Studies on the social dimensions of globalization

Mauritius

Task Force on Country Studies on Globalization

International Labour Office   Geneva
Preface

This report is one of a series of country studies on the social dimensions of globalization. It is based on contributions from Richard Anker and Rajendra Paratian with some inputs from Raymond Torres. Christine Enzler was in charge of data processing and preparation of tables and figures, and Tracy Murphy provided the secretarial support. We would also like to thank Ms. Esther Hanoomanjee, formerly principal economist in the Ministry of Economic Development and Regional Cooperation, who prepared a background report for the Task Force in her personal capacity.
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Summary

It is generally accepted that Mauritius has been a success story in the past decade and a half — it has even been referred to as an African miracle. Since the balance of payments crisis of the early 1980s, real national income has risen by an average of nearly 6 per cent per year and real GDP per capita by around 4 per cent per year. As impressive, this rapid and sustained economic growth has not been associated with some of the negative aspects of globalization and development experienced by other countries. Available evidence suggests that income distribution improved while socio-economic benefits such as education, health services and housing amenities reach virtually everyone. Importantly, Mauritius has a functioning democracy; and tripartism, although not well developed, plays an important role in policy design.

There is little doubt that international trade and global markets played an important positive role in Mauritius’ recent success. For example, many new jobs were created in export sectors, especially in garments, and, as a result, unemployment rates declined sharply in the 1980s; indeed, between 1982 and 1988, new jobs created in trade-related sectors represented approximately 20 per cent of the total employment in the country.

Mauritius’ success appears to be due in large part to the following positive developments:

- A good social and political climate has enabled Mauritius to attract foreign direct investment and take advantage of its outward-oriented strategy. Social stability in Mauritius owes much to the existence of a social safety net and, more generally, to the widespread belief that all segments of the population win something in the process of international trade;
- Preferential access of Mauritius’ main export products such as for garments to the EU under the Lomé Convention and a sugar agreement with EU. Exports have also been promoted by the Government through an export processing zone, which enjoys special tax and financial incentives, which the Government is now reviewing;
- Exports since the 1980s took advantage of Mauritius’: (i) semi-skilled labour force and high literacy rates; and (ii) availability of an underutilized female labour force, especially for garment exports;
- Import barriers have been liberalized gradually, thereby smoothing the adjustment of domestically oriented enterprises to import competition, while continuing to provide substantial revenues to the Government;
- High savings rate and rapid increases in female employment.

Mauritius has now reached a crossroads in its development. Mauritius is expected to lose its preferential trade benefits early in the next century. In addition, it is becoming increasingly difficult to compete with newly emerging low-wage garment-producing countries for low-skilled garment products, as evidenced in recent years by the delocalization of these products to Madagascar. Foreign direct investment in the EPZ has fallen in recent years.

There are now strains in the labour market linked to international trade patterns. The unemployment rate has risen in the 1990s, which is related in part to poor employment growth in Mauritius’ main export sectors in the 1990s; indeed, employment fell substantially in the sugar and garment/textile sectors in the 1990s.

There are strains on the fiscal side as the government tax base has been eroded by reduced tariff rates which have accompanied trade liberalization, since taxes on international trade provide the largest share of government revenue.

The issue then arises as to what can be done in order to address these challenges. The Government has correctly emphasized the need for a high-productivity route in the face of globalization. It envisages four outward-looking cylinders of growth, namely: sugar, garments/textiles, tourism and skilled labour-intensive services such as international banking. The official intention is to: (a) move upmarket in the case of sugar and garment exports through...
investment and upskilling of labour and management; (b) improve Mauritius’ position as a
destination of high-quality tourism; and (c) develop a financial and high-technology centre for the
southern African region (similar, it is hoped, to Singapore’s position in Asia). In order to improve
understanding of the problems involved with this high-productivity strategy, it is useful to keep in
mind several considerations, in the light of the experience of other countries:

C It is important to maintain social stability, a major factor underlying Mauritius’ successful
international integration, which implies maintaining the spirit of the social welfare state.

C It will be necessary to compensate for stagnant revenues associated with the reduction of
import tariffs by increasing tax revenues from other sources and/or altering expenditures.
However this is done, the former should continue to maintain a substantial element of
progressiveness while the latter implies the appropriateness of reconsidering Mauritius’
present distribution of social expenditure, characterized by a relatively high share (by
international standards) for pensions which could be thought about.

C It is important to increase the skill level of the labour force. This includes increasing the
number of highly skilled persons, if Mauritius is to develop as a high-tech and financial
centre, since only 2.5 per cent of Mauritius’ labour force has a university degree at present,
a low figure compared with the situation of countries that have specialized in skilled labour
activities. This also includes improving the quality of schools, such as reducing high CPE
failure rates.

C The Government provides financial incentives to certain sectors and not to other sectors.
Considering the difficulty of picking the “right” sectors, it may be worth creating more of a
level playing field where all initiatives and incentives such as for taxes and credit are put on
an equal footing for small and medium-sized enterprises, as for large businesses in the EPZ.
Also backward linkages in the economy between large export enterprises and small and
medium enterprises should be further encouraged, despite the difficulty of doing this in a
small economy.

C Updating labour laws and regulations based on tripartite consensus should be pursued. In an
era of globalization, which requires continuous adaptability, it may be worth considering a
greater reliance on collective bargaining and less reliance on government intervention in the
labour market.

C More gender-sensitive policies need to be considered. Mauritius could make better use of
women workers to increase labour market efficiency and international competitiveness by
taking into account recent improvements in women’s commitment and qualifications for the
labour market.

C In view of the difficult policy challenges arising from globalization, there is a need for
improved labour market information such as more frequent labour force surveys.

The policy challenges are difficult. Moreover, decisions will have to be taken in an
environment characterized by a certain degree of anxiety among the population. Mauritius, though,
has certain advantages in international markets, such as its stable political system, a good physical
infrastructure, the existence of tripartite institutions, a high savings rate and a relatively well-
trained, semi-skilled labour force. The process of regional integration (in particular in the SADC
region) might also help diversify export markets, while also supporting production upgrading.
Mauritius should take advantage of its continuing high economic growth to address issues such as
those noted above, since the probable loss of preferential trade arrangements and a more
challenging international economic environment in a few years time will be less conducive to
making difficult policy choices.

In a recent joint paper submitted to the WTO, the Government of Mauritius, together with five
other small countries, stresses that trade liberalization and trade preferences should take into
account the vulnerability of small economies, as it is felt that such countries are especially
vulnerable in today’s globalized economy. This paper cites factors such as their being far from the
main markets, subject to large price shocks for often important export commodities, and subject to reliance on very few export products because their economies are too small to develop economies of scale. Additional case study papers have been submitted to the WTO by Fiji and Mauritius.

In the meantime, there may be a difficult transition period, with rising unemployment, since as noted in this report employment creation in the designated four cylinders of growth is insufficient to absorb expected labour force growth. Mauritius must especially pay attention to vulnerable and disadvantaged groups during this transition period. And the social partners should be closely involved in social and economic policy and decision-making. It is important that Mauritius, a self-confessed social welfare state, does not succumb to the “conventional wisdom” among some neoclassical economists with regard to the dismantling of the welfare state and privatization of many social expenditures.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ACP</td>
<td>African, Caribbean and Pacific States</td>
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<tr>
<td>CMT</td>
<td>Cut-make-trim</td>
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<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
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<td>CPE</td>
<td>Certificate of primary education</td>
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<td>CPI</td>
<td>Consumer price index</td>
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<td>CSO</td>
<td>Central Statistical Office</td>
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<td>DAE</td>
<td>Dynamic Asian economies</td>
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<td>EDI</td>
<td>Electronic data interchange</td>
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<td>EEZ</td>
<td>Economic exclusive zone</td>
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<td>EPZ</td>
<td>Export processing zone</td>
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<td>EPZDA</td>
<td>Export Processing Zone Development Authority</td>
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<td>ESZ</td>
<td>Export services zone</td>
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<td>EU</td>
<td>European Union</td>
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<td>FDI</td>
<td>Foreign direct investment</td>
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<td>GDP</td>
<td>Gross domestic product</td>
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<td>GSP</td>
<td>Generalized system of preferences</td>
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<td>HSC</td>
<td>Higher school certificate</td>
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<td>IILS</td>
<td>International Institute of Labour Studies</td>
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<td>ILO</td>
<td>International Labour Office</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IOC</td>
<td>Indian Ocean Commission</td>
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<td>IOR</td>
<td>Indian Ocean Rim</td>
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<tr>
<td>IOR-ARC</td>
<td>Indian Ocean Rim Association for Regional Cooperation</td>
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<tr>
<td>IRA</td>
<td>Industrial Relations Act</td>
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<td>ITTC</td>
<td>Industrial trade training centres</td>
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<td>IVTB</td>
<td>Industrial and Vocational Training Board</td>
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<tr>
<td>LDC</td>
<td>Least developed country</td>
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<td>MEDIA</td>
<td>Mauritius Export Development and Investment Authority</td>
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<td>MEF</td>
<td>Mauritius Employers’ Federation</td>
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<tr>
<td>MEPD</td>
<td>Ministry of Economic Planning and Development</td>
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<td>MEPZA</td>
<td>Mauritius Export Processing Zone Association</td>
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<tr>
<td>NRB</td>
<td>National Remuneration Board</td>
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<td>PRB</td>
<td>Pay Research Bureau</td>
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<td>PTA</td>
<td>Preferential trade area</td>
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<td>R&amp;D</td>
<td>Research and development</td>
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<td>RO</td>
<td>Remuneration Order</td>
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<td>SADC</td>
<td>Southern African development community</td>
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<td>SC</td>
<td>School certificate</td>
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<td>SDR</td>
<td>Special drawing rights</td>
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<td>SEZ</td>
<td>Special economic zone</td>
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<td>SITRAC</td>
<td>State Informatics Training Company</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>SME</td>
<td>Small and medium-sized enterprise</td>
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<td>SMIDO</td>
<td>Small and Medium Industries Development Organisation</td>
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<tr>
<td>TSC</td>
<td>Technology strategy for competitiveness</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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<td>VAT</td>
<td>Value added tax</td>
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Introduction

1. Mauritius was basically uninhabited until as late as the seventeenth century. Various waves of immigrants produced a pluralistic society in terms of ethnicity and religion. Sixty-eight per cent of the population is from the Indian subcontinent (52 per cent Hindus and 17 per cent Muslims), 29 per cent from Africa and neighbouring Indian Ocean islands, 3 per cent of Chinese origin and roughly 2 per cent of European origin, mostly Catholics from France (Maurice 1997, L'almanach moderne des années 90). 2

2. Independence was only achieved in 1968, but there are well-established democratic institutions. The ruling coalition has always been drawn from an alliance of parties with a diversity of ethnic groups, religions and languages.

3. At independence, Mauritius inherited an economy which was highly dependent on one crop — sugar cane. Economic prospects looked bleak. Virtually all food was imported and there was little growth in per capita income. Its economy was disadvantaged by a small internal market, a location far from major export markets in the world, and consequently high transport and communication costs, and frequent exogenous shocks, such as fluctuating sugar prices and severe crop damage due to its location in a cyclone-prone zone. 3 In addition, high population growth was a major cause of concern in Mauritius in the 1950s and 1960s, as Mauritius is one of the ten most densely populated countries in the world, with a population density of 559 persons per square kilometre (World Bank, World Development Indicators 1998). Pundits spoke of a Malthusian outcome with this small island overrun by population growth. Mauritius addressed this population problem by promoting family planning, and as a result experienced one of the most precipitous fertility declines in human history.

4. Despite these problems, the economic record over the last two decades has been impressive. Mauritius has been referred to as “an economic miracle in paradise” (Institutional Investor, 1987) and “hailed by many observers as an economic miracle” (World Bank, 1989). Similarly, the 1998 Report on Competitiveness in Africa (Harvard Institute for International Development, 1998) ranks Mauritius as the most competitive African country. Since 1980, real GDP per capita has grown by 3.7 per cent per year on average, and by 5.0 per cent on average from 1984 to 1997 (graph 1); this compares to the 0.2 per cent per year average for the non-least developed African countries from 1980 to 1996. At the end of 1997, GDP per capita was US$3,543 and the highest in Africa except for Gabon, an oil rich country. 4 The economic system is outward oriented and Mauritius participates in several international and regional trade agreements.

5. As impressive, Mauritius’ economic performance has not come at the expense of equity or social justice. Household income distribution has become more equal since 1980. Social indicators are especially good for Africa (table 1), and Mauritius has the second highest ranking in Africa on the UNDP’s Human Development Index (UNDP, Human Development Report, 1997).

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1 Mauritian first permanent inhabitants arrived in 1638 and were Dutch. French colonialists, who ruled from 1721 to 1810, established the first enduring society with a distinct social, economic and political structure based on sugar production and the use of slave labour who were brought in from mainland Africa and neighbouring Indian Ocean islands. A new wave of immigrants arrived after the British took over in 1810, especially after slavery was abolished in 1835, as indentured labourers from the Indian subcontinent replaced slave labourers in the sugar cane fields.

2 Mauritius has a land area of only about 2,000 square kilometres (approximately two-thirds the size of the smallest state in the United States) and just over 1 million inhabitants (CSO, 1996, Digest of Demographic Statistics, 1995).

3 Many crops are highly risky because of the damage they would sustain from frequent cyclones. Sugar cane, on the other hand, is relatively robust to cyclones.

4 Mauritius has the highest per capita income in Africa when based on PPP (purchasing power parity) which takes into account cost of living.
However, this outstanding social and economic performance is not as impressive when compared to the so-called dynamic Asian economies (DAE).

6. Despite the positive role international trade has played in Mauritius’ sustained growth over the last 15 years, there is apprehension about the process of globalization. Some fear competition from low-cost foreign producers for domestically oriented producers, resulting from further trade liberalization. There is fear about lost markets for garments, Mauritius’ most important export, after the current Lomé Agreement with the EU expires in the year 2000. These could have serious consequences for wages and employment. Indeed, employment in export sectors has fallen in the 1990s and unemployment is now an increasing problem in Mauritius.

7. Globalization is a complex process. This report focuses on particular dimensions of globalization, notably the increased and rapid integration of national economies, international trade flows and foreign direct investment liberalization and their impact on labour markets. Partly due to a paucity of relevant data, other dimensions of globalization such as technological progress, international media and cultural influences and changes in work organization practices (and their possible impact on the quality and precariousness of employment, income distribution and poverty) receive little attention. More specifically, the purpose of this report is to: (i) shed light on the possible links between international trade and foreign direct investment on the one hand and social progress on the other; and (ii) hopefully dissipate some of the apprehension regarding globalization by considering a range of policy avenues for ameliorating the negative distributional and other effects which globalization has on social dimensions. More specifically, Part I describes how globalization and social progress have evolved since the early 1980s in Mauritius. Part II assesses the social impact of globalization in Mauritius. Policy issues are discussed in Part III. An appendix indicates new types of labour market and social information Mauritius might consider in light of current trends and likely future changes in the economy, in large part brought on by the forces of globalization.

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5 Similar apprehension about globalization and trade liberalization is found in the press of other developing countries as well as in developed countries (see Bhalla, 1998).
I. Trends in globalization and social progress

I.A. Trade

Trade and development strategies

8. Creation of the export processing zone in 1970 brought in a mixed strategy of import substitution and export promotion. Mauritius enjoyed rapid economic growth from 1970 to 1977 (as GDP per capita increased by about 7.3 per cent per annum on average) due mainly to exceptionally high sugar prices on the world market (1973-75) and development of the newly set up EPZ. By the end of the 1970s, however, the economy encountered severe economic difficulties due in part to exogenous factors. Despite this high economic growth and two development plans in the 1970s which had “full employment” as a main objective, unemployment was high in 1979.

9. Adverse international price trends, high inflation rates, budget deficits and worsening balance of payments led the Government to accept IMF and World Bank structural adjustment packages from 1979 to 1985. The rupee was devalued by 23 per cent in October 1979 and by a further 17 per cent in 1981. These events ushered in a new industrial era — characterized by an export-led strategy.

EPZ

10. The EPZ concept as applied in Mauritius is not confined to a restricted zone/industrial estate or enclave. The Mauritian EPZ is dispersed throughout the island. An EPZ in Mauritius is any area (e.g. factory grounds) where almost all products are exported.

11. Like other EPZs in the world, Mauritius, through its Export Processing Zone Act of 1970 provided concessions and incentives to export-oriented industries. The main features are complete exemption from payment of import duty on capital goods; complete exemption from payment of import and excise duties on raw materials, components, and semi-finished goods (except spirits, tobacco and petroleum products); and corporate income tax holiday for ten to 20 years. Corporate tax was 50 per cent of the normal rate for the first 11 to 15 years and 75 per cent of the nominal rate for 16 to 20 years. Dividends were tax free for any consecutive five years beginning with the first year of dividend payments. EPZ firms were also protected against double taxation by agreements with a number of countries, such as France, the United Kingdom, Germany and India. Other features of the Act include loans at preferential rates for importing raw materials; electric power at subsidized rates; export finance at lower interest rates; loans up to 50 per cent of total building costs for a ten-year period; priority in allocation of investment capital by the Development Bank of Mauritius; provision of reinforced factory buildings at subsidized rates; free repatriation of capital and remittance abroad of profits and dividends to companies with an approved status; and guarantee against nationalization.

12. In April 1993, the Industrial Expansion Act was passed to cater for various incentive schemes, including the introduction of a new legislative framework for the EPZ. As a result, the EPZ Act of 1970 was repealed. Conditions of employment in the EPZ are now governed by section 20 of the Industrial Expansion Act, 1993, and the Export Enterprises (Remuneration Order)

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1 Before the 1960s, the manufacturing sector was small, and “King Sugar” reigned. The development strategy in the 1960s changed to one based on import substitution; this included development certificates (which provided an array of incentives, such as import duty relief or exemption on machinery, raw materials and semi-finished products), substantial quota/tariff protection and fiscal concessions for domestic-oriented products. Casting doubt on this import substitution strategy was Mauritius’ slow economic growth (as real GDP per capita was lower in 1969 as compared to 1959; Dabee, 1998).

2 It is important to note that the sugar boom of the mid-1970s was instrumental in raising funds to finance the early stages of developments of the EPZ.
Regulations of 1984. In order to harmonize corporate tax rates throughout the economy, the President announced in his 1998-99 budget speech that the corporate tax rate would be set at 15 per cent for all manufacturing companies, i.e. for both non-EPZ and EPZ manufacturing companies.

13. To promote better working conditions in the EPZ, the Government abolished the double-cut system in 1990 (i.e. the non-payment of two days’ wages if an employee took sick or annual leave one day prior to or one day after a public holiday). The Industrial Expansion Act of 1993 removed the discrimination for overtime where a worker taking annual leave had to work an additional eight hours before being eligible for overtime pay. The new legislation provides for annual leave to be considered as actual work done in the computation of overtime.

14. Until 1984, the law did not require prior notice for overtime work. This was rectified by the Remuneration Order of 1984 which required that employers give 24 hours’ notice of the need for overtime. That an employee may be required to work on a public holiday has been maintained in the Industrial Expansion Act of 1993, mainly because the Government and employers felt that abolition of this clause would seriously endanger production processes (Industrial Expansion Act, 1993).

15. Table 2 indicates differences between EPZ and non-EPZ in provisions for overtime, overtime pay, severance allowances and termination settlements. The most important differences relate to overtime pay. Overtime provisions are more favourable for EPZ employers who have the right to demand ten hours’ overtime per week and who have more favourable pay regulations. Otherwise labour laws in the EPZ are similar to those in other sectors.

Preferential trade agreements

16. Mauritius has benefited from several trade agreements associated with its geographic location (Africa and Indian Ocean) and development level. Mauritius also enjoys tariff preferences, or duty free entry, on a wide range of products in all the industrialized countries under the generalized system of preferences (GSP):

(i) As a member of the Africa, Caribbean, and Pacific (ACP) countries, Mauritius has preferential access and pricing to EU countries under the Lomé Agreement. This includes duty free entry of goods to EU countries. For sugar, there is the added advantage of an import quota to the EU and the internal EU sugar price (which exceeds the world market price). The WTO waiver for the Fourth Lomé Convention expires in 2000, and a new waiver will be required if there is to be a successor Lomé Agreement. Negotiations for a successor agreement started in the fall of 1998.

(ii) Mauritius belongs to COMESA which was previously known as PTA. This is the largest subregional organization in Africa (grouping 20 countries of eastern and southern Africa) with a market of around 300 million people. Advantages of COMESA include: (a) privileged access to COMESA markets in terms of preferential rates of duty and the complete elimination of tariff and non-tariff barriers by the year 2000; (b) preferences in import licences for intra-COMESA trade; and (c) the COMESA clearing house facilities which is presently in the process of being redefined as the Regional Export Services Agency (RESA) in order to provide the following services: Africa guarantee facility, fast payment facility and commercial bank support facility.

(iii) Mauritius became a founder member of the Indian Ocean Commission (IOC) in 1984 and the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) in March 1997.

(iv) Mauritius joined the southern African development community (SADC) in 1995.
The specific problem of small, vulnerable economies: A recent submission to the WTO

17. A joint paper by the Governments of Mauritius, Barbados, Jamaica, Lesotho, Sri Lanka and Trinidad and Tobago, entitled “Concerns and problems of small economies” was submitted to the WTO in November 1998. The paper stresses that certain small economies face specific problems which make their international integration very fragile and their economies vulnerable to external shocks. For example, these countries are far from major world markets, and so face high transport and communication costs; their export sectors rely on very few products because small economies are unable to reap the benefits of economies of scale for many products; their few commodity exports are highly exposed to possible terms-of-trade shocks; and trade-related taxes represent an important source of tax revenues.

18. Mauritius, however, is not categorized by the WTO for special treatment as their per capita income exceeds the set criterion of $1,000. As a result, Mauritius risks losing all trade preferences — including, as discussed above, trade preferences enjoyed under the Lomé Convention which is to expire in the year 2000. Therefore, the joint paper to the WTO argues that the vulnerability problems of small economies should be taken into account when assessing the degree of economic development of small countries. The paper warns that: “it will be difficult to contemplate for many years to come that these small economies could successfully integrate into the multilateral trading system in the event that existing preferences are abruptly removed”.

Export duty

19. An export duty on sugar at the rate of 5 per cent of gross export value was introduced in 1960. For decades, it remained a controversial tax. Its raison d’être rested mainly on two objectives. First, it was seen as an important source of government revenue. Second, it was intended to promote diversification in production by reducing the rate of return of investment in sugar relative to other crops, in view of the limited absorptive capacity of the world market.

20. The sugar export tax was raised to 12 per cent for large estates in 1975 and to nearly 24 per cent in 1979, although small sugar producers were exempted, and the rate of duty varied with the tonnage exported. In 1979, an additional surcharge of 75 per cent on the basic tax was imposed to mop up the windfall gains occurring to sugar producers resulting from the devaluation of the rupee.

21. By 1982, the sugar export tax accounted for 14 per cent of government current revenue and 9 per cent of total government revenue, current and capital. Through a series of reforms, — for example, the Sugar Sector Package Deal Act of 1985, and the Sugar Industry Efficiency Act of 1988 — the sugar export tax was reduced. As a result, the share of government tax revenue from export duties fell from 16 per cent to 3 per cent between 1983-84 and 1993-94. Since June 1994, the export duty no longer accrues to the Government; instead, it is channelled towards the modernization of the sugar industry. It is interesting to note that export duties in the past have played an important, but decreasing, role in raising government revenues in DAE and non-LDC Africa as well (see section IIIA); for example, in Malaysia, export taxes accounted for roughly 33 per cent of government revenues in 1980 and 12 per cent in 1996 (World Bank, World Development Indicators 1998).

Import tariffs and non-tariff regulations

22. Trade policy prior to the implementation of the IMF/World Bank structural adjustment programme from 1979 to the mid-1980s emphasized high effective rates of protection from imports. This included both quantitative import quotas as well as high tariff rates. Table 3 indicates the high rates of effective protection for manufactured goods in existence in 1980. Most rates were well above 100 per cent. Quantitative import restrictions were dismantled in the 1980s, and import
licences were eliminated in 1991 (except for a limited range of products subject to health, sanitary or strategic controls). Under the 1994 reform, the three separate import levies — fiscal duty, the general customs duty and the preferential duty — were combined into a single customs duty and the number of rates was reduced from 60 to eight, and tariff rates reduced substantially in the 1990s.

23. One interesting aspect of Mauritius’ trade liberalization experience was its sustained, but gradual nature. This gradualism of trade liberalization had major advantages for Mauritius. It spread out the time available to local industries to adjust to increased foreign competition. This, in turn, helped enable the Government to sustain its steady course of trade liberalization.

Trade flows and openness of economy

24. Mauritius has always been an economy with considerable international trade. Its small population has always meant that its internal market is too small to allow for the efficient production of many products. And being cyclone prone has meant that Mauritius could not be self-sufficient in food.

25. In 1980, trade openness (as measured by the sum of exports plus imports relative to GDP) was well over 100 per cent. Trade openness fell in the early 1980s during the IMF/World Bank structural adjustment years; increased from 1983 to 1990 along with the export-led boom and explosive growth of the EPZ to 138; and decreased somewhat in the 1990s along with consolidation in the EPZ (graph 2). It is difficult to draw any generalizations on how Mauritius’ experiences in openness differs from DAE and non-LDC Africa, partly because of differences in the size of domestic economies and partly because of differing experiences since 1980.

26. Mauritius’ exports are highly concentrated in the sense that three subsectors — sugar, garments/textiles and tourism — make up the bulk of export earnings (as indicated in table 4). Merchandise exports now comprise well over one-half of Mauritius’ exports of goods and services (approximately 73 per cent on average since 1980). This is lower than the 86 per cent share for DAE. It is interesting to note that while the share for merchandise exports has risen in the DAE since 1980, it has remained more or less unchanged in Mauritius since around 1990. The sugar industry continues to act as a pillar of stability in the country and to play an important role; tourism is on the uprise whilst the manufacturing/garments sector which is an employer of significance clearly requires a new lease of life (graph 3).

27. The destination of Mauritius’ exports are unusually highly concentrated in that roughly 70 per cent go to the EU. This is to a large extent due to EU preferential treatment of sugar and garments. Imports are much more widely distributed, with one-third coming from the EU and 12 per cent from South Africa (table 5).

External debt, trade balance and foreign direct investment

28. As indicated in graph 4, in 1995 total debt service was less than 10 per cent of exports, and external debt as a percentage of GDP was less than 50 per cent. These percentages are similar to those in 1980 and lower than those in the mid-1980s.

29. Mauritius’ trade balance is negative and has been negative almost every year since 1980 (table 6) but FDI has provided ample finance. It is interesting to note that the external debt

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3 One reason why Mauritius’ EPZ-led export boom did not result in a positive balance of trade is that EPZ production and exports in Mauritius are heavily dependent on intermediate imports. According to CSO data, intermediate imports comprised 65-70 per cent of all imports between 1983 and 1990 (CSO, Annual Digest of Statistics (1984, 1991)), due to the fact that Mauritius’ main manufactured export is knitwear which requires the importation of wool. CSO, Digest of Industrial Statistics (1997) data also indicate that net exports represented only 33 per cent of production in the EPZ in 1995.
situation in Mauritius between 1990 and 1995 was similar to that in Malaysia and Thailand while being much better than in other non-LDC African countries (table 6).

30. Foreign direct investment has played a crucial role in the success of Mauritius’ EPZ, and therefore in its export and economic performance. Table 7 presents data on FDI flows from 1985 to 1997 as well as the top five foreign investors. In recent years, FDI to manufacturing has decreased but overall FDI has not decreased.

31. While foreign ownership in the EPZ is very important, local participation has always been high. Estimates generally place foreign ownership in the EPZ at around 40-50 per cent from its inception (Lamusse, 1989). According to the 1992-94 National Development Plan, the structure of ownership in EPZ manufacturing underwent little transformation from 1987 to 1991. The substantial level of domestic capital in the EPZ means that Mauritius is less vulnerable to capital flight than other countries where foreign capital dominates.

I.B. Labour markets

Labour force and labour force growth

32. The labour force was approximately 500,000 in 1997 (table 8) and had grown by approximately 2.4 per cent per year between 1983 and 1990 (census years) and by approximately 1.9 per cent between 1990 (census year) and 1995 (labour force survey year). The increased entry of women into the labour force is a major reason for this rapid labour force growth. Female labour force participation rates for women aged 12 years and above increased from 25.9 per cent in 1983, to 32.2 per cent in 1990 and 36.1 per cent in 1995, due in part to the demand of EPZ garment/textile enterprises which prefer women workers.

33. Since 1983, employment growth has differed quite substantially from labour force growth. Between 1983 and 1990, employment grew much faster than the labour force (5.2 per cent compared to 2.4 per cent per year) and unemployment decreased in this time period. In contrast between 1990 and 1995, employment grew more slowly than the labour force as unemployment rose (1.8 per cent compared to 1.9 per cent per year).

34. It is very useful to have a rough idea of the number of additional labour force participants Mauritius is likely to have in the future — to indicate the number of additional jobs which will need to be created each year in order to avoid increasing unemployment. The simplest approach is to assume that the approximately 1.9 per cent labour force growth rate experienced in the 1990s continues. This would imply annual increases in the labour force in the future of approximately 10,000 workers per year. A more widely used approach calculates low, medium and high variant scenarios for estimating the future population size and future labour force projection rates, both by age and sex. The Government’s Vision 2020 report, which follows this approach, predicts that the labour force will consist of 696,000 workers in 2020 in its medium variant, with women comprising 41 per cent of the labour force. An annual labour force growth rate of approximately 1.5 per cent between 1995 and 2020 and annual increases in the labour force in the future of

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4 According to data from the Ministry of Economic Planning and Development and Bank of Mauritius (noted in WTO, 1995), somewhere around one-half of all FDI has gone to the EPZ (68 per cent in 1987 and 44 per cent in 1990, according to the 1992-94 National Development Plan, and 54 per cent according to Bank of Mauritius/WTO, 1995, for 1983-93) with 24 per cent going to hotels from 1983 to 1993, according to WTO, 1995.

5 Direct estimates of the labour force in Mauritius are only available for 1983 and 1990 (from population censuses) and for 1995 (from a labour force survey).

6 The minimum legal age for employment in Mauritius is age 15 years. Some statistics in Mauritius are, however, reported from ages 10, 12 or 15.

7 This lower growth rate as compared to the simple projection discussed above is due to Vision 2020’s assumptions of: a decrease in the adult population growth rate; a decrease in the male labour force participation rate due to longer
somewhere around 8,000-9,000. As will be shown below, these are quite substantial annual increases relative to employment growth experienced in the 1990s, especially in export-related sectors of the economy.

Employment by size of establishment

35. Mauritius has a relatively formalized labour market with a clear majority of workers in larger establishments (table 8 and graph 5). Over the past 15 years, however, there has been a steady decrease in the relative importance of larger establishments (defined as establishments with ten or more employees), especially in the 1990s, a reflection of declining employment in sugar cane and the EPZ garment/textile sectors (see section II.A). 8

Sectoral distribution of employment

36. Changes in the sectoral distribution of employment since 1982 are shown in graph 6 for three major sectors of agriculture, manufacturing and other (mainly services). Agriculture is by far the smallest major sector at present with only around 12 per cent of total employment in 1997. It is clear that Mauritius is not a typical African developing country where a majority of workers are in the agricultural sector.

37. The manufacturing sector comprised approximately 29 per cent of employment in 1997. This is up sharply from 21 per cent in 1982 — although considerably lower than the 33 per cent recorded in 1988. The increasing relative importance of the manufacturing sector since 1982 is due to EPZ growth. A more detailed discussion of the growth in EPZ employment in the 1980s and its subsequent stagnation and decrease since 1988 is presented in Parts II and III.

38. The majority of workers in Mauritius (59 per cent in 1997) is in services. This represents a slight increase compared to 1982. The roughly unchanged percentage in the past 15 years has been due to a large decrease in the relative importance of government employment, and an offsetting large increase in the relative importance of non-governmental services; whereas the Government provided approximately 21 per cent of all employment in 1982, it provided only 13 per cent of employment in 1997. This decreasing importance of the Government as an employer over the past 15 years results from a more or less unchanged number of government employees (58,900 in 1982 and 62,000 in 1997) over a period of time when the total labour force increased by almost 70 per cent.

Foreign labour

39. Until quite recently, there were not many foreign workers in Mauritius. In 1990, there were reported to be only 1,000 foreign workers in total, of whom 600 were in the manufacturing sector. Their numbers increased to 8,617 in 1997 for the total and 7,051 for the manufacturing sector. While foreign workers represent only a small proportion of employment (approximately 0.2 per cent in 1990 and 1.8 per cent in 1997), foreign workers are much more important in the manufacturing sector where they represent 5.2 per cent of employment in 1997 (and 8.9 per cent of EPZ employment if one assumes that all worked in the EPZ).

Unemployment

8 It is worth noting that adjustments in unemployment statistics (see appendix) which assume that persons reported as unemployed are actually in the labour force, have a direct one-to-one effect on the number of persons reported to be working in other than large establishments, which increased this number by approximately 12,200 in 1990 and 23,100 in 1995.
40. The labour market situation was very poor in the early 1980s. The unemployment rate was 23 per cent in 1982 according to registration data from employment service centres. It was undoubtedly substantially higher, since this data source underestimates unemployment as many unemployed persons do not register at these centres.

41. By 1990, the unemployment rate had fallen sharply, to 2.8 per cent according to official estimates. As shown in this report, this reduction in unemployment in the 1980s was due largely to Mauritius’ export performance and the accompanying growth of employment in the EPZ in this period.

42. In the 1990s, unemployment has again emerged as a problem. Official government estimates indicate an unemployment rate of 6.0 per cent in 1997. According to results from the 1995 labour force survey using the internationally accepted definition of unemployment, the unemployment rate is much higher — almost 10 per cent in 1995. This changing unemployment situation is partly due to changes in EPZ employment.

43. Table 9 provides unemployment statistics for 1983, 1990, 1995 and 1997 based on the three available series described in the appendix. Graph 7 graphically displays these various unemployment rates for 1982 to 1997. Despite differences in estimates, as noted in the appendix, several observations seem appropriate:

- The unemployment rate is much lower at present than it was in the early 1980s — before the explosive growth of the EPZ which undoubtedly substantially reduced unemployment in the 1980s.
- It is clear that the unemployment rate has risen in the 1990s along with the contraction in EPZ employment.
- Since 1990, unemployment has increasingly affected women, who appear to comprise approximately one-half of the unemployed; and now an unemployed person is just as likely to have been employed previously as to be a first-time jobseeker.

Educational and skill level of the labour force

44. In some ways, Mauritius has a relatively well-educated population and labour force for a developing country. It has a relatively low adult illiteracy rate according to World Bank data (approximately 17 per cent in 1995). This is similar to the adult illiteracy rate in Malaysia, although it is considerably higher than in the other dynamic Asian economies: Singapore (9 per cent), Thailand (6 per cent) and Republic of Korea (2 per cent). Also, Mauritius has high and virtually universal primary school enrolment.

45. However, secondary and tertiary school enrolment rates in Mauritius are much lower than in the DAE in general (table 10) and just above the rate for non-LDC African countries. Mauritius’ tertiary enrolment rate is much lower as compared to many other developing countries — 6 per cent in 1996 as compared to 9 per cent for non-LDC African countries and 29 per cent in DAE. In addition, as observed by others, secondary and tertiary schools in Mauritius underemphasize technical subjects (e.g. Lall and Wignaraja, 1998).

46. The top half of table 11 indicates educational levels for Mauritius’ labour force in 1983, 1990 and 1995. There has been a clear upward trend in educational levels over this period. Especially worth noting is the large increase in the percentage of the labour force which has attended secondary school.

47. The bottom half of table 11 — where education categories are reorganized — presents a less rosy picture. It indicates that a substantial proportion of Mauritian labour force is not well educated, as in 1995 around one-third of the labour force had not completed primary school. One reason for this situation is that approximately 30 per cent of students fail the CPE exam at the end of primary school. These data also indicate that less than one-third of Mauritius’ labour force has
completed lower secondary school ("O" level standard) and less than 8 per cent has completed higher secondary school ("A" level standard).

48. Mauritius is embarking on the road toward technology-based development with insufficient academic focus on scientific subjects. Of those who receive tertiary education, only 15 per cent take scientific subjects, compared to 57 per cent in Singapore. In all these areas, Mauritius falls short of its competitors (World Bank, 1994).

49. It is clear that Mauritius will need to improve the performance of its educational system. It will need to increase the proportion of students graduating from primary school. Also, a higher proportion of students will need to complete secondary school, and especially tertiary school (along with a greater emphasis on technical subjects), if Mauritius is to become internationally competitive in higher technology and information services as envisaged in the Government’s Vision 2020 publication.

Training

50. Despite government recognition and intentions (Bheenick and Hanoomanjee, 1988), according to the 1990 Household and Population Census, out of the currently employed population of 12 years of age and over, of 407,618 only 31,558 had any training. The employed population which has received training, however, increased by approximately 80 per cent between 1990 and 1995 to reach 57,066 (CSO, 1997, Labour Force Sample Survey 1995). A 1993 survey of 946 economically active women and 1,391 inactive women found that 14.5 per cent had received technical/vocational training (Ministry of Economic Development, 1995).

51. Technical and vocational training in Mauritius is coordinated by the IVTB which was set up in 1988 as the Government’s major executive arm in the field of vocational and technical training. It is a joint venture between the private and the public sector. One interesting system IVTB operates is its levy-grant system. All firms falling under the National Pensions Scheme contribute a levy of 1 per cent of their wage towards the IVTB, which is deducted at source. The IVTB, in turn, refunds up to 75 per cent of total costs incurred by firms for the training of their workers.9

Government education strategy

52. Education is free in Mauritius, from pre-primary to university and compulsory up to the primary level. However, the quality of teaching inputs and instruction is low. According to the World Bank, a major obstacle towards upgrading the quality of secondary education is the under-

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9 Technical and vocational training are provided by a number of institutions, such as the industrial trade training institutions, the Industrial and Vocational Training Board (IVTB) training centres, the Sir Guy Forget Lycée Polytechnique in Flacq and the Lycée in Rose Hill. The sugar industry has a specific organization for the training of all grades of employees. In addition, most technical ministries and institutions have their own specialized training programmes. For example, the State Informatics Training Company (SITRAC) is entrusted with the responsibility of training in information technology; all medical and paramedical training with the Ministry of Health, and educational training with the Ministry of Education. A further important training institution is the Small and Medium Industry Development Organisation (SMIDO) which is actively involved in organizing programmes to meet the needs of small and medium entrepreneurs. Besides, some private training institutions approved by the Industrial and Vocational Training Board also conduct training programmes in a variety of fields while private sector institutions such as the Mauritius Employers’ Federation and the Chamber of Commerce and Industry run a number of training programmes in response to the needs of their members. Two Industrial Trade Training Centres (ITTCs) provide basic vocational training in several areas, including mechanical engineering, electrical installation, welding and carpentry.
In 1991, only 35 per cent of teachers had a degree... The remaining 65 per cent were recruited directly into the teaching force, without formal training.” (World Bank, Mauritius technology strategy for competitiveness, Sep. 1994).

Quality and precariousness of employment

53. The Government is expected to increase compulsory education to nine years (six years of primary education and three years of academic or vocational education). The current curriculum, criticized as being examination oriented at both the primary and secondary levels, is being reviewed and is expected to be revised with a focus on languages, critical thinking, information technology, living values, health and physical education, vocational and technical education.

54. It is difficult to know very much about the extent to which workers in Mauritius face precarious and insecure employment — or how this has changed over the past two decades. Available labour market statistics are insufficient for throwing very much light on this issue, especially as much of the relevant information comes from one survey, the 1995 labour force survey.

55. Evidence from the 1995 labour force survey is presented below on three aspects of the labour market which are often related to the precariousness of employment: (i) length of service; (ii) part-time employment and hours of work; and (iii) multiple job holdings. A fourth associated aspect, extensiveness of employment in small establishments, is covered above in section I.B.

56. Table 12 indicates the distribution of the employed population by length of service for two export sectors (EPZ and sugar), government services, public enterprises and other private enterprises. The median number of years of service is highest in the sugar industry, and also very high in the government services and public enterprise sectors; the median length of service is ten to 19 years in these three sectors. Length of service is much lower in the EPZ and other private enterprises; the median length of service is one to four years in both of these sectors, and only about 13 per cent of employees have been with their employer less than one year. While these data indicate substantial labour turnover in the EPZ, they do not necessarily indicate high levels of job insecurity in these sectors.

57. Holding more than one job can be a sign of income insecurity, as some workers may need to hold more than one job in order to earn an acceptable income, although it can also be a sign of initiative among full-time workers seeking additional income. This phenomenon is not very common in Mauritius according to official statistics. Only 3.3 per cent of the labour force (4.4 per cent of the male labour force and 1.2 per cent of the female labour force) are reported to have a second job according to results from the 1995 labour force survey.

58. Table 13 presents data on the distribution of the employed population by number of hours worked on all jobs during the reference week in 1995, and table 14 presents data by industry on the usual or normal hours worked in the main occupation in the reference week. Approximately 20 per cent of the employed population worked less than 30 hours in the reference week; this was...
In order to get a rough estimate of the extent of part-time employment (which is often defined as working less than 30 hours in a week), the Task Force recalculated the percentage working less than 30 hours by subtracting those reported to be working these hours for temporary reasons, e.g. illness, vacation, personal reasons, bad weather, etc. According to these calculations, approximately 12 per cent which usually worked less than 30 hours in the reference week. 13

59. The meagre evidence presented in this section (due to limited availability of relevant data) would seem to indicate that precarious employment is not as big a problem in Mauritius as in many other countries. On the other hand, it is not inconsequential. Mauritian policy-makers would benefit from the collection of more regular information on employment and labour market insecurity, including for example information on type of contract and occupational mobility in addition to other relevant labour market indicators mentioned in this section. (See appendix which discusses labour market information needs for the future.)

I.C. Labour market institutions and labour relations

Industrial relations context

60. Industrial relations in Mauritius are regulated by two basic labour laws — the Labour Act, 1975, and the Industrial Relations Act (IRA), 1973 — which established a number of institutions: the National Remuneration Board (NRB), the Industrial Relations Commission, the Permanent Arbitration Commission, the Civil Arbitration Commission, the Civil Service Industrial Relations Commission and the Central Whitley Council. There is also the 1993 Industrial Expansion Act, which, although it does not supersede the Labour Act and the IRA, brings the entire industrial sector, including the EPZ and other export enterprise schemes, within one single legal text.

Collective bargaining and unionization

61. Tripartism plays a limited, but important, role in the industrial relations system in Mauritius. While collective bargaining, for resolving conflicts and promoting constructive employer-employee relations, is not highly developed at the plant or enterprise level, tripartism plays an important role in the fixing of minimum wages and other conditions of employment through government boards.

62. The right to organize is legally protected by the Industrial Relations Act of 1973; an employer cannot refuse to engage an employee or dismiss, penalize or otherwise discriminate against an employee who exercises these rights. The same provisions also apply in the EPZ.

63. In 1996, there were 330 registered trade unions with 108,106 compliance members in total. This relatively high degree of fragmentation is due in part to the current law which requires a minimum of only seven workers to form a union. In 1996, the union density rate was 21.8 per cent. Unions find it especially difficult to organize in the EPZ, as indicated by a union density rate of less than 10 per cent for the EPZ. While this national unionization rate is similar to that observed in 1981 (20.9 per cent), it is considerably lower than the peak reached in 1989 (table 15).

Wage-fixing practices

13 In order to get a rough estimate of the extent of part-time employment (which is often defined as working less than 30 hours in a week), the Task Force recalculated the percentage working less than 30 hours by subtracting those reported to be working these hours for temporary reasons, e.g. illness, vacation, personal reasons, bad weather, etc. According to these calculations, approximately 12 per cent of the labour force usually worked part-time in 1995. This percentage is low compared to the situation generally prevailing in OECD countries, although it is higher than in several European countries, especially in southern Europe (OECD, Employment Outlook, July 1995).
64. Minimum wages are fixed on an occupation and industry basis, rather than nationwide, by the National Remuneration Board (NRB) through Remuneration Orders (ROs) in 27 private sector industries with around 300 such minimum wages at present. ROs are updated each year based largely on changes in the consumer price index (CPI); with, in general, the lower an occupation’s basic wage the higher the percentage increase awarded.

65. NRB is a joint consultative or negotiating body with employee and employer representatives in an industry. The NRB is widely regarded in Mauritius as a platform which has favoured the emergence of a tripartite spirit among the social partners. It is worth noting that in the context of discussions on the revision of the labour laws now under way, neither employers nor workers have indicated that they want to eliminate the NRB, although the social partners wish to review the NRB’s functions.

66. Most employers pay above statutory requirements today. Within EPZ establishments, average earnings are much higher than the prescribed minimum wages. For example, the average hourly wage rate in textile and garment factories was roughly three times the NRB minimum wage in 1995 (table 16).

Industrial conflict

67. The conciliation of industrial disputes is carried out at two levels. In the first instance, all disputes must, by law, be reported to the Minister of Labour and Industrial Relations before any stoppages of work or other coercive action can take place. At the second level, the Minister is empowered to refer a dispute to the Industrial Relations Commission. Alternatively, or sequentially, cases can be referred to the Permanent Arbitration Commission, but not before a cooling-off period of at least 14 days has elapsed. Under the Industrial Relations Act, the Prime Minister may by regulations declare a lawful strike illegal for a period of 60 days following the date on which the regulations are published if he/she is of the opinion that the continuation of the strike will imperil the national economy. This authority along with the delays which can be instituted make it difficult in practice for unions to follow through with strike actions.

68. The system of industrial relations in Mauritius is associated with a low level of strikes (table 15), although 1979 did witness a general strike for a short period in reaction to price increases associated with a structural adjustment programme and a major currency devaluation. In the 1990s, work stoppages have been very low. There were no major strikes in 1995 or 1996, with only 296 workers going out on strike in 1995 and 1,795 in 1996. In the EPZ in 1996, 1,239 workers went on strike (MEF, Annual Report 1996).

Discussions on revising Industrial Relations Act and Labour Law

69. Most of the existing labour legislation described above was promulgated in the 1970s in a different economic and social context, characterized by high and rising unemployment, a weak industrial sector and low levels of non-primary product exports. Over the past two decades, the Mauritian economy has moved from a monocrop-based economy to an export-led industrial and service-based economy. The need to revise current labour and industrial relations laws is recognized in the 1992-94 National Development Plan which stipulates that:

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14 Most Remuneration Orders (ROs) cover specific occupations in an industry, broadly or narrowly defined; for example, Order 10 covers export enterprises and Order 11 covers factory workers. Because some ROs overlap in their coverage, and a company may be affected by more than one order, the NRB follows a general policy of seeking uniformity of ROs.

15 In the public sector, regulation of the terms and conditions of employment falls under the responsibility of an independent body, the Pay Research Bureau (PRB), which is responsible to the Prime Minister. The PRB is also responsible for wage reviews and wage recommendations as well as conditions of services in all parastatal bodies, local authorities and private secondary schools.
The Gini coefficient measures the distance between a Lorenz curve (which traces out the accumulative household income distribution) and a 45 degree line (which represents a totally equal distribution of household income). The Gini coefficient ranges from 0.0 to 1.0. The closer it is to 1.0, the more unequal the household income distribution; the closer it is to 0, the more equal the income distribution.

70. This is also recognized by employers and unions. Employers feel that the existing provisions have become cumbersome (partly due to overlapping Remuneration Orders), have inhibited the development of enterprises and have had a negative bearing on productivity (due to ROs ignoring productivity and almost exclusive reliance on CPI). Employers also criticize the provision in the Industrial Relations Act which allows union recognition based on only seven members as they feel that this fosters fragmentation and hinders collective bargaining (IILS, 1998).

71. Trade unions have for a long time expressed discontent with certain provisions of the IRA, especially restrictions on the right to strike (especially lengthy cooling-off periods and arbitration). Unions also criticize section 13(1)(d) of the Industrial Relations Act where registration of a union can be cancelled if it is “about to engage in activities likely to cause a serious threat to public safety or public order” (ILO, 1986).

72. Against the above background and the recognition by all parties of a need to update labour relations, the Government is considering revising the Labour Law and the Labour Relations Act. For this reason, the Government requested ILO assistance until December 1998. It is hoped that the eventual outcome of tripartite-based discussions will result in increased collective bargaining with less government intervention in the future and be the cornerstone of the future industrial relations system. The Government’s Vision 2020 publication lends support to this viewpoint:

Labour laws and the institutional arrangements for redeployment of manpower will determine the ease with which we can adapt to new challenges ... The trend is towards more worker participation in the decision-making process at the level of the firm as well as in the ownership of the business. We thus foresee an increasing tendency to: more interactive consultation between the social partners; less government intervention in the settling of industrial disputes and wage structures; more support on measures to enhance smooth industrial relations. (Vision 2020, Vol. II.)

I.D. Income distribution and poverty

Distribution of income

73. The distribution of income in Mauritius is relatively equal as compared to many other countries. According to the 1996-97 Household Budget Survey (CSO, 1997), Mauritius has a Gini coefficient of .387 and households in the upper/highest 20 per cent of the income distribution receive 7.6 times the income of households in the lower two income deciles. As shown in table 17, the latest figure for Mauritius is higher than in the Republic of Korea, similar to that in Singapore and much higher than in the other three DAE. Income inequality in Mauritius is much lower than in other non-LDC sub-Saharan African countries, although it is somewhat higher than in North Africa.

74. The household distribution of income in Mauritius appears to have improved over the past two decades. The Gini coefficient was reported to be .420 and .445 in 1975 and 1980-81 respectively, as compared to .394, .379 and .387 in 1986-87, 1991-92 and 1996-97 respectively (table 17). While it would be wrong to put much credence in small differences across particular survey years because of the imprecise nature of income data from sample surveys (for example one should not read much into the very small increase reported between 1991-92 and 1996-97), these data provide evidence that Mauritius’ export-led growth over recent years has been accompanied by an improvement in the distribution of income, especially up to 1990. It is possible that

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16 The Gini coefficient measures the distance between a Lorenz curve (which traces out the accumulative household income distribution) and a 45 degree line (which represents a totally equal distribution of household income). The Gini coefficient ranges from 0.0 to 1.0. The closer it is to 1.0, the more unequal the household income distribution; the closer it is to 0, the more equal the income distribution.
improvements in the labour market and the large fall in unemployment in the 1980s as well as the large increase in female labour force participation, especially among the less well educated (causing a doubling up of income sources within households, especially among lower income households) were important contributing factors to improving the income distribution.

Poverty

75. There are no official data on poverty or social exclusion in Mauritius (although it would be possible to obtain poverty estimates over time with the help of data from the household income and expenditure surveys which are carried out every five years as noted above). In terms of abject poverty as measured by the World Bank’s US$1 per person per day poverty line, poverty is undoubtedly low in Mauritius, and there are government programmes for the poor.

76. If poverty were measured using a typical absolute poverty line such as one based on expenditures for a minimum acceptable basket of goods and services, poverty would be observed, as is the case in all countries. Measuring poverty and social exclusion in Mauritius would be much more than an academic exercise, since social programmes in the future may need to be more targeted than at present and targeted programmes for the needy require good data. This is an obvious area for improving social and economic statistics in Mauritius (see appendix). Although the Government spends more than 30 per cent of its recurrent budget on pensions and other social programmes which are targeted to the needy, and considerable provisions have been made for low cost housing and other social infrastructure and amenities, pockets of poverty remain. As the stress and strains of modern living catch up with the majority of Mauritians, temporary hardships could become a more common feature of the average Mauritian. Programmes for short-term, immediate assistance to a larger segment of the population may be required in the future.

\[\text{Social exclusion is a concept which is similar to poverty in that it identifies weaker elements in society. It differs from most poverty measures in that it is mainly concerned with identifying persons and households which remain in poverty for long periods of time, perhaps generations.}\]

\[\text{See van der Hoeven and Anker, 1993, for a succinct discussion on poverty lines. Absolute poverty measures are generally based on a fixed poverty line where the definition of poverty remains unchanged over time, and consequently it is possible for a country to succeed in lowering its poverty rate. A poverty line is often based on the cost for a household of a basket of food containing a minimum acceptable amount of calories and proteins. This cost is then usually multiplied by a certain prescribed factor to take into account the cost of other necessities such as health care, transport, etc. This factor tends to vary by development level and the non-food items which are felt to be necessary in society — from approximately 1.25 in India, to about 2.0 in Latin America and 3.5 in the United States (Billsborrow, Anker and DeGraff, 1998).}\]
II. Assessing the social impact of globalization

II.A. Trade and employment

77. It is useful to classify industrial sectors into three groups according to their relationship to trade — whether sectors are mainly export-oriented, import-competing or non-tradable in nature. This is relatively easy to do for Mauritius because of the way government statistics are kept.

78. Direct employment in export sectors can be roughly approximated by employment in sugar cane, EPZ (mainly garments and textiles), and large restaurants and hotels. As the Government has designated the financial, business and other services sector as the fourth outward-looking cylinder of growth sector for the future, it seems reasonable to consider a sizable proportion of large establishments in this sector as export oriented. The import-competing sector can be roughly approximated by manufacturing outside of the EPZ. The remainder of the economy could be considered as non-tradable sectors.

79. Table 18 reorganizes available employment data from the CSO in terms of export orientation (export-oriented, import-competing and non-tradeables) and export-related (direct employment in export-oriented sectors plus indirect employment in tourism through backward linkages). Graph 8 shows tendencies since 1982 in the percentage distribution of employment according to export orientation of sectors. Graph 9 indicates tendencies in export-related employment.

80. Several aspects of changes over the past 15 years are worth noting. First, the percentage of employment in import-competing manufacturing sectors stayed basically constant over the past 15 years. One possible explanation for the ability of this sector to maintain employment is that trade liberalization was introduced gradually. It is likely that import-competing sectors will face increasing difficulty competing against imports in the future along with continuing trade liberalization in Mauritius and increased regional integration.

81. Second, there was a large increase in the percentage of employment in export-oriented sectors between 1982 and 1990. In contrast, employment fell in these sectors in the 1990s. The main factor determining these differing experiences in the 1980s and 1990s is the performance of the EPZ. This is shown graphically in graph 10 where export-oriented employment is divided into its main component parts.

82. In short, employment (and by implication unemployment) in Mauritius is dependent to a substantial degree on how well Mauritius competes in international markets. Thus, whereas EPZ exports grew rapidly enough to absorb sufficient numbers of workers to help solve Mauritius’ unemployment problem of the early 1980s, this is not the situation in the 1990s as EPZ employment fell in the 1990s. And as net employment creation in other export-related sectors has not been sufficiently large to absorb the growth in labour force participants as well as the decrease in EPZ employment, it is not surprising that unemployment increased in the 1990s.

83. Associated labour market aspects are working conditions and the flexible use of working hours, including overtime. Data on hours of work from the 1995 labour force survey indicate that export-oriented sectors have relatively high usual hours of work, since: (i) the manufacturing and hotels and restaurants sectors have relatively high usual hours of work; and (ii) 12,000 women in the manufacturing sector (many of whom are undoubtedly in the EPZ) worked more than their usual hours in the reference week (CSO, 1997; Labour Force Sample Survey, 1995). This flexible use of working hours implies that employers prefer to adjust work hours rather than to hire or fire workers in order to adjust labour inputs.

84. In 1987, the University of Mauritius conducted a comprehensive study on nutrition, health and productivity of workers in the EPZ and revealed disturbing environmental and social conditions in the EPZ. The survey depicted how long working hours and changes in the nutritional
habits of the workers had adversely affected health (University of Mauritius, 1988). It would be worth conducting a new survey on this.

Women’s role in trade

85. There is little doubt that women played a critical role in supporting and enabling Mauritius’ successful export performance in the past 15 years. Most workers in the EPZ are women (81 per cent in 1983 and 71 per cent in 1995). This reliance on women workers in the EPZ is undoubtedly based partly on: (i) the sex stereotyping of occupations (as the main occupations in garments and textiles are felt by employers to be best suited for women around the world; see Anker, 1998); and (ii) the lower pay levels in the EPZ as compared to other sectors of the economy, and the willingness of women to accept lower pay than men (see graph 11).

86. While the demand for female labour by employers in the EPZ is not the only reason for the increase in female labour force participation rates over the past two decades (since other factors such as increasing female education levels and decreasing fertility rates are also important), it is likely that the demand for women workers in the garment/textile sector increased female labour force participation rates. As this increased demand for female labour has been large and in place for decades now, it has probably changed women’s aspirations and therefore permanently increased female labour force participation rates. It is also interesting to note that this rapid increase in female labour force participation rates has undoubtedly helped to restrain wage increases in the EPZ, thereby influencing Mauritius’ international competitiveness (see section II.D).

Payment system

87. Workers in two of the main export sectors in Mauritius (agriculture and manufacturing) have a less secure payment system as compared to other sectors. Thus, whereas approximately 60 and 58 per cent of employees in agricultural and plant and machine-operator occupations respectively are paid on a daily, weekly, fortnightly or piece-rate basis, only approximately 25 per cent of all other employees are paid on this basis (table 19). On the other hand, the use of outworkers (practice of outsourcing work to home-based workers) is not common in Mauritius. In 1997, there were only 848 outworkers in the EPZ, almost all of whom were women (Ministry of Economic Development and Regional Cooperation, Economic and Social Indicators, An occasional paper, Issue No. 267, 3 April 1998).

Size of establishment and trade

88. In light of the importance of EPZ employment and exports for Mauritius, it is worth investigating how the distribution of EPZ employment by enterprise size has changed over the past 15 years as this reflects enterprise survival and international competitiveness. Graph 12 presents data on the distribution of employment by size of establishment for the EPZ from 1982 to 1996. The main story told by these data is the differing relative fortunes of the largest establishments (with more than 1,000 workers) and the relatively small for the EPZ but not smallest size enterprises (with 101 to 500 workers). In the 1980s EPZ boom, the total number of enterprises grew from 118 in 1982 to 574 in 1990, with rapid employment growth in all size categories. However, since employment grew least rapidly in the largest enterprises in the 1980s, they became relatively less important in terms of employment. In contrast in the 1990s, EPZ employment fell — because of increased international competition — in all size categories except the largest (enterprises with more than 1,000 workers) which were in the best position (with the required
Between 1990 and 1996, employment fell from 19,256 to 13,716 workers for enterprises with 101-300 workers and from 11,745 to 9,910 workers for enterprises with 301-500 workers.

The ILO Task Force had intended to estimate/measure the skills level of work performed in the Mauritian economy. This exercise would have allowed the Task Force to observe more directly, for example, how the skill level of work performed has evolved over time; how skill levels of work differ in trade sectors as compared to non-trade sectors; how the skill level of work performed matched the skill level of workers, etc. This exercise would have benefited from ILO technical inputs and been based on a new methodology developed originally by the US Bureau of Labor Statistics. Since this methodology had not been applied in the developing world, the ILO had prepared an adapted methodology and set of notes for this exercise for Mauritius. Unfortunately due to local difficulties, this exercise could not be carried out.

The 1988 International Standard Classification of Occupations (ISCO-88) has nine major occupational groups, based in part on skill level. Elementary occupations represent the least skilled occupations. “This major group covers occupations which require the knowledge and experience necessary to perform mostly simple and routine tasks, involving the use of hand-held tools and in some cases considerable physical effort, and, with few exceptions, only limited personal initiative and judgement. The main tasks consist of selling goods in streets, doorkeeping and property watching, as well as cleaning, washing, pressing, and working as labourers in mining, agriculture and fishing, construction and manufacturing” (ILO, 1990).

II.B. Trade and skills

89. This report, as well as other reports by the Government and international organizations, stresses the importance of upgrading skills so that Mauritius can become more competitive in international markets, and increase wages/personal incomes. This section briefly looks at the skills level of Mauritius’ exports since 1980 and prospects for the future in this regard.

90. Mauritius’ manufactured exports are almost completely low skilled in nature according to the recent competitiveness report prepared for the Commonwealth Secretariat (Lall and Wignaraja, 1998), as only 5 per cent of Mauritius’ manufactured exports were high skilled in 1992 — up only slightly from 3 per cent in 1980 (graph 13). A similar result is reported for the share of technologically advanced products among Mauritius’ manufactured exports, which was only 5 per cent in 1992 (graph 14). These percentages are much lower than in the dynamic Asian economies and similar to those in Bangladesh and Sri Lanka.

91. The generally low skill level of the work performed in the main trade sectors in Mauritius is also indicated by data on the occupational distribution of employment by industry in 1995 (table 20). A relatively low percentage of workers in the agriculture and manufacturing sectors are managers, professionals, technicians or associated professionals (1 and 5 per cent respectively as compared to 13 per cent for the labour market as a whole). In addition, 65 per cent of workers in agriculture are in elementary occupations (compared to 25 per cent for the entire labour market), while 59 per cent of workers in manufacturing are in elementary occupations or are plant/machine operators (where many in the garment industry learn their job in three months or so and do not require high levels of education). Tourism would appear to be average for Mauritius as 12 per cent of workers in the restaurant and hotel sector are managers, professional technicians, or associated technicians and 24 per cent are in elementary occupations (compared to 13 per cent and 25 per cent respectively for the entire labour market).

92. This predominance of low-skilled manufactured exports is surprising for at least two reasons. First, Mauritius has raised incomes and wages based in large part on the export of low-skilled manufactured goods, something which should be very difficult to do in a globalized economy where competition from low-wage countries greatly restrict wage rates for unskilled manufactured export products. Second, Mauritius has a relatively well educated and trained labour force.

1 Between 1990 and 1996, employment fell from 19,256 to 13,716 workers for enterprises with 101-300 workers and from 11,745 to 9,910 workers for enterprises with 301-500 workers.

2 The ILO Task Force had intended to estimate/measure the skills level of work performed in the Mauritian economy. This exercise would have allowed the Task Force to observe more directly, for example, how the skill level of work performed has evolved over time; how skill levels of work differ in trade sectors as compared to non-trade sectors; how the skill level of work performed matched the skill level of workers, etc. This exercise would have benefited from ILO technical inputs and been based on a new methodology developed originally by the US Bureau of Labor Statistics. Since this methodology had not been applied in the developing world, the ILO had prepared an adapted methodology and set of notes for this exercise for Mauritius. Unfortunately due to local difficulties, this exercise could not be carried out.

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force for a developing country (see section I.B), and so its comparative advantage should have implied more skilled export products than seems to have been the case.

93. One reasonable explanation for these surprising statistics is that Mauritius has moved upmarket to relatively high-quality manufactured products within a low-skilled product group (garments/textiles). This explanation is supported by the fact that a high percentage of EPZ workers in Mauritius have received training. According to a study in the late 1980s covering 140 large firms and 32,200 workers, 70 per cent of EPZ workers had received training (Bheenick and Hanoomanjee, 1988). On the other hand, 95 per cent of this training was in-plant training and relatively short in duration (only around three months in the larger enterprises which are committed to training workers according to study team discussions with employers). This explanation is also supported by evidence presented in section II.D which shows sizeable increases in labour productivity since 1985 in the EPZ.

94. The above results and explanations have important implications for other developing countries producing low-skilled exports such as garments. They imply that wages in low skilled product groups can be increased somewhat while remaining competitive — by going upmarket, investing in new plant and equipment and training workers and management. A detailed discussion of these possibilities is provided in section III.C of this report.

95. For Mauritius, on the other hand, current export product groups do not appear to provide a firm basis for sustainable development into the future. Already, for example, Mauritius is delocalizing to neighbouring countries, such as Madagascar, lower quality, lower value added subsectors of the garment industry, such as T-shirts, because wages in Mauritius make it uncompetitive in these subsectors. And, while Mauritius’ success in the 1990s in increasing productivity through investment and training has helped increase wages in higher value added garment subsectors, this has been associated with lower employment.

96. In short, while unskilled export product groups provide a good entry point and can be successfully developed to a significant degree by going upmarket and up-skilling, by themselves they do not provide the basis for sustainable development to high-income levels. It is clear that Mauritius needs to diversify and develop new higher skilled and higher value added export product groups. Indeed, up to now, Mauritius has not taken sufficient advantage of its relatively well-educated labour force, with regard to its exports. This step up to the next product/service level will not be easy, and it is not at all apparent which new products and/or services will become important in the future, but it does need to be done.

II.C. Trade and wage differentials

97. Wages in large establishments in the main export sectors of sugar cane and EPZ manufacturing are among the lowest in the economy. Among 13 major sectors in 1997 where earnings are reported in the CSO’s 1997 Digest of Labour Statistics (CSO, 1998), the EPZ manufacturing and sugar cane sectors have the lowest average earnings for both employees paid on a monthly basis as well as employees paid on a daily, hourly or piece-rate basis (excluding the

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4 A similar situation would seem to apply in Mauritius’ two other main export earners (tourism and sugar). Mauritius emphasizes high-quality tourism. And, Mauritius has among the highest sugar cane productivity in the world; Mauritius is also an important producer of sugar cane-related products such as molasses and bagasse.

5 About half of the foreign-owned firms in a firm-level survey undertaken in 1996 covering a total of 34 enterprises in the Mauritian EPZ, mentioned that “they had begun or were considering relocating to other more attractive manufacturing locations in the developing world and Eastern Europe” (Lall and Wignaraja, 1998). Floreal, the largest Mauritian EPZ company, is reported to have “already transferred almost 40 per cent of its manufacturing from Mauritius, where it has 7,000 workers and entry-level wages of $150 a month, to nearby Madagascar, where 5,000 workers now make T-shirts for the company at starting wages of $55 a month. The company is weighing Mozambique, Zambia and Zanzibar for further expansion” (Wall Street Journal, 15 July 1998).
mining and quarrying sector where there were only around 200 employees in 1997). Earnings in
the wholesale, retail trade, restaurants and hotels sector, where the tourism sector is concentrated,
on the other hand, tend to be similar to the national average. These data on earnings in Mauritius’
three main export sectors are consistent with observations in section II.B regarding the relatively
low-skill level and less-skilled occupations in the sugar cane and EPZ sectors and the average use
of skilled occupations in the sector containing tourism.

98. To investigate how international trade and competition may have affected worker’s
earnings, it is necessary to look at trends in earnings by sector according to the sectors trade
orientation. Data on the sectoral distribution of earnings at one point in time reported in the
previous paragraph do not provide convincing evidence in one way or the other with regard to the
effect international trade may be having on wages.

99. International trade models predict that, under certain assumptions, wages of unskilled
workers should rise over time relative to wages of skilled workers in developing countries, whereas
the opposite should occur in developed countries. The reason for these predictions is that
developing countries are expected to specialize more in unskilled products and developed countries
to specialize more in skill-intensive products, because of the relative abundance of each type of
labour at each development level. To a substantial extent, Mauritius at present represents a lesser
developed country in this model, since its exports mainly use unskilled labour (as shown in section
II.B). International trade is then expected to alter the relative demand for each type of labour at
each development level and consequently relative wage rates of skilled and unskilled labour.

100. What has happened in recent years in Mauritius? Milner and colleagues in a series of
papers (Milner and Reed, 1998; Milner and Wright, 1995; Milner and Wright, 1998) investigate
this issue by analysing wage and employment dynamics in import-oriented and export-oriented
manufacturing sectors using dynamic panel estimation techniques. This analysis indicates the effect
of trade on relative wages in different trade-related sectors as well as on relative wages by skill
level. This analysis is based on employment, wages, imports and exports data from 1971-91 for 25
manufacturing sectors (which are divided into three exportable sectors and 22 importable sectors
“on the basis of information about market orientation and the policy regime”).6 A priori
expectations were that wages would rise relatively more in exportable sectors as compared to
wages in importable sectors and non-tradable sectors. Graph 15, which was presented in Milner
and Wright (1998), indicates that wages in importable sectors have somewhat decreased relative
to wages in exportable sectors during Mauritius’ export-led growth over the past 15 years.

101. When these authors estimate their model, they find only partial support for their
predictions. Relative wage growth in exportable sectors (as well as employment) was found to have
risen in the long run in response to trade liberalization. However, relative wage growth was
unexpectedly found to have fallen in the short run in the exportable sector. “Wage changes are
dominated by increases in employment which serve to drive wages down. In the long run, the
output effects, which serve to increase wages, become increasingly dominant.” Also unexpectedly,
relative wages (and employment) rose in both the long and short run in importable sectors. Milner
and Wright speculate that the most likely explanation for unexpected results, especially for the fall
in the short run in export sector relative wages, is that the labour supply was not fixed as trade
models assume — since Mauritius experienced a very large increase in the labour supply, with
many new women joining the labour force to work in the EPZ. These results demonstrate the
important role women played in restraining wage increases in the EPZ, with obvious implications
for the competitiveness of Mauritius’ exports.

6 The three exportable sectors are: wearing apparel except footwear (ISIC 322); leather products (ISIC 323); other
manufacturing (ISIC 390). Milner and Wright (1998) consider textiles (ISIC 321) to be an importable sector, possibly
because so many textile products are imported as intermediate inputs for the garment industry.
II.D. Economic growth, productivity and competitiveness

102. Mauritius has had high savings and investment rates over the past two decades. Since 1985, the gross domestic savings rate was approximately 25 per cent of GDP, while gross domestic investment averaged approximately 28 per cent of GDP. As indicated in table 21, Mauritius’ high rates of savings and investment were lower than in the DAE but higher than in other non-LDC African countries.

Factor inputs, productivity and economic growth

103. An important policy issue is the extent to which Mauritius’ economic growth rate over the past two decades is due to productivity growth, since, in the long run, growth in per capita income requires productivity increases.

104. This issue has received considerable attention in the academic literature and the popular press for the dynamic Asian economies and whether their high economic growth rates in the past were a “miracle” or a “myth”. Krugman (1996) concluded in a now famous article (“The myth of Asia’s miracle”) that there was no miracle: that the very high economic growth rates over the past several decades in the Far East were due mainly to an increase in inputs (i.e. high rates of investment and labour force growth), and not to an increase in factor productivity. This led Krugman to conclude that Asian growth rates would fall substantially over time, since labour force growth would eventually slow; and high investment rates would eventually confront reduced returns, especially as once less-developed economies become more developed. With the 1997-98 financial crisis in Asia, Krugman’s view has received considerable attention.  

105. In light of the above, the question can be asked if Mauritius’ high economic growth over the past two decades has been due to growth in factor inputs or to increases in factor productivity.

106. Two recent studies shed light on this question (Dabee, 1988; CSO, 1998, unpublished tables from productivity and competitiveness indicators project). Professor Dabee estimated what percentage of economic growth between 1967 and 1997 was due to: (i) growth of labour inputs; (ii) growth of capital inputs; and (iii) total factor productivity. Because of the many methodological and data difficulties in carrying out this exercise, Dabee makes a series of estimations based on different assumptions (table 22). He finds that capital inputs provide the largest contribution to growth — ranging from 43 to 67 per cent, depending on his assumptions. The contribution to growth from multi-factor productivity ranges from 4 to 28 per cent depending on the assumptions (with 15-20 per cent the most likely according to Dabee). These percentages are lower than observed in studies for Asia when multi-factor productivity typically accounted for around 28 per cent of their higher economic growth rate (Thirlwall, 1994, cited in Dabee, 1998).

107. CSO (1997), in its productivity and competitiveness indicators project, estimated multi-factor productivity, capital productivity and labour productivity from 1982-96 for the total

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7 To a considerable degree, Krugman’s position is more balanced than usually presented (as in text). For example, Krugman believes that Asia will rebound and do well economically in the long run, since Asia’s fundamentals are sound — high savings rates and excellent human capital. It is only their exceptionally high economic growth rates which are a thing of the past in his opinion. Joseph Stiglitz (1996) concludes that the accomplishment/miracle in Asia was bringing together so many resources and using them effectively (even if growth in total factor productivity accounted for a minority of Asia’s growth).

8 Some of the difficulties in this exercise follow. First, employment data are available only from 1966, and these are only for the number of employees in large enterprises. Yet, as indicated in section I.B, employment growth in large enterprises has often differed substantially from employment growth in the labour market as a whole. Second, there are substantial annual variations in the number of hours of work per employee as discussed in section I.B. Third, Dabee had to guesstimate the size of the capital stock in 1955. Fourth, and perhaps most importantly, estimates of the capital stock in any given year are very sensitive to the assumption regarding the capital depreciation rate.
economy, the manufacturing sector and the EPZ (table 23). CSO finds that multi-factor productivity for the total economy only increased by 5.6 per cent in total between 1982 and 1996. In the manufacturing sector and EPZ, multi-factor productivity was estimated to have increased much faster, by approximately 34.7 and 41.1 per cent (or 2.1 and 2.5 per cent per annum) over this time period (table 23). When these increases in multi-factor productivity estimated by CSO are compared to increases in output, multi-factor productivity is found to represent about 5, 17 and 9 per cent of the increase in output for the total economy, the manufacturing sector and the EPZ respectively.

108. In summary, both of the analyses reviewed above imply that most of the economic growth in Mauritius in recent years has been due to increases in factor inputs. These analyses provide additional evidence of the need for Mauritius to increase emphasis in the future on raising productivity, up-skilling the labour force and moving into higher value added products.

Competitiveness and labour costs

109. Being competitive in the global market place is essential for Mauritius because of the openness of its economy. This subsection discusses competitiveness in the EPZ (where virtually all of Mauritius’ manufactured exports originate) based on labour productivity and labour cost data.

110. CSO (1997) provides annual labour productivity and labour cost data for the total economy, the manufacturing sector, and the EPZ from 1982 to 1996. These data are presented for the EPZ in graph 16. The extent to which growth in labour costs outstrips growth in labour productivity affects competitiveness (although there are many elements affecting international competitiveness besides labour costs).

111. Labour productivity in the EPZ decreased from 1982 to 1986 and then increased rapidly and consistently from 1986 to the present. In contrast, unit labour cost (in rupees) rose every year since 1982 (graph 16). These data would seem to indicate that rising labour costs have negatively affected the international competitiveness of Mauritius’ manufactured exports. This point is often made by industrialists and economists.

112. This point regarding the loss of international competitiveness is somewhat misleading, however, as it is based on unit labour costs in rupees. To obtain a more appropriate picture of how unit labour costs may have affected international competitiveness, it is necessary to express labour costs in international currencies in which exports are priced. This is especially important for Mauritius, since the rupee has depreciated over the past two decades, and consequently labour cost expressed in US dollars and other hard currencies has grown much more slowly than have labour costs expressed in rupees (graph 16).  

9 CSO (1997, productivity and competitiveness indicators) attributes the decline of labour productivity in the EPZ over the period 1982-85 to high labour mobility, learning gaps, absenteeism and low levels of efficiency. Growth in labour productivity over the 1986-96 period is attributed to increased percentage of higher value added products in the textile/garment industries, industrial diversification, better technology, longer working hours, and more productivity consciousness due to recent campaigns. The shift of labour from inefficient firms, as a result of closures, to more efficient ones, is also an explanatory factor partly responsible for this improvement in productivity in recent years.

10 Since 1994, the Mauritian rupee has floated freely. Earlier, from January 1976 until 1994, the rupee was pegged to a basket of currencies (SDR) until 1983, and from 1983 to 1994 to a basket of currencies which better reflected Mauritius’ foreign trade.
113. Graph 16 indicates labour productivity and unit labour costs in US$, SDR and rupees. By 1990, as compared to 1982, labour costs expressed in US$ and the SDR basket of currencies had risen much faster than labour productivity and unit labour costs expressed in international currencies correspondingly increased. The mid 1980s then appear to be a period of decreasing international competitiveness in garments/textiles. Since 1990, however, unit labour costs in US$ and SDR have remained more or less constant, implying that the 1990s is a period when Mauritius retained its international competitiveness as regards wage costs.

114. The above analysis tells us nothing about Mauritius’ labour costs as compared to its competitor’s labour costs. It is possible, for example, for a country to lose competitive advantage based on labour costs even when its labour costs expressed in US$ or SDR do not increase. Lower cost countries may enter the market or competitors may devalue their currency. Indeed, in the past 15 years, many lower income countries have increased their presence in the garment/textile sector.

115. Data of labour costs in US$ for a number of countries are provided in tables 24 and 25. Despite the fact that internationally comparable data on labour costs are notoriously difficult to compile and cross-national comparability is always suspect, a reasonably clear picture emerges from these data. Mauritius has substantially higher labour/wage costs than many countries while having substantially lower labour/wage costs than many other countries. This means that Mauritius, like other countries in North Africa such as Tunisia and Morocco, has difficulty competing with the emerging low-cost producers based on low wages.

116. The fact is that competitiveness in the low-end garment market across the world is based to a large extent on an ability to maintain low wages, and a willingness to accept low profit margins. In the case of Mauritius, while it can be argued that there is still room for EPZ firms to cut operating costs further, this is not likely to suffice in itself for Mauritius to remain competitive with low wage countries for the low-end of the garment market. The future of Mauritian garment manufacturers lies with mid-market and upmarket segments, where competition is based more on quality, variety, design content and quick response to rapid fashion changes. To meet these new requirements — as described in section III.C — local firms will need to upgrade efficiency, improve quality control, undertake substantial changes to increase their flexibility and reduce lead times, and to enhance their design capability. The data indicating rapidly rising labour productivity in the 1990s shows that Mauritius’ employers are becoming more competitive and moving upmarket, although this strategy has been associated with decreased EPZ employment.

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11 SDR is an abbreviation for Special Drawing Rights (IMF, Survey Supplement on the Fund 1996 — SDR; www.imf.org). It is an international reserve asset created by the IMF in 1969 and is the unit of account for the IMF. The value of the SDR is determined on the basis of a basket of five major currencies. Its valuation is revised every five years with the weights for each of the five currencies modified to reflect the relative importance of the currencies in international trade and reserves. As of August 1996, the percentage weights are given in brackets as follows: German deutsche mark (20.6), French franc (11.0), Japanese yen (17.2), UK pound sterling (11.2), US dollar (40.0).
III. Policy issues

III.A. Public finance constraints and social cohesion and social welfare

Public finance constraints

117. In recent years, Mauritius has had relatively high budget deficits, reaching 5.9 per cent of GDP in 1995-96 and an estimated 3.9 per cent in 1997-98 (table 26). This situation is due partly to stagnant tax revenues from its largest revenue source — international trade. Whereas tax revenues from international trade brought in approximately 5.7 billion rupees in 1993-94 as well as 1996-97, government expenditures rose from 14.3 billion to 20.1 billion rupees in this time period (CSO, 1997, Digest of Public Finance Statistics 1997).

118. This decreasing importance of taxes on international trade as a source of government revenue is illustrated by data in table 26. While taxes on international trade accounted for approximately 52 per cent of government revenue in 1980, they only accounted for 31 per cent of government revenue in 1996-97, down sharply from the 41 per cent observed as recently as 1994-95. It is clear that trade liberalization and a reduction in tariffs has been associated with a relative reduction in government revenues. Even so, the 31 per cent revenue share observed in 1996-97 is well above percentage shares in most other non-LDC countries (table 26). In 1995, taxes on international trade accounted for approximately 1 per cent of GDP in developed countries and Singapore, 6 per cent in Republic of Korea, 12-16 per cent in Malaysia and Thailand, and 24 per cent in other non-LDC African countries.

119. In light of the continuing reduction in the importance of tax revenues from international trade along with continuing trade liberalization, there is clearly a need for new sources of government revenues and/or reductions in expenditures in order to maintain a reasonable fiscal balance. This need was recognized in the budget speech 1997-98, read in June 1997, where the Government emphasized the urgent need to undertake a major reform of the indirect taxation system. Thus, the Government presented in Parliament on 26 May 1998 the “Value Added Tax Bill” to replace the 16 year-old sales tax. The VAT rate has been fixed at 10 per cent and became effective as from 7 September 1998. The Government has reported that all food products which were exempted from the sales tax will remain exempted under the VAT.

120. The introduction of VAT is criticized by opposition parties, trade unions, consumer societies and the private sector. Some consider VAT as regressive in its impact, having a larger relative effect on poorer as compared to wealthier persons. Also, it is pointed out that the tax would represent an increase of 100 per cent in indirect taxes over a period of two years (Weekend, 17 May 1998). And there have been sharp reductions in direct taxes over the past two decades with maximum income tax rates reduced from 65 per cent in 1980 to 35 per cent in 1985 and 30 per cent in 1991; and the corporate tax rate reduced from 55 and 65 per cent in 1980 to 35 per cent in 1984 with a 15 per cent rate in EPZ all along (Vision 2020).

121. It is not the place of the present report to comment on the types of revenues the Government should or should not be emphasizing. However, international experience suggests that such matters are best addressed and discussed with social partners.

122. Offsetting reductions in revenues from international trade by lowering social expenditures could entail risks. It is important that Mauritius maintains its enviable record as regards social welfare. This has been one of the hallmarks of Mauritius’ society and recent economic development. In this context, better targeting to help the poor would be appropriate. ¹ But

¹ One area where social expenditure in Mauritius is high and in some ways unusual is pensions. First, Mauritius provides a pension for all citizens at age 60, and this is unusual. Second, Mauritius’ population is ageing rapidly. Government projections estimate that the percentage of the population above age 60 years will increase from 8.5 per
it is important that Mauritius prepares for the future by improving its education system and its international competitiveness — as it plans to do. In this regard, it is worth noting that according to World Bank data for 1991-95, that while a substantial proportion of Mauritius’ government budget is spent on education, this is lower than in the dynamic Asian economies; conversely a much higher percentage is spent on social security and health as compared to the dynamic Asian economies (table 27). 

Social welfare state and social cohesion

123. Mauritius is referred to as a welfare state in government documents. Mauritius has free education, free health services and a free non-contributory old-age pension for everyone above age 60. There are also payments to the disabled, pensioned widows, orphans, destitute families with dependants, unemployed heads of low-income households, and low-income households; food aid for around one-quarter of all households as well as subsidized rice and flour prices (CSO, 1998, Economic indicators, Issue No. 265). Social expenditures have comprised approximately 40 per cent of government expenditures in recent years, with education responsible for approximately 17 per cent of expenditures, health for 8 per cent and social welfare for 19 per cent (with non-contributory pensions comprising around 70 per cent of social welfare expenditures) (CSO, 1998, Economic Indicators, Issue No. 265).

124. This emphasis on social welfare is necessary because political stability requires social cohesion in light of Mauritius’ ethnic and religious diversity in its small island setting. Unfortunately, many other countries with similar diversity have not had the good sense to follow such a policy objective.

125. As stated in the Government’s Vision 2020, it is likely that this concern for social welfare has also contributed to economic development:

Some people marvel that we have achieved so much economic success despite the “burden” of our welfare state. It can well be argued that in reality it was the other way around: we achieved economic success partly because of the strength of our welfare system. For it is the free education, social security and health and welfare services which have given us the high education levels, high health standards and above all the exceptional social cohesion which have underpinned our past economic development.

126. Despite this positive picture, there is concern over emerging social challenges facing the country. Vision 2020 mentions an array of societal breakdowns and other family problems which affect welfare, for example, drug addiction and drug trafficking, alcoholism, sexual assaults of females, muggings and attacks on the aged, burglaries, prostitution, domestic violence, divorces and suicides (Vision 2020, Vol. II, p. 1.10).
Child labour is not a major problem in Mauritius, and there is no evidence that sizeable numbers of children in Mauritius work in either hazardous/intolerable conditions or that any children work in export industries. This is in sharp contrast to the situation in the rest of Africa as this is the region with the highest incidence of child labour (ILO, 1998, Kampala).

On the other hand, there is some child labour in Mauritius according to both official government statistics (5.2 per cent of 12-14 year olds in 1995; CSO, 1997, Labour Force Sample Survey 1995) and ILO estimates (3.0 per cent of 10-14 year olds in 1995; ILO, 1997). In addition, according to CSO data (1997, Labour Force Sample Survey 1995), approximately 60 per cent of child workers worked more than 41 hours per week in 1995; there are areas where there is, relatively speaking, a concentration of child workers such as in Rodrigues where about 15 per cent of 10-14 year olds are reported to have worked in 1995.

It would appear that the little child labour which does exist at present in Mauritius is due in large part to the approximately 30 per cent failure rate for the CPE exam at the end of primary school (at approximately age 12). Government plans to extend compulsory education to nine years (see section I.B) should help to eliminate any remaining undesirable forms of child labour, which is important for avoiding social exclusion and improving international competitiveness.

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A recent multidisciplinary study on social exclusion, prefaced by the President of the Republic of Mauritius, also addressed precariousness and exclusion (Etude pluridisciplinaire sur l'exclusion à Maurice, 1997). The cumulative effects of different social risk factors as a result of industrialization and rapid economic growth have created this new phenomenon of exclusion in Mauritius which is characterized by the diminished capacity of individuals, families and groups to control risk and reduce its effects. Some of the problems of exclusion stem from the nature of the educational system which is very elitist and competitive. The high drop-out and failure rates are factors which contribute to reinforce social inequalities. The new modes of living which have developed as a result of industrialization have created new needs which in turn have led to the emergence of new forms of exclusion or facets of deprivation. In some cases ethnic boundaries and linguistic barriers may be perceived as contributory factors to social exclusion or societal prejudice, given that the Mauritian society is not homogenous (Etude pluridisciplinaire sur l'exclusion à Maurice, 1997).

Unemployment is again a problem in Mauritius (see section I.B), and this is recognized in the 1998-99 budget speech. Fighting unemployment and especially long-term unemployment should be a central policy objective of the Government, partly in order to avoid social exclusion. Whatever programmes or policies are followed to address unemployment (e.g. temporary assistance, public works, work/training programmes), it is important that active labour market policies are prominent such as enhancing the skills of unemployed persons so that they can effectively integrate back into the labour market.

Mauritius’ policy-makers need to remain vigilant regarding social exclusion as it affects social cohesion. It is thus important to address and monitor social exclusion in Mauritius through appropriate targeted policies, especially for groups which might be particularly prone to social exclusion in the more skill-demanding labour market of the future — such as disrupted families and female-headed households; outlying islands cut off from the development mainstream; unskilled workers with little education; traditional communities such as fisherfolk, etc.4

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III.B. Women, development and equity

130. Women have made an important contribution to Mauritius’ recent economic development, and in particular to the success of the EPZ. At the same time, considerable labour market inequality continues to exist between men and women in Mauritius.\(^5\)

131. There is clear evidence that women are becoming increasingly more qualified for the labour market — more qualified than men in some important aspects. For example, adult women and men are similarly qualified in terms of numbers of years of education completed; enrolment rates at secondary-school level are higher for girls than boys; girls have higher pass rates than boys in the competitive CPE, SC and HSC exams; a higher percentage of women workers have received training (top half, table 28). In addition, along with Mauritius’ successful population programme, women are marrying later and are having fewer children, which implies that women are in an improved position to accumulate labour force experience.

132. In contrast to women’s increasing labour market qualifications is their unequal position in the labour market. They had almost twice as high an unemployment rate as men in 1995 (13.9 per cent as compared to 7.9 per cent as reported in the 1995 labour force survey). Women are concentrated in a much more restricted set of occupations than men, and the sex segregation of occupations is relatively high in Mauritius as compared to other countries, including DAE (bottom half, table 28). For example, women are largely excluded from decision-making occupations, as indicated by the fact that women comprise only 18 per cent of administrative and managerial workers.

133. Women also receive much lower pay as compared to men. On average, female employees earned approximately two-thirds as much as male employees in Mauritius in 1995. It is noteworthy that the higher the percentage of women in an industry the lower the average earnings in the industry (graph 11). This relationship is quite strong and holds for the entire economy as well as within EPZ industries.\(^6\)

134. Policy-makers should redouble efforts to address problems of gender inequality in the labour market. Gender discrimination and inequality in the labour market represent inefficiency and rigidity — and by implication negatively affect international competitiveness. The notion that women are a marginal or reserve labour force (exiting the labour force when unemployment rises and entering the labour force when labour shortages appear) should not be accepted. Rather, efficiency and equity considerations dictate the need to better integrate women into the labour market by providing equal opportunities for women, such as reducing the sex segregation of occupations and eliminating glass ceilings.

135. There are many possible policies, programmes and approaches to improving this situation, such as enabling women and men to better combine work and family responsibilities (through, for example, improved childcare facilities); improving women’s labour market qualifications (through, for example, increasing the percentage of female students in the sciences and in universities); and increasing opportunities/reducing labour market inequalities and discrimination faced by women (through, for example, encouraging women’s entry into

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\(^5\) It is probable that reported female labour force participation in Mauritius is underestimated, since it is common for female labour force participation to be under-reported due to problems associated with the often ambiguous concept of labour force activity along with inadequate survey and/or census questionnaires and training (see Anker, Khan and Gupta, 1988). This possibility is raised in an analytical report published by CSO for the 1990 Population Census (CSO, 1994, Analysis report, 1990 Housing and Population Census of Mauritius, Vol. V III) which concludes that female labour force participation was under-reported and that a more correct adult female participation rate was approximately 37 per cent as compared to the reported rate of approximately 32 per cent.

\(^6\) Each 10 per cent increase in the percentage of females in an industry is associated with roughly a 10 per cent decrease in average earnings in the industry. Thus, for example, in construction and transport, storage and communications, where women comprise 12 and 25 per cent of workers, average hourly earnings are approximately twice those in the EPZ where women comprise 71 per cent of workers.
traditionally male-dominated occupations). Table 29 reproduces possibilities suggested in a recent ILO book on labour market equality in Nordic countries (Melkas and Anker, 1998). While each country needs to find its own solutions, ones which are acceptable in their country and culture, it is important that solutions are found.

III.C. Crossroads in development and trade: Challenges ahead

136. It is widely accepted that Mauritius has been a “success story” over the past two decades based on export-led growth. However, Mauritius can no longer depend on cheap and low-skilled labour to drive its exports and economy into the next level of development, or to provide a sufficient number of quality jobs for its people. It has become increasingly obvious since 1990 that employment growth in large export-oriented sectors is not creating sufficient employment and partly as a consequence Mauritius is increasingly facing an unemployment problem.

137. Against the above background, the Government has spelt out in its recent national long-term perspective study — Vision 2020 — its four-pronged strategy for the future. In the next 25 years, Mauritius aims to build its economy, in the first place, by defending and building on those industries which have already contributed to its development up to now, that is sugar, tourism and EPZ garment/textile industries, while at the same time adding a “fourth cylinder with the extra power to drive the economy forward into the next century”, by “providing high-tech offshore financial services for other countries in the region; providing high-tech computer services for world markets; and providing high-tech research and exploration services to make possible the exploitation of the mineral and energy resources of the country’s 1.8 m square kilometres economic exclusive zone (EEZ).” (Vision 2020, Vol. I, p.116.)

138. What follows is an assessment of sectoral priorities as conceived by the Government and indicated in Vision 2020. This discussion draws out implications of the Government’s strategy for employment creation.

Garments/textiles

139. At present, the challenge is how to forge a competitive edge. Mauritius can no longer compete with the emerging low-cost producers in Asia, Latin America and Central Europe based only on low costs, labour-intensive and low-skill production. One indication of this difficulty is the relocation of some firms’ least skilled operations to nearby Madagascar and labour-surplus countries in the Caribbean.

140. In addition, several preferential trade agreements expire early in the next century. The Multi-Fibre Agreement is expected to be dismantled by the year 2005, and the present Lomé Agreement is to end in 2000 (although negotiations began in 1998 on a successor Lomé Agreement).

(a) Challenges

141. Moving upmarket, with a special focus on the mid-market segment, will require skills upgrading and technology enhancement in order to be competitive and capable of making the most of the increased opportunities arising from trade openness and market growth. In order for Mauritian firms to compete successfully in mid-market segments, they have to face several major competitive challenges, such as: branching into higher value added products and increasing productivity and value added content of exports; supplying skilful and quality management; introduction of production scheduling and quality-control methods; shorter lead times for product delivery; carving niches in upmarket segments and building competence in skills and technologies.

142. EPZ firms need to improve capabilities in at least three broad areas. First, in cost accounting, inventory control and equipment maintenance in order to be able to cope with increased market segmentation, quick fashion changes and shorter production runs on export
markets. In this context, it needs to be emphasized that Mauritian firms are in a disadvantaged situation with respect to delivery times compared to competitors in Turkey, Cyprus, North Africa or the Caribbean. Secondly, in terms of better access to information technology, especially production control systems and in computer-integrated manufacturing, so as to provide management with timely information on plant operations. Thirdly, in human resource management systems, in view of high levels of absenteeism and labour turnover in the EPZ, and the insufficient management awareness of good international practice with respect to production organization and human resource management (International Institute for Labour Studies (IILS), February 1998, Draft paper).

143. It is worth noting that research and development (R&D) is only undertaken by some Mauritian textile groups on an ad hoc basis and apart from a few large knitwear firms, most tend to underutilize their IT equipment on a few routine office management techniques (National Development Plan, 1992-94).

(b) Human capital

144. Any attempt towards diversifying into new higher value added and skill-intensive activities requires new technologies, improved human capital and skill development. For example, managers, supervisors, technicians, and workers need to be retrained to adapt to new techniques and quick production changes. At the government policy level, new legislation has been introduced to promote the textile and clothing industry, and reinforcement of the spirit of regional cooperation is equally commendable at this juncture.

(c) Increased productivity, improved competitiveness and employment

145. Mauritius should be able to meet these challenges, taking into consideration its past performance and the fact that many garment/textile firms are investing and upgrading, through the adoption of modern management principles and innovative policies. However, this process has important implications for employment, as recent productivity increases have been accompanied by decreasing employment (which has fallen from 90,700 in 1988 to 81,300 in 1997 in large EPZ enterprises). It appears that Mauritius’ main source of new employment growth in the 1980s – garments and textiles — is now facing employment fatigue.

(d) Absenteeism

146. Absenteeism has a major effect on labour productivity, quality of output and ability of firms to meet product delivery schedules and in turn a firms’ competitiveness. This concern prompted the Government to commission a study in the late 1980s by the University of Mauritius to determine the levels and patterns of absenteeism, to inquire into its causes in various sectors of the economy, to look at possible impacts and to propose remedial measures in the EPZ (University of Mauritius, 1990). This was a period when labour productivity had fallen in the EPZ (see section II.D).

147. Three major findings of the study are worth mentioning here: (i) the average absenteeism rate among production workers of the EPZ was 9 per cent in 1990; (ii) larger establishments were prone to higher absenteeism rates — 30.4 per cent of small establishments, 35.1 per cent of medium-sized establishments and 51.7 per cent of large establishments had absenteeism rates equal to or in excess of 10 per cent; (iii) there was strong evidence of a positive association between labour turnover and absenteeism rates, suggesting that they were determined at least in part by the same causes (University of Mauritius, 1990). Given that ten years has passed

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7 The limited prospects for employment creation in the garment/textile sector is spelt out in Vision 2020: “The textile sector will and should remain an important pillar of our economy in 2020 although the number of people employed will continue to fall as a result of productivity improvement and gradual movement to the high-end market” (Vision 2020, Vol. II, p. 6.22).
Cane yield per hectare is one of the highest in the world. Mauritius also ranks among the ten leading sugar exporters in the world with annual production averaging 630,000 tonnes over the past ten years, supplying, as of 1994, as much as 70 per cent of the world market for special sugars. It also holds the largest sugar quota on the EU market among the ACP cane-producing countries. In addition, as a result of the signature of the ACP Special Preferential Agreement between the ACP sugar-producing countries and the European Union on 1 June 1995, in order to compensate for the EU refiners’ deficit, Mauritius will be able to access the EU market with an additional annual quota of 85,000 tonnes at a preferential price equal to 85 per cent of the ACP guaranteed price under the Sugar Protocol (Vision 2020, Vol. II, 1997).

since this study and that labour productivity has risen sharply in the EPZ in this time period, it is uncertain how this situation has changed since then. A follow-up study is warranted.

148. Overall, the main causes of absenteeism in the economy according to the 1992-94 National Development Plan — taking into consideration the wide variations of its manifestation among various sectors — are related to the quality of the working environment, excessive overtime work, unattractive perceived reward-to-effort ratios, greater preference for leisure in the work-leisure trade-off, abusive use of sick leave provisions, and personal and family reasons (National Development Plan, 1992-94). It seems that these causes are more prominent in the EPZ as compared to other sectors in the economy.

(e) Foreign workers

149. One way of compensating for absenteeism, and a high rate of labour turnover in Mauritius, has been the use of foreign labour (see section I.B). From the employers’ viewpoint, foreign workers are believed to be more productive than their Mauritian counterparts and so contribute to increased competitiveness.

150. Concerns have been raised about the plight of foreign workers by trade unions. Many foreign workers are said to live in unacceptable housing — overcrowded dormitories usually provided by employers. The right of foreign workers to organize, join trade unions or to freely engage in socio-cultural activities is said to be a problem according to trade unions. Some cases are also said to occur where contract provisions differed from employment conditions initially agreed upon by the expatriate before arrival (Free Democratic Unions Federation, 1996).

151. The Government has imposed restrictions on the number of foreign workers that factories are allowed and have limited the validity of work permits to a non-renewable three-year period (IILS, Draft paper, 1998). Nonetheless, the number of foreign workers in the manufacturing sector has increased virtually every year since 1990.

152. This juxtaposition of a deteriorating labour market situation and increasing numbers of foreign workers raises an important issue: whether the reasonably common use of relatively unskilled foreign workers for manufacturing jobs should be reduced, or whether Mauritius needs to employ sizeable numbers of such workers in order to maintain its competitive edge. This is a highly controversial issue as many employers feel that the foreign workers are more productive and more committed to work than Mauritius’ workers, whereas some trade unions feel that migrant labour perpetuates low wage industrialization in Mauritius. On the other hand, as Mauritius’ exports move upmarket to higher value added and skill-intensive products, lower skilled foreign workers will become less useful for employers.

Sugar

153. In order to increase productivity, the sugar industry has put in place a comprehensive support structure in terms of research, financing, investment, marketing and insurance. Employment in sugar has fallen in recent decades, and future prospects for employment in the sugar industry are not good. An indication of this situation is reflected by a recent agreement between sugar producers and trade unions which guarantees employment for present workers as well as acceptance of productivity improvements.

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Tourism

154. Mauritius has always emphasized “quality tourism”, consequently, the small size and limited resources of the country implies a capacity limit which respects environmental and cultural factors. The Government believes that “Beyond the limit of 700,000 tourist arrivals, ..., we will be developing at the expense of our natural environment, the visual quality of our coastal environment and the acceptability of local residents” (Vision 2020, Vol. I). Using the limit on tourist arrivals suggested in Vision 2020, it is possible to obtain a rough idea about possible job creation in the future in the tourist sector — which is estimated as an additional 11,400 directly and indirectly tourist-related sector jobs as compared to 1997.\(^9\)

155. There are ways to increase tourist-related employment (while maintaining Mauritius’ commendable commitment to environmental and cultural standards), such as: (i) increase the number of tourist arrivals beyond 700,000 while maintaining the environment (if this is possible); (ii) increase the number of days tourists spend in Mauritius (approximately 10.5 days on average at present); (iii) increase the multiplier effect of increased indirect employment creation through increased backward linkages into the local economy. The latter possibility would appear to be the most promising.

International services

156. The Government has identified international services as the “fourth cylinder” of growth into the next century (Vision 2020, Vol. II, p. 4.29). These services are expected to comprise three major areas: high-tech offshore financial services, high-tech computer services, and high-tech research and ocean exploration services. According to the Government, Mauritius can become a pole of attraction for these services to the southern African region, drawing on such assets as its political, economic and social stability, its educated labour force, and good infrastructural support and communication systems.

157. If this cylinder proves to be successful, it will create high-quality, high-paying jobs. But it is not obvious that a large number of such jobs will be created, especially in light of the relatively low percentage of Mauritians with a university degree (see section I.B) and the relatively developed nature of South Africa’s economy in these areas (see section III.D).

Towards an integrated economy — Linkages of small and medium enterprises to the rest of the economy

158. As indicated in section I.B of this report, small and medium-sized establishments provided an increasing percentage of employment in the 1990s.\(^11\)

\(^9\) For example, Mauritius does not allow charter flights.

\(^10\) This estimate is made using the following elements: (i) the ratio of the upper limit of tourist arrivals to number of tourist arrivals in 1997 (700/540 — 1.0); (ii) the number of persons directly employed in large hotel and restaurant establishments in 1997 (15,425); and (iii) the estimated number of persons indirectly employed in tourism in 1997 using a multiplier of 1.5 (CSO, Economic Indicators, No. 259 mentions above 1 as a multiplier and Vision 2020 mentions a multiplier of less than one). This gives an additional 11,400 tourism-related jobs [(700/540 — 1.0) x (15,425 + 15,425 x 1.5)].

\(^11\) There are official government definitions of small and medium enterprises. The Small Scale Industries Act of 1988 defines small-scale industries as those which employ up to 50 workers and are engaged in the manufacture, processing, or preservation of goods and services and whose investment in plant and machinery does not exceed Rs.500,000. The 1993 Small and Medium Industries Development Organisation Act took into account medium enterprises as well and defined SMEs as enterprises engaged in manufacturing and using production equipment which does not exceed Rs.5 million or such other sum as may be prescribed (SMIDO, Annual Report 1994/95).
159. Domestically oriented enterprises and export-oriented enterprises have differentiated incentive schemes. In general, incentive schemes for domestically oriented enterprises are not very important. There are development certificates (DCs), but these are allocated under exceptional circumstances, mostly for projects which are considered to be significantly important for the national economy.

160. In contrast, the Government has created a series of important incentive frameworks for export enterprises including the export processing zone (described above), and a separate export service zone (ESZ). All incentive schemes should be integrated in order to facilitate an efficient allocation of resources, and allow inter-sectoral linkages.

161. In the early 1990s, the Mauritius Chamber of Commerce and Industry recommended that the Government provide the same incentives to genuine domestic market enterprises as are given to the EPZ in order to provide a broader base for industrialization while maintaining the export-oriented economy (De Chazal Du Mée, Mauritius Chamber of Commerce and Industry in collaboration with the Mauritius-Munich Chamber Cooperation Programme, 1991). Recent policy instruments introduced by the Government reflect the above concerns and indicate that steps are being taken regarding development of SMEs. The Industrial Expansion Act of 1993 is a move towards achieving some rationalization of incentive schemes. SMIDO, which was established by the Small and Medium Industries Development Organisation Act of 1993, has among its major objectives the modernization of SMEs and their integration with the rest of the economy (SMIDO, Annual Report 1994/95).

162. Also, there are relatively few linkages between EPZ firms and the domestic economy. Backward linkages are constrained by a number of factors, the main ones being the small size of the economy and the inability of local supply of inputs to meet world standards requirements in terms of quality and timeliness. CMT (cut-make-trim) subcontracting, although common practice within the garment industry throughout the world has not developed for specialist operations in Mauritius as it has in other countries.

163. In terms of encouraging inter-industry linkages, the Government recognizes that greater product differentiation and higher value added can be helped by greater specialization, and economies of scale can be reaped through an integration at the sectoral level, with firms operating in clusters, each specializing in a specific function (1992-94 National Development Plan). Vision 2020 proposes a “Beehive model” of “full vertical integration” which would offer the opportunity to small and medium enterprises to benefit from economies of scale. The idea is for a few firms to be involved in the final assembly operations and marketing while establishing close working ties with a network of smaller supplying firms in spare parts, technologies and services. Similar emphasis is laid down in the 1998-99 budget speech to promote the development of SMEs and a number of measures have been announced along these lines including the setting up of a “National Entrepreneurs Bank” to cater for the specific needs of small and medium entrepreneurs and the

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12 Schemes include: export enterprises, pioneer status enterprises, strategic local enterprises, industrial building enterprises, modernization and expansion enterprises and small and medium enterprises.

13 According to the 1992 Census of Economic Activities (CSO, 1996), there were 126 large non-EPZ manufacturing establishments with development certificates and 21 with pioneer status certificates.

14 Unlike the EPZ where full foreign ownership is possible, foreign ownership in the export services zone (ESZ) is normally limited to 30 per cent.

15 The Commonwealth Secretariat, in a recent report on the export competitiveness of Mauritius, equally draws attention to constraints related to the absence of interdependent linkages among SMEs: “In Mauritius, SMEs, scattered around the island, do not constitute ‘industrial districts’ in terms of network characteristics. They tend to be isolated from each other — there is no division of tasks among them, no exchange of ideas, information, skills or goods, and no long-term relationships of co-operation and trust among entrepreneurs that can lead to specialization. They do not pool skills, knowledge, services and intermediate goods, and, partly as a consequence, suffer from high costs, risk, credit and marketing problems.” (Commonwealth Secretariat, 1998, p. 13.)
construction of industrial estates for SMEs which in the medium term will expand into “industrial
districts”.

164. It would seem that there is a consensus among the social partners about the need for an
integrated strategy which would bring the non-EPZ sector into the mainstream of the economy by
building up local linkages between smaller and larger firms. It is obvious, however, that this will
not be a simple matter to accomplish successfully.

Drawing together employment implications of four cylinders of growth

165. This section of the report has discussed future prospects for Mauritius in terms of
production and employment for its three main export sectors at present (EPZ large establishment
garments and textiles; large establishment sugar; tourism) as well as what the Government feels
will become its fourth cylinder of growth (financial and other services for the region). Graph 17
represents graphically export-related employment growth since 1982 in these four engines of
growth. It is clear that these four cylinders have not generated much additional employment for
almost ten years now, as increasing employment in tourism and financials has been largely negated
by decreasing employment in EPZ and sugar. There is little reason to believe that there will be
major new job creation in these four sectors as a group in the near to medium future — and not
enough to absorb Mauritius’ growing labour force, which is likely to increase by around 8,000 per
year in the next two decades (see section I.B).

166. One implication of this discussion is that substantial employment growth will need to
occur in other areas in order to accommodate labour force growth. Of course, this does not lessen
the importance of Mauritius increasing its productivity and competitiveness in its traditional export
sectors — as it has been doing in recent years. But, it does seem clear that a sufficient number of
good-quality jobs in the future will depend more on the following: (i) growth of small and medium-
sized firms rather than on growth of large establishments as in the past; (ii) increased backward
linkages between export sectors and the local economy; (iii) reform of the many incentive schemes;
(iv) diversification of manufactured export products; (v) up-skilling of the labour force, both
management and workers. As in the past, these efforts are more likely to succeed, the more closely
the Government works with the social partners.

167. The government strategy of up-skilling for workers as well as goods and services is
commendable. It is increasingly obvious to everyone in Mauritius that this is the only way forward
if Mauritius is to progress to the next level of development. The strategy in each cylinder is
correctly geared towards skills enhancement. Training to cater for specific needs, skill upgrading
and productivity improvement sustaining competitiveness are factors which will assume increasing
importance in virtually all economic spheres. Capacity-building in terms of human resource
development to assume better matching of skills with jobs in the economy, strengthening
technological capacity and institutional support need considerable attention in order to improve
competitiveness on the global market vis-à-vis major competitors. This also calls for the
development of quality products to satisfy the variety and ever-changing demand for higher value
added products.

168. However, as pointed out above, it is not clear how government strategy will play out
in the short run, as regards employment creation. Signs of this difficult, hopefully transition,
period, are already reflected in the labour market exemplified by rising unemployment in recent
years.

169. In the longer run, it is reasonable to assume that Mauritius’ substantial advantages will
assert themselves in international markets — such as political stability, qualified labour force,
excellent infrastructure and strong civil society, extensive tripartite consultation, good industrial
relations climate and strong business-government cooperation. In any case, Mauritius by necessity
must remain an open economy which depends heavily on exports and successfully competing in
the international market place, although increased diversification of products and markets will have
One of the main recommendations of the 1996 Commonwealth Secretariat report is that: "The regional market is less important to Mauritius than the global market but, with the reforms underway in South Africa and the impact these could have on the regional economy, this clearly is a market which should be nurtured" (Commonwealth Secretariat, Aug. 1996, p. 14).

170. There is little choice but to remain optimistic that Mauritius will find new products and new services which will be competitive on the international market, and that these will generate substantial employment. Who could have predicted in the late 1970s that Mauritius would have had so many garment and textile sector jobs in the late 1980s?

171. In the meantime, Mauritius may need to look anew at its concept of the social welfare state, without succumbing to the accepted new "wisdom" of many economists which is less than enthusiastic about the social welfare state. It is important that Mauritius continue to: avoid social exclusion among its people, provide free and quality education and health care, and involve the social partners in social and economic policy-making. In the short to medium run, this may require policies and programmes for example; this may involve increased employment creation and training to reduce unemployment.

III.D. Regional cooperation

172. Regional cooperation is being emphasized by the Government in part to promote diversification of markets for Mauritian products and as a source of investment. The underlying objective is to consolidate efforts in the region in order to face the challenges of an increasingly competitive international economic environment.

173. The 1998-99 budget speech indicates the importance the Government places on regional integration, with the following policies to be implemented: (i) deepening of regional integration of the economy through a stronger presence of Mauritian firms and product penetration in the region; (ii) encouragement of Mauritian capital in the region with the aim of generating a major new source of income, namely investment income; (iii) greater use of marine resources, which extend over 1.8 million kilometres in the Indian Ocean; and (iv) increasing the range of products of brain-intensive industries, to develop Mauritius into a major service provider to the region (Budget speech, 1998-99, pp. 20-21).

174. Today Mauritius entertains the prospect of becoming the Hong Kong or Singapore of the South African region, a hub which would service the neighbouring countries, in terms of industrial and financial services and know-how. This is seen to a significant extent as the basis for its fourth cylinder of growth in the future as discussed above.

175. Mauritius is a member of a number of regional organizations as indicated in section I.A. The private sector in Mauritius is keeping track of developments in the region and seems ready to exploit new business prospects. Mauritian companies are already present in Madagascar, Mozambique, Côte d’Ivoire and India, and are investigating opportunities in other countries of the region.

176. Investment opportunities exist in Mozambique. In 1997, the Government of Mauritius announced that an agreement would be signed with the Government of Mozambique to create a special economic zone (SEZ) of some 100,000 hectares in Mozambique, in the province of Sofala, which would allow the Mauritian business community to expand its activities offshore. The initial lease will be for a renewable period of 99 years. A committee has been set up to look into such

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16 One of the main recommendations of the 1996 Commonwealth Secretariat report is that: "The regional market is less important to Mauritius than the global market but, with the reforms underway in South Africa and the impact these could have on the regional economy, this clearly is a market which should be nurtured" (Commonwealth Secretariat, Aug. 1996, p. 14).
issues as investment sourcing, financing, and infrastructure, and to identify priority sectors. It has been estimated that in less than 15 years the SEZ output would be equivalent to as much as 15 per cent of the GDP of Mauritius (Industry Focus, No. 32, May-June 1997). “A Memorandum of Understanding in the fields of agriculture and fisheries” has already been signed between Mauritius and Mozambique. In addition “a consortium of Mauritian firms is finalizing, primarily on its own initiative, the acquisition of another 80,000 hectares of land in Mozambique for development projects. One thousand hectares of these lands will be reserved by the promoters for Mauritian small and medium enterprises” (Budget speech 1998-99, pp. 21-22).

177. With a view to giving additional impetus to these initiatives, the Government has proposed to grant a “special incentive certificate to companies investing in member countries of SADC, COMESA, IOC and IOR-ARC”. In addition, “a regional development certificate will be granted to companies which hold at least 35 per cent of the equity in an approved regional development project and repatriate all dividends received from their investment in the region” (Budget speech, 1998-99, p. 22).

178. The SADC Trade Protocol provides a framework for the liberalization of trade in the SADC region. It can allow Mauritian suppliers to penetrate the southern African market and diversify exports and export destinations. This applies in particular to apparel/textiles products which face barriers at present in South Africa in particular. However, the non-EPZ sector will become exposed to greater competition from South Africa, although it could be argued that more openness would enhance firms’ competitiveness by encouraging the upgrading of technology, improving quality and productivity and producing higher value added products.  

179. The question remains how far Mauritius has benefited, or is likely to benefit, from these new arrangements. A second interrogation mark relates to the extent to which private-sector operators are doing their utmost to reap the benefits offered by intra-regional trade. A third question is the ability of Mauritian SMEs producing for the local market to compete with South African enterprises and consequently possible short- and medium-term adjustment difficulties.

180. It is an excellent idea to aspire to be the Singapore of the southern African region, to become the services centre or hub for the southern African region, thereby creating a substantial number of high-paying service sector jobs. It is another matter for Mauritius to rely too heavily on this fourth cylinder, since it is uncertain how successful this strategy is likely to be. One must keep in mind that as compared to the Asian region: (i) the Southern African region is not nearly as dynamic economically, nor as developed in financial services or information/technology; and (ii) that South Africa has itself well-developed financial and information services sectors, thereby reducing the need for a separate regional financial services hub. In addition, as discussed in section I.B, it is important to recall that Mauritius will need to improve its educational system and in particular increase the number of high-skilled university graduates if this fourth cylinder is to succeed.

17 Other regional initiatives being encouraged include the SUBEX Fair which is part of a regional programme involving the main economic operators coming from the Indian Ocean region, namely, Mauritius, Comoros islands, Madagascar, Réunion and Seychelles; and TECHMART Africa, which is an international business forum to promote direct contacts between project promoters and technology seekers, particularly from Egypt, Ethiopia, Ghana, Kenya, Mauritius, Namibia, Uganda, Zambia and Zimbabwe, and foreign investors and technology suppliers from developed and developing countries (Industry Focus, No. 32 May-June 1997). There is also the Mauritius Offshore Business Activities and the Mauritius Freeport Authority. The former was set up in July 1992 to attract investment in offshore activities and to provide a one-stop shop for interested parties. The Authority is the centre and the channel through which all public sector agencies act in business matters. The only exception is offshore banking activities, which are governed by the Central Bank.
III.E. Concluding remarks

181. This concluding section contains some general observations on Mauritius’ experience and challenges as regards the social dimensions of globalization. The executive summary in the beginning of this report presents a more complete description of study results and conclusions.

182. There is little doubt that Mauritius’ success in recent years was due in large measure to globalization. Employment, foreign direct investment and value-added grew very rapidly in export-oriented sectors such as garments and tourism, and this helped stimulate economic growth and reduce unemployment. Mauritius benefited from being an early entrant to the globalization game, as out of necessity Mauritius has always been an open economy. Mauritius also benefited as a destination in the 1980s for considerable Hong Kong garment investment seeking alternatives in case of difficulties with the transfer of sovereignty to China in 1997, as well as countries which wanted preferential entry into industrialized markets. Being an early entrant to trade liberalization made it easier for Mauritius to gradually introduce trade liberalization and, as a result, import-competing manufacturing sectors suffered relatively little dislocation.

183. To a substantial degree, Mauritius’ ability to take advantage of trade opportunities is due to social and political factors. Mauritius presents a welcoming environment for foreign investment in part because of its functioning democracy and stable political and industrial relations atmosphere with some tripartite consultations. This welcoming environment can, in turn, be traced to Mauritius being somewhat of a self-confessed welfare state which has emphasized social cohesion and human capital investments in health care and education.

184. The future is less certain. The economic path which helped Mauritius become an upper middle-income country is reaching a limit. Mauritius needs to adapt to new realities and develop more skill-demanding export goods and services than at present.

185. The Government’s development strategy for the future, laid out in its recent Vision 2020 publication, is outward looking with an emphasis on export-oriented sectors of the economy. Several aspects of this strategy are discussed in this report which are uncertain at present. There will be a need for a renewed infusion of foreign direct investment with its accompanying package of management, technology and marketing skills and international connections, outside of the traditional sectors of garments/textiles and tourism. There may arise a shortage of highly skilled workers such as for information technology, as, while Mauritius has a reasonably well-educated population, it is weak in tertiary education. It is uncertain how important the envisaged role for regional trade will become, partly because the southern African region is not one of the most dynamic in the world. It is not obvious how easy it will be to encourage development of small and medium-sized enterprises and increase linkages between smaller and larger enterprises.

186. In the meantime, however, Mauritius may be in the early stages of a difficult and hopeful transitory period to a higher development level, characterized by increasing uncertainty among enterprises, rising unemployment, and possibly increasing inequality and social exclusion in society. It would be wise for Mauritius to address difficult social, economic and labour issues now, while economic growth is high, rather than waiting and being forced to take hard decisions at a later date when macroeconomic conditions are less favourable.

187. Since social welfare policies and programmes as well as social cohesion and stability are among Mauritius’ greatest assets, this implies that during this transition period, policies should address and avoid as much as possible social exclusion and long-term unemployment as well as assist small and medium-sized enterprises where an increasing number of workers are earning their livelihood. At the same time, Mauritius needs to take into consideration new economic and labour market conditions by, for example: reforming labour laws and regulations adaptable to the constantly changing social and economic environment to help ensure that social dialogue assumes increasing importance; reducing gender inequalities in the labour market; and collecting new and timely labour and social data. Successfully meeting these challenging pressures should be possible
if tripartite dialogue and participation in decision-making is stressed. It is important that Mauritius does not lose sight of its strengths and uniqueness while competing in the global economy.
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Appendix

Labour market and social dimension information needs for the future

1. Mauritius has a well-established and credible statistical system which publishes in a timely fashion a wide range of statistics in annuals and special issues/reports.

2. Despite this, there are important lacunae in labour markets and social dimensions data. The present system of labour market and social dimensions information needs to be developed further — in order to better reflect the changing labour market and social conditions in Mauritius, which is partly due to globalization. For example at present, labour market information in Mauritius is too heavily dependent on data from large establishments. Poverty data do not exist.

3. There is a need for more frequent labour force surveys. The latest labour force survey was conducted in 1995. For earlier labour market data, one is dependent on population censuses. It will be increasingly important in the future to have up-to-date labour force and labour market data. Unemployment (which is now estimated/projected each year based on information from other sources such as employment in large enterprises and registration at unemployment service centres) is becoming a problem in Mauritius. It is important to have recent unemployment statistics which are directly measured in surveys as in other countries, and to know which groups are unemployed for a long time, since long-term unemployment is an indicator as well as a cause of social exclusion. It is also important to measure more regularly labour market aspects which are likely to take on greater significance in the future, especially those which measure insecurity among workers and affect productivity (e.g. labour turnover, precarious employment, hours of work, multiple jobs, part-time employment, etc.). These types of labour market data are best collected using labour force or household surveys. Censuses are not cost-effective for collecting labour force and labour market data. In addition, censuses are not well suited for collecting accurate labour force and labour market data, because their large size makes it very difficult to maintain data quality. Establishment data do not easily allow an analyst to relate labour market data to household characteristics, nor do they allow one to measure or analyse certain labour market phenomena such as multiple jobs, unemployment or previous employment.

4. There is a need to measure poverty on a regular basis and identify groups of household persons with relatively high poverty rates. First, in light of the fact that the Government budget is increasingly under pressure, greater targeting of expenditures toward the poor may become necessary in the future. This would require detailed and up-to-date data on poverty. Second, it is critically important that Mauritius avoids social exclusion among its people, and good poverty data would enable policy-makers to identify problem groups needing to be assisted. A simple first step would be to use available income and expenditures surveys to measure poverty. For monitoring/measuring poverty on a more regular basis, it would be necessary to conduct a regular poverty-oriented household sample survey, and/or institute appropriate rapid assessment data collection systems which are being increasingly recommended as a less costly alternative (Bilsborrow, Anker and De Graff, 1998).

5. There is a need for more frequent surveys of small establishments or instituting a small establishment data collection system, as the latest small establishment survey was in 1992. Not only has the number of workers in small establishments been increasing rapidly in recent years, but in addition these workers are probably poorer and encounter greater problems with regard to working conditions and job insecurity. Also, small and medium enterprise development programmes are more likely to be successful when they are based on recent data which reflect the problems and high mortality rates of SMEs.

6. There is a need for special and/or ad hoc surveys and studies. Some possibilities are briefly described:
   — CSO has difficulty believing responses to the questions measuring unemployment from the latest labour force survey and census. An ad hoc survey together with qualitative investigations of the nature and meaning of responses to unemployment questions and concepts would be useful.
   — Studies and surveys focusing on survival strategies and social exclusion of poor households would be useful for policy-makers.
   — A study of women’s labour market aspirations and difficulties is important. As pointed out in this report, women have greatly increased in recent decades their labour market commitment and qualifications; despite these changes, women still face discrimination and occupy an unequal position in the labour market. Policy-makers need information on how best to increase gender equity and improve labour market efficiency.
— A survey investigating working conditions in the EPZ would be useful. The most recent survey on this by the University of Mauritius dates back to the 1980s.

— Measuring and analysing the skill/preparation requirements of the work in different occupations would be useful. While it is generally accepted that Mauritius needs to up-skill its labour force to compete successfully in the global economy, as pointed out in this report it appears that Mauritius’ export products at present do not fully take advantage of the reasonably high educational and skill level of its workers.

— A survey investigating labour-related problems in export-oriented enterprises which might be affecting productivity would be worthwhile. For example, absenteeism and labour turnover associated with poaching deserve attention, as they affect international competitiveness.

— Studies of small enterprises and the informal sector are recommended. An increasing number of workers are here, and this implies a need for better documentation and understanding of their situation.

— Longitudinal and panel surveys would provide valuable statistics and contribute to an improved understanding of important issues which are longitudinal in nature, such as social exclusion, labour turnover and labour/occupational mobility. One common sampling approach uses an overlapping, rotating sample design where a certain percentage of households or individuals are replaced each new survey round.

Unemployment estimates

7. The Task Force found three different published series for unemployment. These unemployment rates are reported in section 1.B in table 9 and graph 7.

(i) There are unemployment estimates based on records from unemployment service centres of unemployed persons who register for assistance. The main advantage of this data source is that it is the only annual data series which is available for the 1970s and 1980s. Its main disadvantage is that, as in other countries, this type of data source is known to underestimate unemployment (as it identifies only a subset of the unemployed).

(ii) There are unemployment rates based on information provided by individuals in response to questions from the 1990 census and the 1995 labour force survey. The main advantage of this type of source is that it provides an estimate of unemployment according to the internationally accepted definition of unemployment (i.e. an unemployed person must have been without any work in the reference week, and say that they have been available for work and have actively looked for work in the reference week in response to survey or census questions). This unemployment rate for 1995 is reported in the 1997 ILO Yearbook of Labour Statistics. Actively seeking work by going to an employment service centre (see (i) above) is only one way to look for work; for example, only 17 per cent of those reported as unemployed in the 1995 labour force survey had registered with an employment exchange (CSO, 1997).

(iii) There are official government unemployment rates. These differ from (i) and (ii) above. For 1990 (census year) and 1995 (labour force survey year), after analysing results, CSO adjusted the reported unemployment according to the internationally accepted definition of unemployment (see (ii) above) downward — by roughly one-half — as explained in CSO (1994) and CSO (1997) (although a detailed explanation of the reasons for this adjustment for the 1990 census was not provided to the Task Force’s knowledge). The rationale given for making a downward adjustment for 1995 was that many persons reported as unemployed in the 1995 labour force survey according to the international definition of unemployment (i.e. persons without work, available for work and actively searching for work) were not felt by CSO to be unemployed. CSO reduced the number of persons reported as unemployed in the 1995 labour force survey according to the international definition in the following manner:

— Unemployed first-time jobseekers who were actively searching for work for more than one year were excluded from the unemployed. (They comprised 21 per cent of those reported as unemployed.) One-half were assumed to be employed in work which they did not report in the survey and one-half were assumed to be inactive (i.e. out of the labour force). The stated rationale for these adjustments was the feeling that first-time jobseekers in Mauritius could not have been unemployed for more than one year unless their employment expectations were unrealistic and unreasonable; perhaps CSO felt that these persons responded to the interviewer in this way in the hope that they would receive benefits from the State.

— Unemployed persons who resigned or retired from their last job were excluded from the unemployed. (They comprised 21 per cent of those reported as unemployed.) One-half were assumed
to have been employed in work which they did not report in the survey and one-half were assumed to be out of the labour force.

— Unemployed married men (not unemployed married women) who were laid-off from their previous job were excluded from the unemployed. (They comprised 7 per cent of those reported as unemployed.) They were assumed to have been employed in work which they did not report in the survey.

8. Explained above is how official government unemployment rates were estimated for 1990 and 1995. For other years in the 1990s, official government estimates appear to be based on extrapolations from the official unemployment rate based on data from the 1990 population census (for 1991-94) and from the 1995 labour force survey (for 1996-present) after taking into account in some way information on registered unemployment at employment service centres and employment creation in large establishments in these other years. For the 1980s, official government unemployment estimates appear to be based mainly on registration data from employment service centres.

1. It may be appropriate for policy-makers to decide that certain groups who are reported as unemployed according to the international definition of unemployment based on survey or census questions do not warrant policy attention and so should not appear in the official unemployment statistics (e.g. perhaps older persons who have never been in the labour force who say that they have been unsuccessfully looking for work for years). However, as far as unemployment statistics are concerned, this implies that more than one unemployment rate should be reported, since the unemployment rate based on the internationally accepted definition should in any case be reported. For example, first-time jobseekers who have been unemployed for over one year (who have been deleted from the official unemployment statistics in Mauritius as noted above in paragraph 6(iii)) are common among the unemployed in other countries. In Egypt, where the unemployment rate was reported to have been 10.8 per cent in 1995, 96 per cent of those reported as unemployed were first-time jobseekers with an average unemployment duration of 42 months (Radwan, 1998). As noted above in this appendix, Mauritius would benefit from: (i) more frequent labour force surveys and consequently more regular direct estimates of unemployment; and (ii) focused studies of responses to, and the meaning of, typical unemployment-related survey questions in the Mauritian context.

2. In summary, Mauritius needs to develop further its labour market and social dimensions information data collection and dissemination. Given the excellent staff and proven track record of CSO, there is little doubt that the outcome will be a more relevant and useful system. The ILO could be requested to provide valuable technical assistance to CSO in this regard.