectors, and on the economy as a whole. Also, the Board would have direct responsibility for medium term strategic planning and for ensuring that individual policy measures, actual or proposed, are always set in the context of the Government's longer-term strategy.

The composition of the Board should include the best that Mauritius has to offer in terms of academic knowledge, commercial and international business experience and public service. The emphasis should be upon non-political expertise, and the Board, to be effective, should have the maximum autonomy and freedom of action possible. It should report either directly to the Prime Minister, or conceivably to a senior cabinet committee, and it should ensure whenever possible that its conclusions are given wide publicity (other than where sensitive security matters are concerned) to encourage public debate and understanding of the important national issues of the day.

We are also required to consider the role and future of the Monitoring Unit of the Ministry of Industry and Co-operatives, at present consisting of a single senior civil servant in the Ministry. We believe that it would be appripriate for this function to be carried out as part of the Policy Review Board, since, in the area of industrial policy at least, the monitoring of the operation of existing measures and of the impact of new measures would be an essential input into the "Think Tank's" deliberations.

To be effective, a small secretariat would need to be provided to the Policy Review Board with a strong research capability. We see great merit in incorporating the monitoring function of the industrial sector (and possibly other sectors too, though this extends beyond our brief in this study) into this secretariat as part of its research function. We therefore recommend that the existing monitoring function of the Ministry of Industry should form part of this secretariat in due course. Its main functional responsibilities would include:

- development and up-dating of a statistical data base on industrial performance in collaboration with the Central Bank, Central Statistical Office and Ministry of Industry;

- conducting regular, structured surveys amongst industrial companies on their experience of industrial policy in general and new policy measures in particular;

- monitoring, by means of these surveys and using the data-base, the quantifiable effects of new policy measures on industrial activity, investment, export performance etc;

- producing, under the direction of the Policy Review Board itself, research and discussion papers on particular topics, and a regular bulletin, (say twice a year) on the performance and medium term prospects of the industrial sector as an input to the Policy Review Board's deliberations.

10.3.7 The Mauritius Standards Bureau (MSB)

The activities of the MSB, particularly the MAURICERT and associated programmes such as the preshipment inspection scheme, are clearly an important element of overall Government industry and trade policy. Greater standardisation is of considerable significance for the marketing of products. In so far as standards are aligned internationally, they tend to stimulate trade and free competition. To the extent that they raise quality - one of the key non-price elements of a product's appeal to the buyer - they should confer a comparative advantage, discouraging cheap but inferior imports but assisting exporters to gain increased brand awareness and generally enhance sales value by trading up on quality consciousness.

Another reason for extending and enhancing the status of Mauritian product standards is to strengthen national and, more generally, developing country presence on international committees concerned with product standardisation. Involvement on the latter is important in order to counteract protectionist policies, either overt or covert e.g. US system specification in basic electrical products.

The above general argument leads to an important industrial (and trade) development area where MSB activities are presently obviously budget constrained. The provision of information on technical standards, regulations and acceptance requirements relevant to particular markets overseas is virtually a prerequisite to sustained growth in the export of manufactures. Indeed ignorance of such requirements is often argued the greatest single barrier to trade. At the moment the MSB does not appear properly geared or have sufficient resources to fulfil this crucial promotional role.

Another issue concerns improving the public image and awareness of the product quality guaranteed by display of the national mark. The MAURICERT scheme will only be properly successful in the post infant industry development if it raises quality consciousness at the point of sale. This is arguably only partly the case at present. One reason is that the national mark itself is insufficiently promoted, particularly to overseas buyers. The advantages of purchasing products with MAURICERT mark must be subject to greater future emphasis and its use more directly incorporated within sector, industrial and trade development strategies. Greater encouragement should be given to widening the product base.

Another possibility relates to the initial cost of entry into the scheme, at present this is wholly borne (as are recurrent costs) by the producer and therefore acts as a deterrent to already established exporters or firms which already produce to international safety or quality standards, e.g. the IWS mark. The impact of the cost of entry should therefore be reviewed to help defray any initial additional costs. The positive advantages of membership would also be more readily appreciated if suitable legal provisions could be made so that it was accepted that full compliance with a Mauritian Standard constitutes a defence against product liability claims. Similarly it should be more widely known and recognised that compliance was a significant factor in setting insurance premiums. Aggressive policing of false claims of compliance would however be a necessary corollary to support the perceived integrity of the standards system.

Give the generally accepted need to establish new product standards by consensus (i.e. by committee and public comment) the immediate scope for streamlining procedures appears limited, not least given the 1983 reduction of the statutory right for public comment on a proposed standard from six to three months.

10.4 Systems and Procedures

10.4.1 Promotion

The wide subject of promotion is seen as a key element in future industrial policy, as Appendices 8 and 9 have shown. Our recommendations for promotional initiatives have been grouped under two headings:

- Mauritius Export Development and Investment Authority (MEDIA); and
- Promotional Programme.

10.4.1.1 Mauritius Export Development and Investment Authority (MEDIA)

The Act establishing MEDIA was passed in September 1983, and sets out the following objectives for the organisation:

- promoting the exports of goods and services;
- executing investment promotion designed to promote Mauritius as a location for new manufacturing and service industry investment;
- developing and operating industrial sites and estates;
- planning, implementing and reviewing programmes of action for the development of exports and investment in export-oriented manufacturing;
- advising Ministries on all matters relating to export and investment promotion.

MEDIA is therefore intended to engage in promotional activities in the widest sense, but not to administer any aspects of policy, nor to act as a managing agency in looking after Government's relationship with new investment or existing industry. The exception to this is in the development and operation of industrial estates, currently the responsibility of the Development Bank of Mauritius, and planned to become part of MEDIA's role. (Recommendations on industrial estates are provided in a separate section.)

During the fieldwork for this study, the Minister of Industry and Co-operatives requested the consultants to discuss with him and his senior colleagues the future role and structure of MEDIA. These recommendations reflect those discussions.

(i) Relationship to Government MEDIA should clearly operate within the general framework of Mauritius' Government policy. The Board of Directors, planned to consist of public and private sector representatives, would be primarily responsible for seeing that this was the case.

(ii) Status of MEDIA The Act establishing MEDIA makes provision for the setting up of a body corporate, empowered to borrow money, and enter into transactions in its own name. It is essential that MEDIA is able to carry out its day-to-day business not only as an autonomous body, but also without any clear connection with the Government itself. It should not be seen as a Government department and its "public image" should be designed to give the impression of independence and professionalism.

(iii) Organisation/Functional Divisions An organisational structure for MEDIA is given on the next page. Clearly, MEDIA's organisation will vary and expand as MEDIA itself grows. Initially, the four major functional areas will be:

- industrial estates;
- research;
- promotion;
- finance and administration.

Industrial estates in Mauritius and MEDIA's responsibilities in this area are discussed in section 10.2.2.4. The two central functions of MEDIA would be the research and promotion functions. The research division

Plan 10.1

MEDIA: PROPOSED INITIAL ORGANISATION

BOARD OF DIRECTORS

Chairman: (Minister of Industry?)
4 Government Representatives
2 Private Sector Representatives
2 Others

DIRECTOR OF MEDIA

DEPUTY DIRECTOR

- INDUSTRIAL ESTATES DIVISION
  - (See section 10.2.2.4)
- RESEARCH DIVISION
  - Brochures
  - Investment Prospectuses
  - Market Research
- PROMOTION DIVISION
  - Promotion of Mauritius abroad
  - Investment and Export Promotion
  - Government Communications
  - Liaison with Tourist Board
- FINANCE AND ADMINISTRATION
  - Budgeting
  - Financial Management
  - Planning

would be concerned with the preparation of brochures (e.g. an "Investor's Guide to Mauritius" to be used for information and marketing purposes), and the preparation of investment prospectuses to highlight manufacturing and other opportunities in Mauritius for the potential investor. It would also carry out market research projects where necessary, to research unexploited opportunities for Mauritian products. (This activity could where appropriate be carried out on a fee basis for private clients, but might normally be expected to form part of MEDIA's day-to-day operations).

The promotional function is the prime role of MEDIA, backed up by the research division's inputs as outlined. Promotion will involve Mauritius as a place to invest in (investment promotion) and Mauritius as a source of products for world markets (export promotion). In the former case, there is potentially common ground with the Tourist Board and marketing economies may be achievable through a level of cooperation. MEDIA should also take on the role of communication between Government and the existing industrial/manufacturing infrastructure, and should develop an information service and perhaps a telephone "hot line" service to help with queries and difficulties relating to necessary procedures.

The finance and administration function is self-explanatory. Staffing levels should be kept to the smallest number consistent with the size and complexity of MEDIA's role.

(iv) Staffing In discussion with the Minister it was agreed that the key members of MEDIA's staff must be of high calibre, and in particular that the role of Director would have to be filled by an expatriate in the first instance. The role of MEDIA is essentially that of marketing and promotion. The consultants found in Mauritius (and it was widely agreed in discussions), that there is a serious lack of marketing expertise generally in the country. On this basis, it seems unlikely that the Director of MEDIA could be recruited locally, and the assumption is made here than an external marketing expert should be sought for this position. We recommend that he/she should be appointed for an initial period of at least 2 years, renewable thereafter up to a maximum of perhaps five years in all.

At the same time that the Director is appointed from outside Mauritius, a Deputy Director (Director-designate) should be appointed from within Mauritius, at a salary and incentive package adequate to attract the best quality of individuals available, preferably from within the private sector. This individual should be recruited with the clear intention that he/she would be promoted to Director within five years at the most, subject, of course, to the usual safeguards.

It is difficult to predict the staffing requirements of the rest of MEDIA since this will change as the Authority develops and grows. On the basis of the organisation chart shown in Plan 10.1, the initial staffing level might be as follows:

Director	1
Deputy Director	1
Industrial Estates Manager	1
Assistants	2
Research Manager	1
Assistants	2
Promotion Division (Director as head)	
Number of Staff	3-4
Chief Accountant	1
Assistant	1
Personal Secretaries	2
Secretariat/Typists etc	5
Total Staff	20-21

(v) Finance It is beyond the scope of this study to prepare a detailed operating budget for MEDIA, but it has been possible to indicate in broad terms some of the main features:

- staff costs might amount to Rs 2.0-2.5 million in the first year, including the gross costs of employing a senior expatriate marketing expert as director. This appointment based upon UK rates of pay could cost a total of perhaps £UK60,000 per annum of which 66% would be salary and the balance fringe benefits, pension, insurance etc;

- the principal budget would be that for advertising and promotional expenditure, including the production, design and printing of brochures and booklets, and the purchasing of advertising space in the chosen media in target countries. A tentative estimate indicates that the costs for this major part of MEDIA's operations might amount to Rs 9-10 million per annum.

Allowing for other costs, such as the rental and operating costs of premises, international travel and subsistence, and possibly an entertainment/hospitality resource to assist in meeting the costs of appraisal visits by potential investors to Mauritius, the initial costs of MEDIA could be in the range Rs 13-15 million in the first full year of operation. An important aspect of the funding of MEDIA is that the great majority of its expenditure, probably about 80%, would need to be made in foreign exchange.

Clearly MEDIA's costs will increase over time, and in the event that it enters into the construction of industrial estates, for example, its funding requirements would rise dramatically. The costs indicated here refer to the first operating year and in particular make the point that for MEDIA to be effective and to discharge its planned role it must be adequately financed from the start. The costs of international marketing and promotion are high, and MEDIA must "compete" with the professional approach described in Appendix 6 as implemented by the Far Eastern countries.

10.4.1.2 Promotional Programmes

The main theme to our arguments concerning promotion is that, as conducted in Mauritius at present, it is heavily influenced by three factors:

1. a low budget and insufficient manpower;
2. a preoccupation with short term results; and
3. a lack of adequate planning and guidance.

Our recommendations as set out below take these factors into account but also recognise the objectives of Government in that it would be desirable to, at least, balance the initial incidence of cost that will result from the adjustment phase of policy changes with additional benefits in the form of increased investment and exports and therefore more new jobs created.

Without developing a major working plan for MEDIA which in the absence of a clear agreement on staffing, responsibilities and funding would be meaningless, we have developed recommendations to overcome some of the major shortcomings in promotion efforts. We envisage most of them, with the possible exception of overseas training, being carried out under the umbrella of MEDIA but have tried to assemble the recommendations into discrete packages so that they can be considered individually and possibly put out to international agencies for funding. We have wherever possible indicated the priority we attach to each.

Existing Promotion Initiatives

The existing package of investment promotion initiatives is in a large part financed by international aid. Whilst we recognise that in some instances the initiatives make a reasonable contribution to attracting new investments and expanding exports, we consider that with careful pruning, substantial savings could be made with little effect on results thus freeing funds for, in our consideration, higher priority projects.

(i) Trade Fairs

We do not consider that the existing expenditure on trade fairs should be reduced. The participation of export companies in trade fairs is an essential element in most countries' export promotion efforts, and is an effective way of increasing companies' customers and contacts. We believe that Mauritius should continue to participate in trade fairs but that there should be a distinct change in emphasis.

We understand that a substantial amount of business is conducted through trade fairs in Europe and many companies recognise this as a prime source of sales and, further, that the most successful companies participating in these fairs are those in the knitwear, readymade garments and furniture industries. We would suggest that in the absence of further funding being available, there is scope for the Government to phase out the subsidisation of export initiatives to European countries, particularly to those companies with already established market shares. This may be achieved through the levy to help cover the cost of the stand and stand director.

As an alternative use of the available funds we would suggest a more diversified approach to trade fairs. First, to participate in fairs outside Europe and other countries where restrictions are important considerations, possibly in Australia, Eastern Europe, Scandinavia and the Far East, particularly Japan. Second, to focus attention on more specialist trade fairs, such as the leather goods, already being considered for the future.

Until the research suggested previously has been undertaken we do not consider ourselves to be in a position to recommend specific countries and products. In broader terms we would recommend that in the next year at least two fairs are held outside Europe and that one of the remaining three in Europe is a specialist fair.

Once the work on comparative advantage is complete, which should be before the next trade fair planning, MEDIA will be in a better position to evaluate the potential return from a more diversified trade fair structure.

Although the success of the textile fair held in Mauritius in November 1983, in terms of new sales generated, is at this stage not known to us, we do consider these to be an effective means of promoting interest in exports and have been successfully used in several other third world countries, particularly in North Africa, the Middle East and parts of West Africa. We would encourage further initiatives in this field with the caveat that each trade fair held is restricted to a narrow specialist range of products to which buyers and exhibitors will be prepared to travel some distance.

We do not consider that the Government should continue its programme of investment promotion through trade fairs. The costs of supporting a Mauritian representative are high and, on past results, it is difficult to justify their expenditure. At a later date when adequate planning and promotional literature have been produced this practice may become cost effective.

(ii) Investment Promotion Consultants

We have argued that a major shortcoming of the existing programme of investment promotion is its lack of guidance and systematic approach. Keeping in mind the limited resources available to the Government for promotion, particularly the hard currency element, greater benefit could be obtained over the next 2-3 years by the country's commitment to this type of promotion.

Given the results obtained from each of the three countries, we would recommend continuing only with the French initiative. Not only has it proven successful over the period but indications suggest that France will in the near future continue to offer greatest scope: recent price controls, and exchange restrictions have reduced the profitability of investment in France, and this interference by the French Government is seen by many commentators as continuing. This will almost certainly maintain French interest in overseas investment.

The current economic problems of the UK have constrained the real costs of investment in that country, and the falling exchange rate has made the cost of overseas investment (measured in US$) expensive. West Germany has a much higher proportion of manufacturing industry in GDP than France or the UK and has not been responsible for large flows of continued foreign investment in manufacturing. In our opinion, the prospects in the medium term for attracting investment from the UK and West Germany are marginal.

If the contract with the French consultants is continued we would prefer to see a move towards performance based payments - perhaps a smaller basic fee to cover expenses and then a commission based on the size of the investment secured.

Substantial savings on these projects could for instance be used to finance two high priority projects, the promotion planning studies and the promotional literature, both of which require an early start.

(iii) Overseas Representation

Experience with many commercial attaches in all parts of the world, whether from industrially advanced countries or the third world, has been overall disappointing. They act to some extent as an aid to promotion efforts but their function is largely as suppliers of non-specific information to foreign enquirers not often potential investors or buyers.

If foreign representation is required it must be undertaken in a professional manner, certainly limited to one or two very important markets or investment potential areas, and directly under the control, possibly as an overseas branch, of MEDIA. At this stage in the scheme of promotion activities, we consider contemplation of such a move to be premature.

(iv) Overseas Advertising

We recommend any advertising undertaken overseas should form part of a coherent communications campaign and be organised by and be under the direct control of MEDIA.

New Promotional Proposals

Here we set out a number of "packages" which form discrete tasks to be undertaken in improving Mauritius' promotional activities for industrial investment. These are as follows:

(i) Strategic Planning Studies

(ii) New Promotional Literature

(iii) Advisory Support to MEDIA

(iv) Training

(v) Communications Plan

(vi) Market Intelligence Library

(i) <u>Strategic Planning Studies</u>

We have previously identified the major shortcoming in the existing promotion programme to be an absence of any clear strategic guidance and now recommend that one of MEDIA's early tasks should be to initiate a series of studies aimed at the pre-promotion identification of industrial investment and export opportunities. This is an area in which Government backed initiatives can make a direct, and early, impact on industrial development and one which will act as the foundation to MEDIA's future work.

The objectives of the studies would be threefold:

1. To identify new export markets and investment opportunities in which Mauritius would have a competitive advantage in the long and short terms.

2. Prepare a series of investment prospectuses i.e. brochures which identify and analyse, to pre-feasibility stage, attractive investment opportunities in Mauritius and which can be used as the basis for specific promotional campaigns.

3. Prepare industrialists' guides to potentially viable new export markets (with specific reference to Mauritian exports) which identify the main advantages and disadvantages by sector and which can be used to assist existing businessmen to assess the market potential and to complement the investment prospectuses in future promotional campaigns.

We propose that MEDIA should initiate a study with a view to preparing 10-12 prospectuses, and possibly slightly more market guides, for use in specifically targeted promotional initiatives, and we recommend that these studies are undertaken by an independent body to reassure potential investors that the findings are impartial. The terms of reference for such a study might therefore be as follows and would have a 2 phase approach.

Phase 1 within which the study would require:

- A quantitative and qualitative analysis of Mauritius' comparative advantage which would (inter alia):

  identify potential new industries for development in Mauritius;

  identify possible new export markets for existing manufacturing exports and possible new products;

  identify target countries for high priority investment promotion;

  assess the relative competitive position of Mauritius in its major markets vis a vis similar resourced countries;

  examine the Mauritian dominance in major product markets and assess the potential for future trade restrictions for Mauritius as a single supplier and for the export category as a whole;

  assess the market concentration and dependence of Mauritius; and

  investigate the relative cost structures of Mauritius vis a vis competing countries for both exports and manufacturing investment.

- Assign priorities to those export markets identified as being of interest to Mauritius in terms of communication barriers to entry, trading agreements, preferential status and promotional requirements.

- Draw up a long list (80-100) of products which a priori Mauritius could produce for export either as a new venture or as an extension of existing skills.

- Carry out a preliminary screening of these projects on technical, financial, resource, economic and skill/technology grounds with a view to reducing the list to a manageable (8-14) number of priority projects.

Phase II

The second phase would be to prepare investment prospectuses and industrialists' market guides for the project and export markets identified in Phase I.

Investment Prospectuses

Such documents would be prepared as promotional aids and would include but not necessarily be limited to:

- an assessment of the market to be served and an indication of the market share which a Mauritian producer might hope to attain;

- a costed production plan including broad specification of production and machinery costs and a full profile of the cost and skill structure of the proposed venture;

- an analysis of the comparative advantage of Mauritius vis a vis other possible locations for the production of the product;

- an indicative 10 year financial cash flow forecast taking into account the assistance available in Mauritius;

- an economic appraisal of its benefit to the Mauritius economy.

In preparing the prospectuses it should be borne in mind that the content and length of such prospectuses should be such as to produce a readable and professional brochure which itself could form the basis for a promotional initiative.

Industrialists Guides

To assist exporters appraise the potential of newly identified markets, a series of selling guides would be produced some covering multiproducts, others product specific, and would include:

- Estimates of the size of and main suppliers to the market
- Trade agreements affecting export direction
- Tariff duties and other protective measures in action
- Typical import, wholesale and retail prices/markups
- Transport costs by main carrier for typical consignments
- Major trade fairs and exhibitions held
- Major problems of entering the market and advantages of Mauritian companies over existing suppliers.

(ii) New Promotional Literature

As we have argued in this appendix and as is illustrated in Appendix 8 where comparisons are made with selected Far Eastern countries, Mauritius is in urgent need of new promotional literature. In our opinion this task should form one of the first priorities for MEDIA.

The preparation of good promotional literature combines the research function with the skills of the communications and marketing industry. Clearly, detailed consideration will have to be given to the precise content of the basic promotional "package", to its intended market, and to its required design and production standards. It should be compatible in design and "image" with the investment propectuses set out above and should also be produced in a way and in numbers which permit regular up-dating in the light of international and domestic economic, financial and policy changes.

We suggest that the basic package (excluding the individual investment prospectuses) might appropriately consist of the following items:

- An "Investor's Guide to Mauritius", this would be the main feature publication of the basic package, and would very clearly have a dual function: information and marketing. Thus its text would be written in a clear, readable way, giving all the basic facts about Mauritius that a potential investor would need to know, plus marketing Mauritius by a low-key emphasis on its natural beauty, equable climate, stable and mature political structure and pleasant life-style. Depending upon the budget for this document, it could include photographic promotion of Mauritius. The text should be professionally prepared and the brochure's design will almost certainly need to be given to a specialist design and marketing house.

- Supporting documents to the investor's guide can take a wide variety of forms. Some suggestions might be:

  a pocket size mini-guide to the key facts;

  up-dated fact sheets, based on Mauritius' existing fact sheets, but with a much greater marketing and promotion orientation;

  specific one-page information cards on subjects such as the Industrial Co-ordination Unit and how to use it, the availability of advance factories, the range of help available to the investor in Mauritius, and so on.

In all cases, this type of literature needs to be welcoming and encouraging in tone and style. It should not include long lists of rules to be followed, regulations and requirements to be met for two reasons; (i) this is positively off-putting to the potential investor and, more importantly, (ii) under our proposals the ICU will have the job of seeing the investor through this process and thus will shoulder most of the burden.

It is not possible at this stage to make any firm estimates of the budget needed to produce such a package of literature. Since this will depend upon such aspects as the design and layout (a "glossy", four colour brochure is greatly more costly than a simple, litho-printed version) and, of course, the size of the production run. As a general guide, the production of the text, though requiring skill and professional expertise, is a relatively straightforward process, while the bulk of the cost lies in the artistic design and possibly expensive printing. It would be for MEDIA to decide upon the style of product in the light of their overall plans for promotion: we would tentatively estimate the costs of producing the package we have outlined in numbers adequate for 12 months' supply in the range Rs 1.35-2.7 million (£75,000-150,000).

(iii) Advisory Support to MEDIA

For maximum effectiveness the implementation of the promotion programme requires:

1. rapid and continual movement forward;
2. flexibility to change course, improvise and overcome new problems; and
3. co-ordination with other aspects of industrial policy.

To achieve these there are two extremely important and fundamental requirements: first a total commitment by the Government, and our discussions with the Prime Minister and the Minister for Industry convince us of the Government's sincerity, and, secondly, the skills and experience to maintain momentum. Elsewhere we have argued that Mauritius does not possess a high degree of sophistication in the disciplines required for promotion and therefore believe it will be necessary at least initially to bring in supporting skills from outside to get MEDIA and its associated promotional initiatives up and running. We envisage the assistance being provided in an initial 4-6. months input and then through a series of regular visits, say every 3 months, to help sustain momentum and to advise on strategic changes and specific initiatives as required.

To obtain this assistance the options available to Mauritius are threefold; the direct recruitment of foreign experts, the provision of foreign experts through aid schemes, or the use of specialist consultants, either recruited direct or through a technical assistance programme. Each system has both advantages and disadvantages. Direct recruitment requires skilled recruitment, and therefore first hand experience in the field of the expert; it poses potentially the most personnel problems, cannot offer continuity of employment and so is unlikely to attract top people. Aid schemes are also fraught with problems as there is less control by the Government as to who is recruited, it is unlikely that top "in line" professionals would operate in such schemes and often aid sponsored individuals cannot take operational decisions. Whilst with consultants top skills are available as there is much interplay of staff between consultants and in line employers and there are no personnel problems as these are handled by the companies themselves, on the downside they are expensive creatures to the host government unless financed under a technical assistance scheme but do have the advantage of being able to draw, at short notice, on other specialist consultants. Whichever route is adopted, and for obvious reasons we believe the latter to be the most effective, we strongly recommend support assistance to MEDIA in promotion planning.

Given that the Director of MEDIA would have substantial experience in the promotion industry the appointment need not to be full time, indeed we would prefer, after an initial setting up period, a part time post comprising regular visits over 2-3 years. As envisaged this person would have a key role to play in the first 3 years of MEDIA's operations, and would be a principal player in defining and carrying on the operational strategy of MEDIA.

Responsibilities:

(i) To support the director of MEDIA.

(ii) To act as a conduit between MEDIA and the international communications industry.

(iii) To develop creative long-term strategies.

(iv) To monitor and adapt as necessary the effectiveness of individual initiatives.

Experience:

(i) Substantial experience in industrial promotion at the national level.

(ii) Experience in developing countries.

(iii) The ability to liaise with technical and research personnel and to interpret research findings.

(iv) Knowledge of the international communications industry and the main companies operating within it.

(iv) Training

We earlier identified one of the key limitations to export growth as being the relatively unsophisticated levels of indigenous expertise in Mauritius. We believe that if serious consideration is to be given to significantly expanding the size of the export sector urgent attention must be given to improving marketing skills, not only in the longer term but also in the immediate future.

a) Scholarships and Overseas Training

Clearly hopes of longer term improvements will rest with the encouragement of the younger generation to give serious consideration to careers in marketing and sales. Such longer term strategy would have to form part of education programmes in Mauritius, but might also include increasing the number of scholarships and bursaries available for overseas studies in the marketing disciplines and possibly the introduction of shorter term scholarships for short courses in international sales.

b) Workshops and Seminars

In the more immediate future the Government should give serious consideration to arranging a series of seminars and workshops covering relevant marketing topics, including selling, sales planning, market diversification, product development and diversification, marketing, design and business promotion. Initially we envisage one or two seminars to gauge the interest and response to the scheme; if successful the seminars can be developed into product or market specific topics.

Substantial assistance is available to developing countries through the international and bilateral aid agencies, and from multinational corporations (if approached in the correct manner).

One particular scheme which would be of interest is organised by the British Overseas Development Agency and is titled the British Executive Service Overseas, whereby top experts in specific subjects who have recently been retired are seconded, at no fee cost, to assist developing countries either to overcome a problem requiring a specific expertise or to assist in developing specialist skills locally.

An alternative approach is through the UN system which has facilities to organise workshops on relevant industrial subjects.

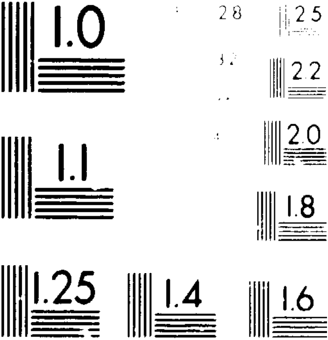
On a number of occasions the large private sector companies have been willing to second, for short periods, top experts to the third world to boost both the immediate standards of performance and also to impart valuable knowledge and skills.

Finally, there are many organisations, business schools, marketing consultants, universities, management consultants which will organise and tailor to specific purposes training courses in all aspects of marketing. These are usually undertaken on a fee basis which varies from organisation to organisation. The courses if well chosen are usually excellent and can bring together a diversity of skills and experience difficult to equal. If undertaken in the home country the costs range from $400-5,000 per head per week.

We also made the point that a contributory factor to the low level of marketing expertise was the lack of awareness of the private sector generally of marketing techniques, of market requirements, and of what could be achieved from a well-planned marketing initiative.

c) Marketing and Promotion Surgeries

In a previous export development assignment for the Mauritius Government we developed the concept of marketing surgeries for which a small group of specialists, typically from consulting companies (the reason for which will be made clear) are invited to Mauritius for a period of 1-2 weeks during which they would make their time available to private sector companies and indeed Government agencies (such as tourism) to advise, free of charge, on particular aspects of marketing of specific



MICROCOPY RESOLUTION TEST CHART

products (design, packaging, advertising) and on markets (market potential, barriers to entry, trading conventions, regulations, the effectiveness of different communications media).

Initial enquiries in London have met with an encouraging response. Several firms of advertising, design, packaging design, public relations and marketing consultants, expressed interest in participating in such schemes. The idea put to these consultants was that, in return for providing their services free of charge for one to two weeks to advise businessmen in third world countries on topics concerned with marketing and promotion, they would have the opportunity to obtain commissions directly from the export companies themselves.

The objectives of the surgeries would therefore be:

1. To make available to exporters the services of the world's leading companies in promotion and packaging.

2. To highlight possibilities of improving the appeal of Mauritian products in different markets through design, packaging and promotion.

3. To indicate appropriate and creative product promotion campaigns for individual export companies.

4. To advise Government and MEDIA officials on aspects of country, export and investment promotion.

5. To suggest ways in which the individual promotional activities could be harmonised for maximum impact.

We strongly recommend that the Government of Mauritius arrange an exploratory surgery to gauge the response of the private sector from which further surgeries, if proven useful, can be developed.

On the assumption that the advisory companies donate their time, requiring only expenses paid, we estimate that a one week surgery comprising five people would cost approximately US$12,500 to arrange at current prices and exchange rates. If Air Mauritius were to donate the air fares, the costs would be almost halved.

In normal circumstances Mauritian businessmen are denied access to the top international talent in product promotion and design. We believe this is a unique and extremely cost effective way to give them the opportunity to discuss their marketing and design problems with top flight people.

(v) Communications Plan

No advice can be given on communications until it is known which countries will be focused on and which industries and sectors are most relevant to future promotional efforts. Once this information is known the MEDIA will be required to call for proposals from specialist firms who would require a detailed brief of the objectives and purpose of the communications work. Presentations would then be made to MEDIA, either in Port Louis or Europe, which would outline each company's ideas and proposed approach to the assignment. Normally contracts are made for a period of 6 months renewable thereafter upon satisfactory performance.

For budgeting purposes we would suggest a cost range of $600,000 which would not include the preparation of promotional literature but would include media space costs.

(vi) Market Intelligence Library

It has been argued previously (1) that there is a need for providing the private sector and Government officials with a more comprehensive collection of market intelligence. We reinforce the earlier recommendations with the additional provision that the centre should be staffed with experienced information scientists part of whose function would be to react swiftly and efficiently to requests for information from both the private sector and Government officials.

The objectives of the centre would be:

1. To assemble and maintain up to date information on trading patterns, regulations and legislation affecting external trade, and economic developments generally of the main export markets of Mauritius and of those identified from time to time as being potential markets.

2. To proactively encourage its use by the public and private sectors through the dissemination of information, perhaps in the form of regular newsletters or market reviews.

Initially we envisage a small staff in the region of 2-3 persons whose first responsibility would be to assemble a structured set of information. We envisage an important role being given to Mauritian High Commissions and Embassies in providing lists of available data and assisting in them.

We would recommend, in the first instance, obtaining the services of the chief librarian either on secondment through a bilateral aid scheme such

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(1) Middle East Export Development Strategy, a report by Maxwell Stamp Associates/CFTC 1982. Approval and Monitoring Mechanisms for Foreign Investment in Mauritius, a report by United Nations Centre on Transnational Corporations, 1983.

as the British Executive Service Overseas run by ODA or through a straight technical assistance project possibly through the UNDP system. It may also be possible to obtain assistance with the start up costs, especially the initial purchase of base information, through one of the UNDP programmes.

It is difficult to give precise cost estimates but on the assumption that the chief librarian and initial information base was financed from overseas aid, the annual running costs to the Government would be around Rs 250,000-350,000 per year.

The following table suggests broad cost ranges.

COST ESTIMATES
(Rs '000)

	Initial Year	Subsequent Years
Chief Librarian	250 - 350	250 - 350
Librarians	150 - 200	150 - 200
	400 - 550	400 - 550
Data	200 - 250	50 - 100
	200 - 250	50 - 100
TOTAL	600 - 800	450 - 650

10.4.2 Other

10.4.2.1 Licences

Industries in Mauritius are affected by a complex series of licences as has been described in Appendix 1. There, we distinguish three broad types: those related to the granting of DC or EPZ status, those related to importing, and the range of operating licences which relate to industrial facilities and activities. The question of import licences is considered in section 10.4.2.2 below. Although the new incentive system we propose would eventually lead to the abolition of DC status, in the shorter term this would remain and some of the licence procedures need to be amended to cope with these short-term needs.

The process of obtaining the Government's approval to establish a DC or EPZ company has been considered in Appendix 7, where we suggest that procedures should be simplified and shortened, and in particular that the technical appraisal of projects should be abandoned. We have recommended that a decision on whether privileged status is to be granted or not should be given within one month, and that the three basic criteria of employment creation, investment and balance of payments effects should be those against which project proposals are judged. In the longer term, our proposed incentive/industrial policy would make these privileged designations redundant, although functionally the "EPZ" or "DC" style company would remain.

The principal area of concern over licences lies with the extremely complex range of permissions and licences which have to be obtained by industrial companies to be able to commence operating. We have recommended that the ICU plays the central role in settling the administrative requirements for new companies, and we believe that the ICU also holds the key to simplifying the system from the investor's point of view.

It would be most desirable if the Government could simplify the existing system by cutting out as many peripheral and marginal licences as possible - certainly an urgent review of the system is needed. It may be, however, that for reasons of public health, fire risk, planning etc a good many of the existing procedures have to be retained - indeed, most countries need to control such aspects one way or another.

We recommend that the burden of securing all the necessary operating permissions and licences for a given new enterprise is placed upon the ICU itself. It would thus be the ICU's job to ensure that a company's proposal did not contravene the key planning and safety features of the Mauritius Government, to liaise with the company and assist in amending such proposals as necessary, and then to obtain on the investor's behalf the necessary approvals from other Government departments. A simplified system operated in this way would, we believe, be favourably viewed by potential investors.

10.4.2.2 Import Licensing and Foreign Exchange

We have acknowledged in Appendix 7 that Mauritius suffers from an endemic shortage of foreign exchange. Also it has to be said that the difficulties of importing, the operation of the licensing system and the associated problems of allocating foreign exchange cause severe concern amongst private companies and featured prominently in their comments to us.

The import licence is effectively a quantitative restriction on trade, and to all intents and purposes may be regarded as part of the quota system. We have based our recommendations on trade and commercial policy on the abolition of quotas over a period of four years, and it follows therefore that we should recommend the phasing out of import licensing over the same period of time. The effects of re-designing the tariff system to provide the correct measure of effective protection and the phasing out of quotas will ensure that the process of rationing imports continues, though on a different basis to that operated at present.

The quasi-liberalisation option we have put forward is, of course, to be seen as an integral part of the whole process of reviving Mauritius' industrial policy, and it is axiomatic that the stimulation of export-based industrial investment should proceed in parallel with the re-orientation of trade and commercial policy. Additional foreign exchange resources will therefore be generated to help offset the increased propensity to import that the quasi-liberalisation option will engender.

The progressive opening-up of the Mauritius economy is intended to take place with adequate safeguards to ensure that the net costs of adjustment are manageable. Thus import licensing would be progressively eased over the four year period in direct response to the progressive dismantling of quota restrictions and the progressive revision of the tariff structure.

In the short-term, we recommend that more flexibility is built into the existing system to cope with the two problems that cause most acute difficulties to the private sector, namely, the need to respond to urgent, minor import needs to avoid disruption of production schedules, and the need to permit small (say + or -10%) variations in import consignments without the lengthy and often disruptive need to apply for a supplementary licence.

10.4.2.3 Customs

A detailed examination of customs procedures was not part of this assignment, but we nevertheless had considerable contact with the customs authorities during our field research and reference was commonly made to the department by private sector interview partners.

As far as the industrial sector is concerned we found that on the whole the customs department worked well, although criticism of it is very common. Upon examination, we found that the cause of complaints against the customs department was in most cases a result of inefficiencies within the system that the customs authorities are obliged to operate, rather than inefficiencies in the department itself. For example, the duty drawback scheme which attracts much criticism aimed at the customs authorities in fact is caused by the non-functioning of the scheme and not by non-performance of customs. Similarly, delays in clearance of import consignments usually reflect bureaucratic bottlenecks within the Government system (e.g. verification of proforma invoices, release of foreign exchange) rather than customs delays per se. We believe that implementation of our recommendations in these areas will improve companies' perception of customs performance.

10.4.2.4 Price and Wage Controls

In Appendix 7 (Section 7.2.2.1) we have argued strongly against price controls on economic grounds. Because of the inefficiencies, administrative costs and market distortions that result, we have recommended that price controls should be abolished, leaving in place only the barest minimum of measures (perhaps subsidies might be more appropriate) relating to the protection of the lower income groups with regard to basic foods, and the need to guard against monopoly pricing and dumping.

We restate this recommendation here. Not only do we see no cause for the maintenance of price controls, but in addition the package of measures we have proposed in this report, based upon the "quasi-liberalisation" of commercial policy, will reduce the necessity for price control A combination of lower levels of protection, a more open economy, greater competition from imports and export-based industries in Mauritius will ensure that prices are kept at competitive levels. We argue that it is the present system of protection which holds more dangers of uncompetitive pricing on the domestic market than the more open regime we propose.

In economic terms, a similar argument applies to the structure of minimum wage policy, but we understand that more overt social and political pressure have to be considered here. On purely economic grounds, we would recommend the abolition of wage controls. Market forces should determine wages in a purely economic sense, and the adoption of our proposed measures would ensure that inflated wage costs could not be sustained by domestic industry and as a result force uncompetitive domestic pricing of home-produced goods.

However, abolition of wage controls would not be socially acceptable. Our recommendation therefore is that no further controls should be imposed, and that no further fixing of higher/minimum wages should take place. The effects of such a policy would be progressively and relatively smoothly to reduce the incidence of wage controls in the coming years at a rate which should broadly reflect the rate at which the new industrial strategy would be adopted. Over the adjustment period of industrial policy therefore a parallel adjustment in wage levels could be made avoiding the necessity for any short-term traumas in the labour market.

10.5 A New Industry Act

In discussions with the Minister of Industry and Co-operatives during the field research it was agreed that this review of industrial policy might offer an opportunity to introduce legislation under an umbrella Industry Act. The Minister asked us to give further consideration to this in this report.

Based on our package of recommended action, it would seem that a number of facets could usefully be covered by such legislation, and that, given the support of the Government for our recommendations, an early start could be made in drafting a new act. The starting point would be an announcement of the Government's intention to undertake the 4 year implementation plan we have proposed, together with an announcement that the Development Incentives Act (relating to DC companies), the Export Processing Zones Act and the Export Services Zones Act would be repealed and replaced by the new Industry Act.

As an indication of the desirable contents of a new Industry Act, (based upon our proposals as set out in this report), the following should be considered:

- Definition of the new industrial incentives package, making specific mention of the reductions in corporation tax permitted to exporters, the guarantee of profit repatriation, and the terms and conditions under which work and residence permits will be granted to non-nationals in the context of new industrial investment.

- A statement of the provisions applying to the duty-free import of capital equipment, intermediate goods, and raw materials for companies which are primarily export-based, together with a guarantee of tax and/or duty credits allowable on the imported (duty-paid) components of export consignments under the revised duty drawback scheme we have proposed.

- As part of the incentives entitlement to new investors, whether Mauritian or overseas, a statement of the simplified licensing procedures to be satisfied, together with a definition of the rules and responsibilities of the Industries Co-ordination Unit and of the time within which the processing of new investment projects will normally be carried out.

- A statement of the terms and conditions under which new investors and existing industries are to be given access to advance factory units on public sector industrial estates, and, if necessary, a statement of the industrial estates responsibilities of MEDIA (for larger units) and the SIDO (for small business units).

- It may also be appropriate to include in the Industry Act provisions for the establishment of the proposed "Enterprise Mauritius", including its statutory position and responsibilities, and the legal framework under which it is to be established and to use funds and resources in kind from both the public and private sectors.

- Finally, consideration would also be given in the Act to the whole question of Government-assisted industrial training, the type and level of assistance to be provided, and the terms and conditions under which Government-funded programmes may be made available to members of the general public.

APPENDIX 11

TERMS OF REFERENCE FOR THE STUDY OF THE IMPACT OF INCENTIVES ON THE INDUSTRIAL SECTOR OF MAURITIUS

1. Description of the project

The purpose of the project is to examine the structure of industrial promotion and incentive policies in the context of the Government's on-going structural adjustment programme with a view to revising the industrial development strategy and its implementation so as to stimulate a resumption in the growth of industrial production and exports.

2. Background information

During the 1970s, manufacturing industry in Mauritius (mainly export oriented manufacturing) grew rapidly and substantially increased its contribution to employment and foreign exchange earnings. A domestic Development Certificate Scheme and an Export Certificate Sheme both provided incentives for the expansion of industrial activity. However, in the past few years industrial growth has slowed down due to a combination of internal and external factors; while the external events are largely beyond Mauritian control; the Government has taken steps to deal with some of the internal factors, notably by limiting the domestic rate of inflation and by the devaluations of 1979 and 1981. In addition tax rebates have been introduced to encourage the growth of exports by firms which are not export enterprises, and an export credit guarantee scheme hs been established. However, it is considered that changes in other industrial policies, a general streamlining of administrative procedures and more effective export promotion and export marketing will be needed to ensure that full advantage is taken of opportunities for the resumption of a more rapid industrial growth.

The Government of Mauritius attaches high priority to industry in its development strategy. However, there is a need for re-defining its strategy and adopting a comprehensive set of policy measures to implement it. The World Bank, during negotiations for a structural adjustment loan, has made it a condition that the Government undertakes a review of its industrial policies and their implementation. The present study is to assist the Government in this exercise.

3. Responsibility and duties of the contractor

A. To study:

1. the structure of industrial incentives provided to Mauritian industry including administrative procedures, and undertaking a quantative analysis of the existing structure of incentives by estimating indicators of effective protection and effective subsidy for a representative sample of manufacturing firms and/or products with a view of identifying:

   a) the general level of import substitution incentives as against export incentive;

   b) differences between incentives to Domestic Certificate (DC) and non DC firms;

   c) differences in incentives between firms and sectors.

2. the nature and content of existing policy towards industry in Mauritius as embodied in legislation, regulations and related administrative practices.

3. the administration of industrial policy i.e. implementation and monetary.

4. the promotion and marketing of Mauritian industrial exports including the purposefulness of the increased use of trading houses and proposals for evaluating results obtained through participation in trade fairs.

5. the present system of investment promotion.

6. the current practice of processing investor's application (both new ones and extensions) of both domestic and foreign firms.

7. the administration of industrial estates.

B. Based on the study of the above, to prepare a report including recommendations regarding necessary decisions to amend or alter existing industrial and export promotion policies and regarding measures to be taken to simplify, speed-up and centralized, where appropriate, administrative procedures; and to institutionalize the collection and dissemination of industrial and investment information. The report should also include recommendations on the following specific issues:

1. Means of simplifying the duty drawback scheme.

2. The general import licensing scheme, in particular whether it ought to be disbanded or phased out.

3. Whether Customs and Excise should accept once again bank guarantee against the refund under the duty drawback scheme rather than demanding payment of duty in full at time of importation.

4. Whether protection guranteeing up to 80 per cent of the local market should be removed from the package of incentives offered to the new Domestic Certificate companies.

5. Whether quantitative restrictions protecting existing Domestic Certificate companies should be replaced by high tariffs providing equivalent protection.

6. Whether the Customs tariff should be revised, whether high import duties should be reduced and whether lower import duties on intermediate materials and capital goods should be increased. It should be simplified notably by merging the tariff and fiscal duties.

7. Whether the Customs drawback scheme or some other appropriate arrangements as well as export incentives should be extended to indirect exports, i.e. to locally produced intermediate materials incorporated in exports, and to locally produced goods exported by traders or other intermediaries.

8. Whether present regulations preventing or limiting domestic sales by export enterprises should be eliminated provided means can be developed to ensure that these entrprises compete on equal terms with other local firms as regards import duty and tax treatment.

C. The report should also make recommendations as to how systematic analytic work (including quantitative estimates of incentives and effective exchange rates) and advice relating to trade and industrial policies can be institutionalized in Mauritius on a permanent basis, after completion of the present review.

4. Personnel and other inputs

a) The contractor will provide a team of experts consisting of:-

one industrial planner

one market analyst

one expert promotion specialist

for a minimum of eight weeks.

b) The Government will provide as counterpart the assistance of professional and administrative staff and the office and transport facilities required for project activities.

c) The contractor's personnel will be fluent in English and French.

d) The contractor's personnel will be available during their stay in Mauritius for progressive evaluation and discussion of the study work with representative of the Government and UNIDO.

5. Reports and general programme

a) The contractor's team leader (being one of its experts under paragraph 4a) above) will be available at UNIDO headquarters in Vienna for two days briefing and exchange of views before the start of the study.

b) The contractor will submit within ninety days from the award of the contractor five copies of a draft final report, in English, covering the study required by these Terms of Reference.

c) The contractor's team leader shall be available for two days in Mauritius after the submission of the draft final report for discussion of it with representatives of the Government and UNIDO.

d) The contractor will submit ten copies of a final report of the study taking into consideration UNIDO's comments thereon, within three weeks of receiving such comments.

e) The contractor's team leader will be available at UNIDO headquarters in Vienna for two days debriefing after submission of the final report.

CONTACTS IN MAURITIUS

A. Meetings with Cabinet Ministers

1. The Hon. Aneerood JUGNAUTH, Q.C.

Prime Minister, Minister of Defence and Internal Security, Minister of Information, Minister of Reform Institutions and Minister of External Communications.

2. The Hon. Sir Satcam BOOLELL

Minister of Economic Planning and Development

3. The Hon. Ramsay Chedumbarum PILLAY

Ministry of Industry and Cooperatives

B. Meetings with Government Officials

1. Mr. D. Manna, Principal Assistant Secretary

1.1 Customs Department

(i) Mr. Stanley, Comptroller of Customs

(ii) Mr. Zuel, Deputy Comptroller of Customs

1.2 Income Tax Department

(i) Mr. Soormally, Deputy Commissioner of Income Tax

(ii) Mr. Luchmun-Roy, Accountant

1.3 Bank of Mauritius

(i) Mr. Noel) Foreign Exchange Control Department
(ii) Mr. Beedassy)

1.4 Development Bank of Mauritius

Mr. Kisnasamy, Managing Director

2. Ministry of Economic Planning and Development

(i) Mr. R. Bheenick, Director

(ii) Mr. G. Wong So, Deputy Director

(iii) Mrs. S. Dindoyal, Senior Economist

(iv) Mr. D. Makond, Economist

2.1 Central Statistical Office

(i) Mr. D. Zamanay, Director

(ii) Mrs. D. Manraj, Statistician

(iii) Mr. S. Ramasawmy, Senior Statistical Assistant

3. Ministry of Trade and Shipping

(i) Mr. J.R. Rosalie, Permanent Secretary

(ii) Mr. G. Lapierre, Principal Assistant Secretary

(iii) Mr. S. Sunassee, Secretary for Foreign Trade

(iv) Mr. C. Ramful, Accountant

(v) Mr. V. Pritipaul, Economist

4. Ministry for Employment and of Social Security and National Solidarity

Mr. Ramsamy, Permanent Secretary

5. Ministry of External Affairs, Tourism and Emigration

Mr. Joypaul, Acting Permanent Secretary

6. Ministry of Labour and Industrial Relations

(i) Mr. Juggernauth, Chairman, National Remuneration Board

(ii) Mr. C. Bolaky, Acting Principal Labour Officer

7. Ministry of Local Government

Mr. Bala Supramanien, Chief Inspector of Municipality of Port Louis

8. Ministry of Industry and Cooperatives

(i) Mr. P. Chan Kin, Permanent Secretary

(ii) Mr. P. Mohith, Secretary for Industrial Development

(iii) Mr. Y. Gopaul, Principal Assistant Secretary

(iv) Mr. G. Narainen, Senior Economist (Import Section)

(v) Mr. M. Chowriamah, Public Relations Officer (Industrial Coordination Unit)

(vi) Mr. A.R. Baureek, Economist (Small Industries Development Organisation)

(vii) Mr. Balasubramanien (ITEC Expert - SIDO)

(viii) Mr. C. Bhadain, Economist (Investment Promotion Unit)

(ix) Mr. C. Seebah, Economist (Evaluation Unit)

(x) Mr. A.K. Lutchmun, Economist (Monitoring Unit)

(xi) Mr. S. Chaumoo, Senior Statistical Assistant

(xii) Mr. S. Sohar, Statistical Assistant

C. Meetings with Private Sector Institutions

1. Mauritius Chamber of Commerce and Industry

   Mr. Montocchio, Secretary General

2. Mauritius Export Processing Zones Association (MEPZA)

   Mr. Francois de Grivel, Chairman

3. Mauritius Employers' Federation

   Mr. Francis Rey, Managing Director

4. Chinese Chamber of Commerce

   Mr. Wong, Secretary General

5. Joint Economic Committee

   Mr. Maurice Paturau, Chairman

6. State Commercial Bank

   Mr. Natarajan, Managing Director

7. Mauritius Commercial Bank

   (i) Mr. Philip Forget

   (ii) Mr. Vayid

LIST OF COMPANIES INTERVIEWED IN MAURITIUS

(a) Development Certificate Companies

Cernol Chemicals Ltd
Dry Cell Batteries
Mauritius Breweries Ltd
Margarine Industries/Pepsi Cola
Livestock Feed Limited
Floresco Ltd
Handkerchief Enterprises Ltd
Synthetic Marble Products Ltd
Mauritius Biscuit and Confectionery Co.
Carpet Manufacturing Co. Ltd.
Metal Can Manufacturing Ltd
Blytronics Ltd
Compagnie Mauricienne d'Huiles

(b) Export Processing Zone Companies

Festival Ltd
Compagnie Mauricienne de Protection Industrielle Limitee
Royal Industries
King Flies
Mauritius Tuna Fishing and Canning
Historic Marine/St. Antoine
Hydrodyne Ltd
T & T International Foods Ltd
Fleurs des Tropiques
Floreal Knitwear Ltd
LSP Diamonds Ltd
Alliance Spinners Ltd
Oceana Textiles Ltd
Hillrex & Co.

CONTACTS MADE IN THE FAR EAST

SRI LANKA

CONTACTS

British High Commission - Commercial Officer (Mr. D.R. Senanayake)

Central Bank of Ceylon - Information Department

Ceylon Electricity Board - Commercial Manager

Cruickshank & Partners (Ceylon) Ltd. - General Manager (Mr. George Wallace)

Department of Census & Statistics - Government Publications Bureau

Elsteel Limited - General Manager (Mr. Erik Logstrup)
- Production Manager (Mr. Per Sorenson)

Foreign Investment Advisory Committee - Director (Mr. Nanayakkara)

Formosa Industries Ltd. - General Manager (Mr. Yang)

Greater Colombo Economic Commission - Executive Secretary (Mr. D.H.M. Pereira)

Industrial Development Board - Regional Office

Katunayake Garments Ltd. - General Manager (Mr. P. Seatteiappa)

Katunayake Investment Promotion Zone - Zone Manager (Mr. Galhenage)

Mono Pumps (Lanka) Ltd. - General Manager (Mr. F.R. Edwards)

Mita Cycles Ltd. - Managing Director (Mr. Nambiar)

Playhouse Design Limited - Director (Mr. Thanaraj)

Samalanka Ltd. - General Manager (Mr. Penera)

Serindo Electro Ltd. - Factory Manager (Mr. Sakae Maeshima)

UNIDO Representative - Assistant (Mr. J.A. Matteson)

Weru Lanka Brush Ltd. - Director (Mr. Burkhardtt)

Greater Colombo Economic Commission
- Manager, Investment Appraisal (Mr. Palhawadahe)
- Senior Manager, Investment Promotion (Mr. Weeresinghe)

PHILIPPINES

CONTACTS

Accessories Specialists Incorporated

Asian Development Bank - Industries Economist (Dr. Inaba)

Astec Electronics Incorporated

Bataan Export Processing Zone

- General Manager (Mr. Eugenio Vigo)
- Senior Investment Promotion Officer (Mrs. Sylvia Commendador)
- Enterprises Manager (Mr. Terry Quicho)

Bataan International Garments Incorporated

- General Manager (Mr. Hans Roesch)
- Technical Manager (Mr Peter Reuter)

Bataan Leather Goods Incorporated

Bataan Optical Inc. - General Manager (Mr. Gerard Gomond)

British Embassy - Commercial Officer (Mr. Keith Taylor)

EPZA - Export Processing Zone Authority

- Deputy Administrator for Support Services (Mr Cayo Villanueva)
- Information & Promotion Dept. Manager (Mr. Laxaro Banag)
- Supervising Investment Promotion Officer (Ms Josephine Fulgencio)
- Investment Promotion Officer (Mr. Orlando Barcelo)

Interncontinental Garments Manufacturing Corporation

International Sports Co. - President (Mr. Dennis Osborne)

Iwahori Philippines Inc.

Lotus Export Specialists Inc. - General Manager (Mr. Jin Sung Kim)

Manila Glove Manufacturing Corporation - Plant Manager (Mr. M. Roa)

Mattel Philippines Inc.

Mikuni International - General Manager (Mr. Teruo Umeda)

Monasteria Knitting

National Census & Statistics Department

NEDA - National Economic & Development Authority

Onytex Inc.

Pasig Textile Industries Inc. - General Manager (Mr. Toshio Takeuchi)

Ricoh Watch Philippines

HONG KONG

CONTACTS

Association of Hong Kong Gloves Manaufacturers

Association of Hong Kong & Kowloon Department Store Dealers & Manufacturers Ltd.

Bonaventure Textiles Ltd. - General Manager (Mr. S.K. Chow)

British Trade Commission - Trade Commissioner (Mr. James Smith-Laittan)

Census & Statistics Department

- National Income Division (Mr. Steven Chan)
- Wholesale & Retail Trade Statistics Section (Mr. John Tai)

China Can Co. Ltd. - General Manager (Mr. Alexander Shang)

Daimaru Department Store

Department of Industries - Promotion Consultancy Division (Mr. Dennis Ting)

Federation of Hong Kong Industries - Deputy Executive Director (Mr. T.W. Wong)

Government Publications Bureau

Haking Industries (Mechanics & Optics) Ltd. - Financial Controller (Mr. John Takahara)

Hong Kong General Chamber of Commerce

Hong Kong & Shanghai Banking Corporation - Manager, International (Mr. M.J. Beazley)

Hong Kong Imitation Jewellery Ltd. (TINKO)

Hong Kong Chinese Importers & Exporters Association

Hong Kong & Kowloon Electrical Appliances Merchants Association Ltd.

Ki Yip Chemical Works Ltd. - Director (Mr. Michael Lam)

Law's Fashion Knitters Ltd. - Director (Mr. Ronnie Laws)

Mauritius Honorary Consul - (Mr. Joseph Lee)

Maxwell Electronics Ltd.

Metropole International Department Stores - Buying Department (Mrs. Tsui)

HONG KONG

CONTACTS (continued)

Nan Fung Textiles Ltd. - Director (Mr. Chen Yen-Tsu)

Oriental Textiles Ltd. - Chairman (Mr. Yumi Pao)

Shui Hing Department Store - Buying Department (Mrs. Christina Chang)

Sterling Products Ltd. - Director (Mr. Kenneth Wang)

Sunnex Products Ltd. - Managing Director (Dr. Henry Yu)

Voesa Ltd. - Managing Director (Mr. Andrew Chan)

Wing On Co. Ltd - Accounting Department