TRADE POLICY REVIEW

MAURITIUS

Report by the Government

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by the Government of Mauritius is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the meeting of the Trade Policy Review Body on Mauritius.
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INTRODUCTION

1. Small with a land area of approximately 1865 sq. kilometres and densely populated (1.19 million inhabitants in 2000), Mauritius is situated in the Indian Ocean between latitudes 19°05’ and 20°30’ south and between longitudes 57°18’ and 57°46’ east, far from its major markets and suppliers of raw materials. Until 1970 a monocrop economy, exporting sugar only, Mauritius has diversified its economy but it still depends heavily on trade to sustain its economic and social developments. The manufacturing, tourism, sugar and financial services sectors are the four main growth pillars of the economy.

2. The country faces a number of challenges emanating in particular as a result of changes taking place at the international level. Multilateral trade liberalisation process emboldened by the advent of the World Trade Organisation has led to a decline in the preferential margins of Mauritius on its traditional markets and has exposed the economy to global competition.

3. The problem of Mauritius, besides the more demanding external economic environment is also exacerbated by the vulnerability emanating from the country’s situation as a small island developing one. Indeed as a Small Island Developing country, Mauritius is constrained in its development by a number of factors characteristic of these countries, including:

   - remoteness and insularity – Mauritius is located far from its major markets;
   - susceptibility to natural disasters. The Island is located in a region frequently affected by adverse climatic conditions such as cyclones and droughts;
   - limited diversification due to a very narrow resource base and small domestic market; the country's production and export bases are heavily concentrated on a limited number of products;
   - access to external capital – the size of the internal market and rising production costs which are characteristics of SIDs impede capital inflows and consequently limit growth prospects.

4. The economic development prospects of the country will depend on its ability to adjust to the changing economic environment through modernisation, technological innovation and economic diversification. However, without secure and enhanced preferential access to markets, assistance to meet adjustment costs and to improve competitiveness, it would be difficult for Mauritius to meet the challenges of globalisation.

I. ECONOMIC DEVELOPMENT OF MAURITIUS 1995-2000

5. The annual real growth rate of Gross Domestic Product (GDP) at basic prices rose from 5.6% in 1995 to 6.2% in 1996 and then fell to 5.6% in 1997. GDP growth rose to 5.8% in 1998, fell to 2.1% in 1999 and increased to 8.9% in 2000. The low figure of GDP growth in 1999 was due mainly to the severe drought and cyclone experienced by the country.

6. The average annual growth rate over the period 1995-2000 was 5.7% per annum. The decline in growth rates occurred in all sectors with the exception of manufacturing and construction. The highest annual growth rate in 2000 was attained by agriculture at 28.4%, followed by the hotels and restaurants at 11% and the manufacturing sector at 8.3%. Construction and electricity, gas and water sectors recorded growth rates of 8%.

7. International trade witnessed an upswing in the total value of trade (imports and exports), increasing from Rs 61.7 billion in 1995 to Rs 89.8 billion in 1998 and to Rs 95.8 billion in 2000. Foreign trade recorded an average nominal growth rate of 9.5% during the period 1995-2000. The
trade deficit deteriorated from Rs 7.0 billion in 1995 to Rs 9.7 billion in 1998, increasing by almost Rs 3 billion.

8. 1997, the sharp increase in trade deficit (Rs 12.4 billion) was mainly due to imports of machinery and transport equipment, specially imports of aircraft and marine vessels amounting to Rs 3.7 billion. The trade deficit in 1998 was lower than that of 1997 due to nearly 19% increase in exports value as against about 8% increase in imports. In 1999, the country’s trade deficit worsened to Rs 16.6 billion since the growth of exports turned negative against a 13.8% growth in imports. The trade deficit was Rs 13.7 billion in 2000.

9. The total labour force was estimated at 542,000 in 2000 foreign and local combined, representing the country’s economically active population for the production of goods and services. This comprised 527,400 Mauritians and 14,600 foreign workers. The latter accounted for around 2.7% of the total labour force in Mauritius. In 2000, over 54.8% were employed in large establishments including central and local Government and 37.4% in small establishments including the self-employed. The unemployment rate increased from 5.1% in 1995 to 5.5% in 1996 before shooting to 5.9% in 1997. It stood at 5.9% in 1998 and rose again to 6.7% in 1999 and to 8.0% in 2000.

10. In the past five years, Mauritius continued to pursue its commitment to structural reform and efficient resource allocation with emphasis on manufactured exports, reducing dependence on sugar and stimulating the services sector.

1.1 Main Productive Sectors

Agriculture

11. The agricultural sector’s contribution to GDP declined from 9.3% in 1995 to 5.8% in 1999. Employment in agriculture dropped from 70,000 to 51,600 over the same period, decreasing the sector’s share in total employment from 13.7% in 1995 to 10.4% in 1999.

12. Sugar is the main component of the agricultural sector and it will remain so, in the near future. Fluctuations in sugar output over the period 1995-2000 were essentially due to weather conditions prevailing on the island. Output dropped from 628,588 tonnes in 1998 to 569,289 tonnes in 2000. It is expected to be 640,000t in 2001.

13. The sugar industry is still an important economic player, although it has been overtaken by the manufacturing sector both in terms of export earnings and employment. The sugar industry plays a key multifunctional role in rural areas. In addition, it provides some 20 to 25% of the electricity demand of the country through the use of bagasse.

14. Mauritius has an ACP quota of 507,000 tons of sugar with the European Union under the Sugar Protocol and 12,000 tons with the U.S. In June 1995, Mauritius benefited from an additional quota of 85,000 tons for the period July 1995 to June 2001 under the Special Preferential Agreement.

15. Sugar revenue increased steadily from Rs 6.3 billion in 1995 to Rs 8.0 billion in 1998 but fell to Rs 6.1 billion in 1999. This was due to changes in output and in the price of exports. The sugar price obtained in the European Union, the most important export destination, has been frozen since 1990. The share of the sugar industry in the total GDP was around 7% in 1999 compared to 25% in the early 1970s and sugar exports represented around 22% of total domestic exports in 1999.
16. The Sugar Sector is today at a cross road due to the difficulties it is facing as a result of developments taking place in the international markets in particular the LAMY initiative. Already, the initiative has culminated in a reduction in the quota of Mauritius under the SPS Agreement. It should also be emphasized that the freeze in the price of sugar and reductions in support mechanisms in the context of further liberalization of the agricultural sector in the EU, would have far reaching implications for the sector.

17. Government, cognizant of its responsibilities, has come forward with a major reform programme which calls for a reduction in cost of production of 45%, a reduction in the number of sugar industries, an optimal use of biomass, a more efficient and judicious use of lands and water resources and the development of R & D to fully tap the benefits of the forthcoming quantum leaps in respect of biotechnology and cane biomass.

18. The contribution of the fisheries sector to GDP at factor cost decreased from Rs 305 million in 1995 to Rs 220.5 million in 1999, representing only 0.2% of the country’s GDP for 1999. The total estimated employment in the sector was about 5,500 in 1999.

19. Mauritian exports of food and live animals, excluding cane sugar, equalled Rs 1.7 billion compared to Rs 6.8 billion of imports of same in 1999, indicating a net food import of Rs 5.1 billion in that year.

Manufacturing sector

20. The manufacturing sector comprises sugar milling, all production activities meant for the export market, the Export Processing Zone (EPZ) and the non-EPZ sector catering for the domestic market. The manufacturing sector recorded an average annual real growth rate of 6.0% during the period 1995 to 2000.

The Export Processing Zone Sector

21. The EPZ sub-sector which recorded double digit growth between 1984 and 1988, grew by an average annual rate of 6.2% over the period 1995 to 2000. The value-added at current prices increased by Rs 5.4 billion over the same period to reach Rs 12.5 billion in 2000.

22. The share of the manufacturing (mainly production of textile and clothing) sector in the economy has constantly been increasing following the rapid development of the EPZ sector. EPZ exports increased from Rs 18.3 billion in 1995 to nearly Rs 31.2 billion in 2000. EPZ production is dominated by textiles and garments which accounted for 88% of total EPZ employment and 86% of EPZ export earnings in 2000. The main market of EPZ products is the European Union, accounting for 67% of all exports in 2000. Exports to the U.S. increased from Rs 3.9 billion in 1995 to Rs 7.9 billion in 2000.

23. EPZ activities are highly concentrated in the manufacture of textile products and in terms of markets. They are thus prone to various adverse effects on the international market. EPZ enterprises face numerous challenges at the dawn of this new century such as demand fluctuations in the U.S. and European markets, shortage of qualified labour on the local market and maintaining the international competitiveness of Mauritian products in the context of increasing trade liberalisation.

24. In order to remain competitive, EPZ companies have been delocalising their low-cost activities to neighbouring countries like Madagascar whilst right-sizig their value-added activities in Mauritius in the past few years and this trend is likely to continue in the future.
25. Increasingly, EPZ companies have to adjust to just-in-time delivery systems which places Mauritius at a disadvantage because it is far from its supply and market sources. There is also the need to tap high quality niches where competition is more on quality than on quantity and where prices are rather inelastic. This will require massive investment in technology, high fashion, high design, highly skilled labour and innovative techniques which will enable Mauritius to decrease its labour intensity.

Services Sectors

Tourism

26. The tourism industry has been one of the most dynamic sectors of the Mauritian economy, contributing 4.1% to GDP in 1995 and it is expected to reach 5.5% in 2001. The tourism sector experienced an annual average growth rate of 9.8% over the period 1995 to 2000. As at March 2000, the tourism sector provided direct employment to around 18,600 people in the travel and tourism industry, restaurants and hotels. The induced and indirect multiplier effect on employment, estimated by the World Bank to be 2.0, brings employment in tourism and tourism-related sectors at about 37,000 in 2000.

27. Tourism is the second largest gross foreign currency earner after the EPZ sector. Gross tourism receipts have grown from Rs 7.5 billion in 1995 to Rs 14.2 billion in 2000. Tourist arrivals reached over 650,000 in 2000 and are expected to reach 700,000 in 2001. Gross receipts are expected to be of the order of Rs 15.5 billion in 2001. The share of tourist arrivals from European countries has constantly been increasing from 57.8% in 1995 to 67% in 2000. Government is actively promoting the handicraft sector to increase tourist spending in the country.

Financial Services

28. The international financial services sector such as offshore business, freeport activities, fund management, stock exchange, insurance, etc has emerged as a vital contributor to the Mauritian economy. The necessary synergy among the sub-sectors is being created to meet the increasing demands of a modern trading environment and to generate more value-added. With an annual average growth rate of 10.0% over the past three years, its contribution to GDP will reach an estimated 8.2% in 2001.

29. The Stock Exchange Act 1988 established a formal stock exchange in Mauritius. It is operated and managed by the Stock Exchange of Mauritius Limited (SEM). The Central Depository System and Settlement (CDS) System in which all listed companies are registered establishes a fully computerized depository and settlement service in compliance with G-30 standards. The promotion of the SEM from the status of Corresponding Exchange to that of Affiliated Securities Market recognises the progress towards international standards. The Automated Trading System has been recently introduced. The stock market is open to foreign listings and investments by foreign nationals and institutions.

30. The success of the offshore sector has been built primarily on the opportunities which Mauritius provides, such as its expanding double taxation treaty network, its strategic location and its membership to the main regional trading blocs. In 2000, the value added generated by the offshore sector accounted for 2.0% of GDP.

31. In less than ten years, the offshore sector has attracted the elite of the multinational banks and investment companies and is providing extensive international services ranging from asset holding, international trading, fund management, captive insurance and aircraft leasing. An Economic Crime
and Anti-Money Laundering Bill has also been passed to prevent and combat malpractices and promote Mauritius as a clean and credible international business centre. A Financial Services Development Act has been passed to carry out an integrated form of regulation and supervision of financial services in Mauritius.

Mauritius Freeport

32. The Freeport sector which was launched in 1992 aims at promoting Mauritius as a trading, marketing and distribution hub in the region. Activities carried out in the Freeport are geared towards the warehousing of goods and their re-export to neighbouring countries, after bulk-breaking and minor processing. In 2000, Freeport traffic was around 8,000 TEU containers for a turnover of Rs 9.4 billion.

Telecommunications

33. High quality and efficient telecommunication facilities are offered throughout the country and the data communication network is the second largest of its kind in the whole African continent. With a tele-density of 24% and a 100% digital network, the country is set to offer one of the best telecommunications facilities in the region. Mobile telephony subscription is at 120 per 1000 and is growing at a fast pace. The SAFE project whereby a submarine fibre optic cable will link South Africa with Malaysia via Mauritius will be operational in October 2001. This project will provide high-speed connectivity up to 80 gigabits boosting opportunities for e-commerce for the country. Internet that was introduced as from March 1996 on a commercial basis today reckons some 35,000 subscribers with well over 150,000 end-users. The internet service provider (ISP) market is today open, and new ISP licences are being granted to propagate the use of Internet. The Telecommunications Act 1998 makes ample provision for the regulation of the Telecommunications sector. Under this Act the regulator which is the Mauritius Telecommunications Authority has been provided with extensive powers to ensure a fair competition in the sector. The legislation is being reviewed in the context of the convergence of Information and Communication Technologies.

Information Technology

34. The Government is pursuing its efforts to create a more favourable climate for foreign investments; for both the individual and corporate investor. At the international level the Government is using all means, political, economic and diplomatic, to secure market access and investments. At the national level the Government is committed to improving the legal and administrative framework to offer appropriate propriety protection, hassle-free implementation and attractive packages of incentives.

1.2 Important trends in Balance of Payments, debt, exchange and interest rate

Balance of Payments


36. The current account balance was relatively volatile, recording surpluses in 1996 and 1998, and deficits in alternate years. As a percentage of GDP, the current account deficit was equivalent to about 2.2 per cent when it peaked in 1997. A recurring feature in the period 1995 to 2000 was the surplus registered in the services and current transfers accounts, while the merchandise and income accounts remained in deficit throughout. The deficit in the merchandise account was to a large extent
attributable to the rapid growth of imports, as a result of the sustained strength in domestic demand, which outpaced the growth in exports amid a not too favourable external environment. The acquisition of aircraft and marine vessels during the period under review also had an adverse impact on the merchandise account. The services account balance invariably posted significant surpluses in the period 1995 to 2000, mainly due to robust growth in gross tourist earnings.

37. The latter was consistently higher over the period following successful promotional campaigns, which saw the number of tourist arrivals rise from 422,463 in 1995 to 656,453 in 2000, and heavy investment on the supply side to upgrade existing, as well as increased room capacity. Throughout the period, current transfers recorded a net increase on the back of positive net private inward remittances, while the balance of the income account, weighed down mainly by the interest payments on external debt, was negative.

38. The overall balance of payments, after registering a surplus in 1995 and 1996, recorded a deficit in 1997 and 1998. It again posted a surplus in 1999 and 2000. Foreign direct investment (FDI) in Mauritius, net of outward FDI, increased steadily from Rs 262 million in 1995 to Rs 610 million in 1996 and, further to Rs 1,097 million a year later. In 1998, as a result of important Mauritian investment in the region, net foreign direct investment flows turned negative with outward FDI exceeding inward FDI by Rs 37 million. In 1999, FDI in Mauritius picked up again to reach Rs 1,243 million and FDI recorded a net inflow of Rs 1,081 million. In 2000, FDI in Mauritius amounted to Rs 7,265 million largely as a result of the partial sales of Mauritius Telecom to France Telecom and direct investment recorded a net inflow of Rs 6,932 million.

39. Portfolio investment in Mauritius, which reached Rs 3,059 million in 1995, slowed down to a net amount of Rs 625 million in 1996. However, this pattern was reversed in 1997 with portfolio investment recording a net outflow of Rs 1,393 million partly due to Mauritian funds taking advantage of more attractive investment opportunities abroad. A year later, aided by Mauritian disinvestment abroad, portfolio investment recorded a net inflow of Rs 358 million. In 1999, portfolio investment recorded a net inflow of Rs 581 million and in 2000, portfolio investment recorded a net outflow of Rs 3,274 million largely as a result of redemption of the remaining FRN. Table 1 below gives a summary of the main components of the balance of payments accounts over the period 1995 to 2000.

Table 1
Balance of Payments Summary

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<tbody>
<tr>
<td>Current Account</td>
<td>-380</td>
<td>610</td>
<td>-1,874</td>
<td>79</td>
<td>-3,301</td>
<td>-805</td>
</tr>
<tr>
<td>Goods</td>
<td>-4,182</td>
<td>-5,846</td>
<td>-9,181</td>
<td>-6,335</td>
<td>-13,063</td>
<td>-10,267</td>
</tr>
<tr>
<td>Services</td>
<td>2,371</td>
<td>5,166</td>
<td>4,997</td>
<td>4,773</td>
<td>7,744</td>
<td>8,549</td>
</tr>
<tr>
<td>Income</td>
<td>-332</td>
<td>-789</td>
<td>-372</td>
<td>-637</td>
<td>-594</td>
<td>-747</td>
</tr>
<tr>
<td>Current Transfers</td>
<td>1,763</td>
<td>2,079</td>
<td>2,682</td>
<td>2,278</td>
<td>2,612</td>
<td>1,660</td>
</tr>
<tr>
<td>Capital and Financial A/c</td>
<td>-1,478</td>
<td>776</td>
<td>244</td>
<td>833</td>
<td>-1,440</td>
<td>-1,489</td>
</tr>
<tr>
<td>Capital A/c</td>
<td>-19</td>
<td>-14</td>
<td>-11</td>
<td>-19</td>
<td>-12</td>
<td>-16</td>
</tr>
<tr>
<td>Financial A/c</td>
<td>-1,459</td>
<td>790</td>
<td>255</td>
<td>852</td>
<td>-1,428</td>
<td>-1,473</td>
</tr>
<tr>
<td>Of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserve Assets</td>
<td>-1,895</td>
<td>-859</td>
<td>646</td>
<td>1,476</td>
<td>-4,803</td>
<td>-6,415</td>
</tr>
<tr>
<td>Net Errors and Omissions</td>
<td>1,858</td>
<td>-1,386</td>
<td>1,630</td>
<td>-912</td>
<td>4,741</td>
<td>2,294</td>
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</table>
External Debt

40. Total outstanding external debt increased from Rs 23,808 million at end June 1996 to Rs 27,955 million at end June 2001 representing an average annual increase of 3.6 per cent. This was mainly due to increase in the stock of external debt of parastatal bodies as well as the appreciation of major international currencies vis-à-vis the domestic currency. Total outstanding external debt of Central Government declined from Rs 9,159 million at end June 1996 to Rs 6,900 at end June 2001 on account of the repayment of the Floating Rate Notes (FRN) amounting to Rs 3,125 million (USD 117 million) in October 2000. Outstanding private sector external debt also decreased from Rs 4,445 million to Rs 3,234 million over the period under review. Table 2 provides an institutional breakdown of total external debt.

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<tr>
<td>Central Government</td>
<td>9,159</td>
<td>9,666</td>
<td>10,752</td>
<td>10,037</td>
<td>9,891</td>
<td>6,900</td>
</tr>
<tr>
<td>Parastatal</td>
<td>10,204</td>
<td>11,536</td>
<td>14,997</td>
<td>16,901</td>
<td>15,592</td>
<td>17,821</td>
</tr>
<tr>
<td>Private Sector</td>
<td>4,445</td>
<td>4,208</td>
<td>3,946</td>
<td>3,516</td>
<td>3,284</td>
<td>3,234</td>
</tr>
<tr>
<td>Total</td>
<td>23,808</td>
<td>25,410</td>
<td>29,695</td>
<td>30,454</td>
<td>28,767</td>
<td>27,955</td>
</tr>
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</table>

Source: Ministry of Finance.

Exchange Rates and Interest Rates

41. Between 1995 and June 2001, as shown in Table 3, the Mauritian rupee depreciated against almost all its major trading partners’ currencies, except the South African rand. The rupee lost 31.2 per cent vis-à-vis the Pound sterling, 37.2 per cent against the U.S. dollar, 19.1 per cent against the Japanese yen, 8.0 per cent vis-à-vis the French franc, and 4.5 per cent against the deutsche mark. However, it gained 32.5 per cent against the South African rand.

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<tr>
<td>GBP</td>
<td>28.2451</td>
<td>30.9888</td>
<td>34.7188</td>
<td>40.0203</td>
<td>40.9579</td>
<td>39.9911</td>
<td>41.0562</td>
</tr>
<tr>
<td>ECO/EU</td>
<td>23.248</td>
<td>24.934</td>
<td>24.012</td>
<td>27.228</td>
<td>27.001</td>
<td>24.396</td>
<td>25.617</td>
</tr>
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42. This was largely due to the re-orientation in the Bank's monetary policy, which aimed at imparting greater stability to the exchange value of the rupee through a substantial increase in nominal interest rates. As a result rupee-denominated assets became more attractive – for instance, the yields on short-term Government of Mauritius Treasury Bills, which had hovered within a range of 9.36 to 9.87 per cent on average between 1995 and 1998, rose significantly to 12.69 per cent in 1999. The Bank also took measures to mop up excess liquidity in the domestic money market by setting Treasury Bills over-the-counter to the public and non-financial corporations. The hike in nominal interest rates in 1999 in conjunction with the declining domestic inflation rate, amid falling interest rates abroad, resulted in a higher interest rate differential in favour of the Mauritian rupee to major
currencies. The period average interest rate on short term Treasury Bills in Mauritius for the years 1995 to 2000 and for the six months ended June 2001 are given below.

Table 4
Short-term Treasury Bill Rate (Period Average) (per cent)

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<tbody>
<tr>
<td>Mauritius</td>
<td>9.80</td>
<td>9.46</td>
<td>9.36</td>
<td>9.87</td>
<td>12.69</td>
<td>10.82</td>
<td>9.91</td>
</tr>
</tbody>
</table>

*Source:* Bank of Mauritius.

II. TRADE POLICIES AND PRACTICES

2.1 Trade Policy Objectives

43. The major thrust of economic and trade policy in Mauritius is the establishment of a thriving competitive modern society with a high level of economic growth, situated within a dynamic international environment, providing opportunities to all Mauritians with the ultimate objective of increasing the standard of living and improving the quality of life.

44. This objective is expected to be achieved to a considerable extent through a liberal economic and trade policy. The strategy of openness, underpinned by outward looking trade policies and practices is aimed at allowing Mauritius to become a competitive trade partner and to integrate itself in the world trading system.

45. In this respect Mauritius intends to initiate actions both on the local and the external fronts as appropriate. On the internal front the thrust of policy making will be on the consolidation and expansion of the industrial and services bases through:

- a business environment in which individual firms can build on their competitive advantage and not shelter from competition;
- addressing systematic problems and impediments to industry development and development of the services sector;
- building competitiveness by adopting appropriate policies in the area of education, training, human resource development, industry relations and taxation;
- adoption of a coordinated approach between industry and the environment to ensure sustainable development;
- improvement in infrastructure, acquisition of up to date technology and technology support to the industrial and the services sectors;
- improvement in the flows of FDI, in its industries and services sectors; and
- development of clusters and industrial diversification.
On the external front, policy formulation would be aimed at:

(i) consolidating the trade relations of Mauritius with the EU under the Cotonou Agreement and in the context of the Economic Partnership Agreement yet to be negotiated;

(ii) consolidating the trade relations of Mauritius with the U.S., especially in the context of the Africa Growth and Opportunity Act;

(iii) participating actively in the work of the World Trade Organisation. While on the one hand the WTO philosophy of free trade would influence trade policy formulation in the goods and the services sectors, the concerns of Mauritius as a small vulnerable Island Developing Country would also be flagged so that provisions are made to effectively address these concerns;

(iv) playing a more prominent role in regional blocks with a view to expanding the economic space of the country through the adoption of a regional industrial development strategy;

(v) adopting a more proactive approach to trade on non-traditional markets.

2.2 Domestic Laws and Regulations Governing the Application of Trade Policies

Consumer Protection Act (Price and Suppliers Control) Act 1998

46. Exports are governed by regulations made by the responsible Minister under “The Consumer Protection Act (Price & Supplies Control) Act 1998”. Exports of almost all items are conducted freely except for a few controlled items for which export permits are required prior to effecting exports.

Legal Metrology Act

47. The Act was passed in 1985 to make better provision for the assizing of instruments, weights and measures and the protection of the public in relation to the sale of articles by weight or measure.

48. The Act and allied Regulations were last amended in 1994. The Legal Metrology (prepacked commodities) Regulations also came into force in July 1994.

Intellectual Property Rights

Patents Act of 1875 as subsequently amended up to 1983

49. The Patents Act provides for the issue of patents, which confer on the patentee sole and exclusive privilege by himself, executions, administrators or assigns to make, or use the invention in Mauritius and to authorise others to do so.

The Trade Marks Act 1868 as amended up to 1993

50. The Trade Marks Act provides for the registration, renewal, transfer, cancellation, assignment and publication of a mark.
51. A Central Industrial Property Office has been established since 1994 for the administration of patents and trade marks.

**The Customs Act and the Customs Regulations**

52. The Customs Act 1988 defines the legal regulations for the import and export of goods and lays down the framework for the administration of the department. It is regularly amended through the Finance Act to strengthen the provisions against fraud and fiscal evasion and, also, to facilitate trade.

53. In 1999, the Act was also amended to provide for the introduction of the WTO Valuation Agreement.

54. In 1997, amendments were made to the Regulations for the operations of computer system using EDI application.

**The Customs Tariff Act 1969**

55. No major amendment has been made to the Act. Amendments to the schedules of the Act which provide for the rates of duty are effected through regulations made by the Minister. The Department is at present applying the 1996 version of the Harmonised Commodity and Description System.

**Rules of Origin**

56. To benefit from preferential tariff treatment, goods originating in a scheduled territory must be covered by a certificate of origin issued by a Chamber of Commerce or visaed by a Government Authority in that Scheduled territory, specifying that the final process of manufacture has taken place therein and that it contains at least 50% of labour, material and other manufacturing cost originating in that scheduled territory. Imports from COMESA, SADC and IOC require a proper Certificate of Origin in accordance with the Rules of Origin criteria set out in the respective Protocols to enjoy preferential treatment.

**Trade Facilitation**

57. Mauritius has streamlined its Customs clearance procedures by adopting the Single Goods Declaration. It has also introduced Electronic Data Interchange (EDI) technology which permits speedy removal of goods within Trade Net and EDI application linking businesses and the public sector.

**The Excise Act 1994**

58. The Excise Act 1994 which replaced the Excise Act 1947 provides for the levy of an excise duty on a few selected items, namely alcohol and spirits, cigarettes, motor cars and petroleum products, both at importation and on local manufacture.

**The Industrial Expansion Act 1993**

60. Following the enactment of the Mauritius Accreditation Service (MAURITAS) Act No. 23 of 1998, consequential amendment was brought to Section 40(3) of the Industrial Expansion Act 1993 by deleting paragraph (b) with regard to the National Accreditation System.

61. Two Regulations have also been made with respect to the Industrial Expansion Act 1993:

(a) GN No. 18 of 1998 to increase the aggregate CIF Value of production equipment used by small and medium enterprises from Rs 5 million to Rs 10 million.

(b) GN No. 146 of 1999 to amend the Third Schedule of the Industrial Expansion Act.

The Freeport Act

62. The Freeport Act 1992 which lays down conditions for the operation of Freeport activities has just recently (17 July 2001) been replaced by new legislation. The new Freeport Act redefines the respective roles and responsibilities of the regulatory body and private stakeholders, strengthens the supervisory provisions and lays the foundation for ensuring a level-playing field in the sector.

Value Added Tax

63. A Value Added Tax (VAT) was introduced in Mauritius on 7 September 1998 in replacement of the Sales Tax on goods. The law relating to VAT is contained in the Value Added Tax Act 1998 and the Value Added Tax Regulations 1998. The VAT is a broadly based ad valorem tax which is chargeable on the supply of goods and services in Mauritius including the Island of Rodrigues; and on the importation of goods and services into Mauritius. The tax applies to supplies made by a taxable person in the course of furtherance of any business unless they are specifically exempted by law. There is a single rate of tax of 12 per cent.

Legislation under preparation

64. A number of legislation has already been drafted and is currently being finalised for adoption by the National Assembly. These are:

(i) The Industrial Property Bills which englobe patents, trademark, industrial design, layout design of integrated circuit;
(ii) The Competition Bill;
(iii) The anti-dumping, safeguard and countervailing measures Bill.

2.3 Multilateral and Regional Agreements

GATT and the WTO

65. Mauritius joined the General Agreement on Tariffs and Trade in 1970. In 1994, it signed the Marrakesh Agreement and became a founding member of the World Trade Organisation.

Regional Agreements

The ACP-EC Partnership Agreement

66. Mauritius was a signatory to the Lomé Convention between 70 African Caribbean and Pacific (ACP) States and the EC which lasted for 25 years and which ended in 2000. The Lomé Convention proved to be an essential instrument in the economic development and industrial diversification of the
country as it provided duty and quota free access to the EU Market. A new EU/ACP Partnership Agreement has replaced the Lomé Convention and provides for the rollover of the Lomé trade preferences for another eight years. Subsequently a WTO Compatible Economic Partnership Agreement yet to be negotiated between the ACP and the EU will operate as from the year 2008.

**Abuja Treaty on African Economic Community (AEC)**

67. The Abuja Treaty, of which Mauritius is a signatory, came into force in 1994. The treaty provides a framework to achieve regional integration at continental level by consolidating the over fifty national economies into a single common market through a phased approach spanning over 34 years. The first phase which aimed at strengthening the existing regional economy lasted for a period of five years and ended in 1999. The treaty has now entered its second phase which will last for eight years.

68. The focus of this phase will be on the gradual elimination of tariff and non-tariff barriers and the setting up of FTA’s region wise.

**COMESA**

69. The Common Market for Eastern and Southern Africa (COMESA) was established in 1994 as a replacement to the former Preferential Trade Area (PTA) which had existed from the earlier days of 1981. It has at present 20 members.

70. A Free Trade Area (FTA) now operates in the COMESA region as from October 2000. COMESA also envisages the establishment of a Common External Tariff by the year 2004. So far the rates of duty proposed are as follows:

- Raw Materials – 5%
- Capital goods – 0%
- Intermediate goods – 15%
- Final goods – 30%

**The IOC**

71. Mauritius is a founding member of the Indian Ocean Commission (IOC), created in 1984. It also comprises the Comoros Islands, France through Reunion Island, Madagascar and the Seychelles. The EU is the major funding partner in the various projects/programs of the IOC. The IOC, with the financial support of the EU, has established a regional project, "Programme Regionale Intégré de Developpement des Echanges" (PRIDE) with a view to dynamising intra-IOC trade and providing support to the private sector. Accordingly, the four IOC Member-States belonging to the ACP group, are committed to eliminate tariff and non-tariff barriers on reciprocal basis. So far, Mauritius and Madagascar are already applying 100% tariff reduction between themselves.

**SADC**

72. The SADC Protocol on Trade was signed in August 1996 by 11 member states, including Mauritius. In broad terms, this protocol aims at the establishment of a Free Trade Area (FTA) within a period of eight years from its entry into force. The Protocol became operational in February 2000 with effective tariff phase down as from 1st September 2000.

73. In this context members have agreed to reduce their tariff on a linear basis taking into account the different levels of development of members. Liberalisation is being carried out on the basis of the
variable geometry approach. Tariffs on about 85% of intra-SADC trade will be liberalised within a period of eight years (i.e 2000 – 2008) whilst the remaining 15% will be eliminated around year 2008 to year 2012.

IOR-ARC

74. Mauritius is a member of the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) which is a platform of economic cooperation among countries of the Indian Ocean basin at inter-continental level. However, the IOR-ARC has not yet elaborated a framework for tariff liberalisation. It is currently focussing on the development of the business sector and on trade facilitation projects.

GSP Schemes

75. Mauritius is a beneficiary of the generalized system of preferences (GSP) Schemes of Canada, Finland, Japan, New Zealand, Norway, Sweden, Switzerland, USA, the EU, the Republic of Bulgaria, Czech Republic, Hungary, Poland and Russia.

2.4 Trade Related Measures

Sanitary and Phytosanitary Measures

76. Sanitary and Phytosanitary Measures conditions are in compliance with the provisions of the WTO Agreement on SPS and are based on scientific evidence. Mauritius fully recognises pest free areas and work as per qualified standards recommended by the FAO/WHO Codex Alimentarius and the International Plant Protection Convention (IPPC). Decisions taken on SPS Measures are transparent. Mauritius is currently in the process of harmonising its regulations with its trading partners. An inquiry point has been set up at the Plant Pathology Division of the Ministry of Agriculture which is responsible to disseminate information and prepare notifications on SPS.

Technical Barriers to Trade

77. Standardisation, testing, type approval are in full conformity with the WTO Agreement on TBT. The Mauritian Standard Bureau Act 1993 has been amended in June 1999 to increase the period of one month allocated for public comment on draft standard, proposed amendment, withdrawal or revision of a standard. The amendment provides for a 60 days period to submit comments.

78. The MSB has notified acceptance of the Code of good practice for the preparation, adoption and application of standards to the ISO/IEC Information Centre.

79. The Bureau prepares a work programme for two years for each of its ten standards committees, which is reviewed every year and submitted to the standards council for approval.

2.5 Investment Measures

Measures applicable to the Manufacturing Sector

80. Mauritius is a small economy with little land and no other natural resources. Prior to the seventies its only export was sugar and it was highly dependent on imports. Diversification of the economy became imperative in order to redress the deteriorating balance of payments situation and
high unemployment rate. Consequently the country had no other alternative than to diversify its production base through the manufacture of other products.

81. Investment incentives were granted to the manufacturing sector since 1964 under the Development Incentives Act and subsequently under the Export Processing Zone Act of 1970. These legislations were consolidated and new schemes introduced in the Industrial Expansion Act.

82. Under the Industrial Expansion Act of 1993 the following categories of enterprises were granted tax incentives certificates by the Ministry of Industry, Commerce, and International Trade (until March 2001 when BOI (Board of Investment) took over) after approval of their applications by Cabinet, on the basis of recommendations made by an Industrial Development Committee:

- export Enterprises – those manufacturing for export;
- pioneer Enterprises defined as those undertaking activities involving technology and skills that will enhance the industrial and technological development of the country;
- strategic Local Enterprises defined as those producing for the local market and promoting the industrial and technological advancement of the country;
- modernisation and Expansion Enterprises – those investing in production machinery involving automation, computer applications or anti-pollution technology;
- industrial Building Enterprises for construction of buildings of a minimum floor space of 1000m2 for use of a manufacturing enterprise;
- small and Medium Enterprises defined as those investing in production equipment up to a maximum c.i.f. value of Rs 10 million.

83. Investment incentives have been largely harmonized across sectors of activities. The main incentive, a reduced 15 per cent corporate tax rate, is no longer restricted to holders of the above-mentioned tax incentive certificates but applies to all enterprises in the manufacturing sector (except manufacturers of cigarettes and alcoholic beverages). Other incentives include duty exemptions on imported raw materials, tax remissions on acquisition of immovable property and free repatriation of profits and dividends. At the request of Government, UNCTAD is currently carrying out a comprehensive review of the various fiscal incentive regimes.

2.6 Pioneer Financial Services Scheme

84. The Pioneer Financial Services Scheme was set up in 1997 under the Development Incentives (Pioneer Financial Services) Regulations 1997.

85. The aim of this scheme is to promote specialised financial institutions providing new services and products such as foreign currency and portfolio management, options and futures instruments, factoring and actuarial services but excludes any activity falling under the Banking Act. This scheme is also designed to facilitate the transfer of know-how so as to develop and build up local expertise in these highly sophisticated activities.

86. The Pioneer Financial Services Development Certificate is issued to companies providing one or more of the pioneer financial services and having a minimum paid up capital of Rs 200,000/-. The certificate is valid for a period of five years as from the date on which the companies start their operations.
87. Companies holding Pioneer Financial Services Development Certificate are granted the following incentives:

- Corporate tax at 15%;
- Customs duty concession on importation of equipment on such terms and conditions as may be approved and

Expatriate staffs benefit from:

- 50% reduction of income tax liability;
- Customs duty free purchase of car not exceeding 1850cc (limited to 2 members of the staff);
- Customs duty free purchase of household effects as may be approved.

III. EXTERNAL ECONOMIC ENVIRONMENT

3.1 Implementation of the U.R. Agreement

88. With a view to adopting a consistent approach to policy making in the area of international and regional trade and following a recommendation from the Commonwealth Secretariat, a Trade Policy Unit was set up in 1996.

89. The unit is responsible, *inter alia*, to shape the negotiating position of Mauritius, ensure implementation of obligations contracted out under Multilateral and Regional Agreements, coordinate all matters relating to International and Regional Trade, prepare for the periodic trade policy reviews of Mauritius and maintain a watching brief on WTO issues. A Standing WTO Coordination Committee chaired by the Minister responsible for international trade has also been set up comprising representatives from the public and private sectors to guide on the general policy orientation relating to International Trade.

90. In order to assess the level of compliance of the Mauritius trade regime with the WTO Agreements, a study was commissioned on the matter, the objective of which was to:

(i) examine Mauritius trade regime from the perspective of the country’s WTO obligations;
(ii) identify those aspects of the regime that were not in compliance; and recommend actions to rectify the unambiguous instances of non-compliance.

91. All the legislation of Mauritius whether directly or indirectly related to the Mauritius Trade Regime were scrupulously examined and all non-compliant measures identified. Following the publication of the report a number of corrective measures have been initiated to address the problems; these are detailed below.

**Tax and Tariff Rationalisation**

92. Mauritius has over the last five years brought major reforms in its tax system with a view to providing a more effective fiscal policy instrument for the management of the economy. The Income Tax Act 1995 which replaced the Income Tax Act 1974, consolidated the fundamental changes brought to income tax legislation since 1974.

93. As regards indirect taxation, the White Paper on Indirect Taxation published in May 1997 set the framework, direction and strategy for the reform. It aimed mainly at rationalising and
streamlining the tax systems as well as bringing it in conformity with established international norms and practices.

**Tariff Structure**

94. In June 1994 significant changes were brought to the tariff structure. The rates of duty which varied from 0% to 600% was reduced to 0% to 80%, and the number of tariff bands was reduced from 60 to 8.

95. The 1997 White Paper on Indirect Taxation sets out clearly the need for reform of our customs tariffs. In particular, a number of weaknesses were identified, namely:

- high dependence on customs duties;
- tariff structure not consistently graduated according to the degree of processing of goods;
- high level of effective protection;
- proliferation of exemptions and concessions;
- preferential tariff regimes.

96. Steps and measures have been taken in successive budgets since then to either eliminate or minimise those weaknesses. The phased approach adopted was motivated by the need to give local enterprises time to adjust to the new environment as well as due to budgetary constraints.

*1999/2000 Budget Speech*

97. In June 1999, customs tariffs were reduced on more than 500 items, including the abolition of customs duties on industrial machinery and equipment.

*2000/2001 Budget Speech*

98. The external tariff reform was further intensified in June 2000. Customs duty on raw materials on more than 1,300 items were abolished. In addition, customs duty on a number of hand tools and laboratory equipment were also eliminated.

99. Government moved a step forward with a view to removing the discrimination between the tariff charged on goods imported from scheduled and non-scheduled territories. Thus, the additional duty of 20 percent applicable on goods attracting customs duty of 80 percent originating from non-scheduled countries was abolished. Moreover, the additional customs duty of 20 percent which was applied to goods originating from non-scheduled countries attracting duty 55 percent was reduced to 10 percent.

*2001/2002 Budget Speech*

100. In June 2001, customs duties on various industrial inputs as well as on specialised spare parts for production equipment were abolished.

101. With the on-going customs tariff reform, the customs tariff structure has changed significantly over the past five years. In June 1999, about 28% of the tariff lines did not attract duty. In June 2001, that figure has increased to 55%. Furthermore, only 18% of the tariff lines attract customs duty of 55% and 80%. As a result, average customs duty collection on imports has declined considerably. It currently stands at around 6 per cent compared to 12 per cent at June 1995.
102. The reform will prepare the local enterprises to start an early preparation to meet the daunting challenges of trade liberalisation under WTO as well as within SADC and COMESA.

**Customs Valuation**

103. A new set of criteria for the valuation of goods for duty purposes has been adopted as from the 1st January 2000. The Customs Tariff Act 1988 was amended to provide for the appliance of the new rules and procedures for the determination of customs value of goods, in accordance with the World Trade Organisation Valuation Agreement.

**Excise Duties**

104. As mentioned in the White Paper on Indirect Taxes, in spite of the 1994 reform, the excise taxation still contained major flaws. For example, the tax base and rates of excise duties for the same product differed significantly, whether it was imported or produced locally.

105. Since then, a number of steps has been taken in each budget to remove the various anomalies and inconsistencies existing in excise taxation and bring it closer to established international norms. In 1997, excise duty was removed on such inputs as leaf tobacco. In 1998, the 47% duty imposed solely on imported furniture was abolished. Over the period, the gap in the rates of duty between imported and locally-produced excisable goods has been considerably narrowed.

106. In the June 2001 Budget Speech, in the context of an acceleration of the excise duty reform programme, the differentiated rates of duty applicable to importation of cars from scheduled and non-scheduled territories have been harmonized. The basis of taxation for both cigarettes and alcoholic beverages has also been harmonized.

**Value Added Tax**

107. The cornerstone of the reform of the indirect tax system has been the replacement of 8% sales tax by 10% VAT on 7 September 1998. It has increased to 12% in the 2001-2002 budget.

108. Sales tax was introduced on 10 January 1983 at a rate of 5% and it was raised to 8% on 1 June 1996. It was a tax on the sale of goods and was chargeable up to the wholesale stage only. The Sales Tax system taxed both input and output, thus eroding the competitiveness of goods produced locally. This flaw is removed with VAT as entrepreneurs and investors are able to recoup VAT paid on all the input used for the production of taxable goods and services, be it raw materials, office supplies, services, office building or machinery and equipment and capital expenditure, thus lowering their cost of production.

109. The invoice-based VAT is levied on any supply of goods and services made in Mauritius (including Rodrigues) by a registered person in the course of carrying his business, except for those supplies that are specifically exempt or zero-rated. It is charged on the value of the supply at each stage of the production/distribution chain up to the retail level. Like Sales Tax, VAT is also levied on imports at the time it is cleared from customs.

110. Enterprises having an annual turnover exceeding Rs3 million should register themselves with VAT Department. Those having turnover below Rs3 million may opt for voluntary registration.
Income Tax

111. Various provisions of the Income Tax 1995 have been amended in each successive Finance Acts, including those relating to the rates of taxation. Thus, the top marginal rate of personal income tax has been lowered from its 1995 level of 35 per cent to 25 per cent in stages and the number of tax bands reduced from 4 to 2. Likewise, the maximum rate of corporate income tax has been brought down from 35 per cent to 25 per cent. In the process, the tax incentive rate of 15 per cent has been extended to virtually all the sectors of the economy.

Government Finance

112. In spite of the introduction of VAT in 1998 and the various increases in excise rates since 1995, Government budgetary position has continued to be weak. Overall budget deficit which stood at 6.1 per cent of GDP at June 1996 and improved to 3.8 per cent at June 2000 shot up again to 6.5 per cent at June 2001.

113. The main cause for the deterioration in the budgetary situation is the decline in the buoyancy of the taxation system. At June 2001, tax receipts in terms of GDP were only 15.8 per cent, down from 18 per cent in the preceding year, wiping out the adjustment efforts made on the expenditure side and bringing government finance back to its June 1996 position. As shown in Table 5, the various tariff reform measures implemented over the period have been translated into a very significant loss of government revenue. Yield from customs tariffs in terms of GDP has thus steadily declined from 5.7 per cent in fiscal year 1995/96 to 2.7 per cent in 2000/01. Such loss has not been offset by the higher receipts generated from domestic taxes on goods and services, through successive increases in rates.

Table 5:
Evolution of Budgetary Aggregates (Since FY 1994/95)
(As a % of GDP)

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<td>18.0</td>
<td>20.6</td>
<td>20.9</td>
<td>21.3</td>
<td>21.3</td>
<td>18.2</td>
<td>19.0</td>
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<tr>
<td>A1</td>
<td>Total tax revenue</td>
<td>15.5</td>
<td>17.1</td>
<td>17.1</td>
<td>17.3</td>
<td>18.0</td>
<td>15.8</td>
<td>16.2</td>
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<td>a</td>
<td>Customs duty</td>
<td>5.7</td>
<td>5.7</td>
<td>5.7</td>
<td>4.9</td>
<td>3.7</td>
<td>2.7</td>
<td>2.6</td>
</tr>
<tr>
<td>b</td>
<td>Excise duties</td>
<td>2.5</td>
<td>2.7</td>
<td>2.8</td>
<td>2.6</td>
<td>4.4</td>
<td>3.9</td>
<td>3.8</td>
</tr>
<tr>
<td>c</td>
<td>VAT/Sales Tax</td>
<td>1.8</td>
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<td>3.0</td>
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<td>d</td>
<td>Other taxes</td>
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<td>5.7</td>
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<td>5.0</td>
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<td>A2</td>
<td>Total non-tax Revenue</td>
<td>2.5</td>
<td>3.5</td>
<td>3.8</td>
<td>4.0</td>
<td>3.2</td>
<td>2.4</td>
<td>2.8</td>
</tr>
<tr>
<td>B</td>
<td>Total expenditure</td>
<td>24.1</td>
<td>26.0</td>
<td>24.8</td>
<td>25.5</td>
<td>25.1</td>
<td>24.7</td>
<td>25.5</td>
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<tr>
<td>B1</td>
<td>Capital expenditure</td>
<td>4.4</td>
<td>4.9</td>
<td>3.7</td>
<td>4.2</td>
<td>4.3</td>
<td>4.0</td>
<td>5.7</td>
</tr>
<tr>
<td>B2</td>
<td>Recurrent expenditure</td>
<td>19.7</td>
<td>21.1</td>
<td>21.1</td>
<td>21.3</td>
<td>20.8</td>
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<td>C</td>
<td>Budget balance (A-B)</td>
<td>-6.1</td>
<td>-5.4</td>
<td>-3.8</td>
<td>-4.2</td>
<td>-3.8</td>
<td>-6.5</td>
<td>-6.5</td>
</tr>
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</table>

114. In the budget presented in June 2001, additional revenue adjustment measures have had to be taken, mainly an increase from 10 to 12 per cent in the VAT rate. However, with the backlog of investment in public infrastructure investment following the adjustment efforts of preceding years, the capital budget is expected to climb to 5.7 per cent of GDP. As a result, the overall budget deficit is expected to remain at the same level as in the preceding year, namely 6.5 per cent of GDP.
Other measures taken to implement the U.R. obligations include:

- harmonisation of tax incentives for virtually all the sectors of the economy;
- introduction of a new Copy Right Act in 1998 which incorporates the requirements of the TRIPS Agreement and the Berne and Rome Conventions;
- a WTO Compatible Legislation on Industrial Property comprising Patents, Trade Marks, Industrial Design, Geographical Indications, Lay Out design of integrated circuits and the protection against unfair competition have also been drafted.

115. In addition to these, a number of measures have also been taken to pursue the trade liberalisation process. These include the accession of Mauritius to the Agreement on Information Technology with commitments to completely dismantle tariffs on IT and Telecom products by the year 2005, liberalisation commitments in financial services, and telecommunications, scaling down/removal of duties on a whole range of products, abolition of domestic support provided to the tea sector.

3.2 External Trade Environment – Implications on some sectors of the economy

(i) Textiles and Clothing

116. The exclusive nature of the trade regime of Mauritius based mostly on contractual arrangements has been under pressure since the coming into force of the Marakesh Agreement. The dismantling of the Multifibre Arrangement under the Agreement of Textiles and Clothing would gradually subject Mauritian exports to the EU to greater competition. The preferences available to the textiles and clothing sector under the Lome Convention and now through the roll over of the preferences under the Cotonou Agreement are very extensive and are useful in conferring a competitive advantage.

117. The Lome Convention has therefore been instrumental in the development of the textiles and apparel sectors in that it provided duty and quota free access to the EU Market. In contrast, the more competitive suppliers of like products -Indonesia, Turkey, Hong Kong, China, India, etc. have been subject to both quantitative restrictions under the MFA and to a tariff peak averaging 14% on textiles and apparel. These countries are among the top 10 suppliers of MFA textiles and clothing on both the EU and the U.S. Markets.

118. While Mauritius in terms of labour costs (US$1.41) compares favourably to Turkey, it however compares unfavourably with Indonesia ($0.24), Bangladesh ($0.43), India ($0.60) and China ($0.62). For Mauritius the Quota and tariff factors have helped in mitigating significantly the impact of the relative high labour cost as compared to its competitors. In an equation where quota would be dismantled and tariffs scaled down in the trade liberalisation process, the impact on Mauritius is bound to be significant, especially taking into account that the sector contributed to about 11% to the GDP and employed 80,000 persons in 2000 with absolute revenue amounting to approximately Rs 27 billion.

119. On the U.S. Market, Mauritius textiles and apparel are eligible for quota and duty free access under the AGOA subject to strict compliance with the conditions set out in the Act. However in view of the mounting production costs the duty element may not suffice to confer a definite cost advantage as continued liberalisation of the textiles sector would water down the benefits that were expected to devolve from the preferences.
(ii) Agriculture

120. The Agreement on Agriculture has a two-fold implication for Mauritius. On the one hand the high rate of duty resulting out of the tariffication process has improved the preference margin of Mauritius as an ACP Supplier on the EU Market for certain products. On the other hand the reduction in domestic support should theoretically add downward pressure on the price of sugar exported under the sugar protocol. The reduction of Export Subsidies has added upward pressure on the import bills of the country due to its being a net food importer. Unfortunately Mauritius has not been in a position to avail fully of the enhanced margin of preference in the first case due to its heavy dependence on sugar as the main export earner and the difficulty to develop other crops due to soil characteristic and topology. A survey carried out by the Mauritius Chamber of Agriculture has also indicated that for many products, including Anthurium flower and pineapple, the market conditions have worsened for the country as a result of acute world wide competition and the application by many countries of sanitary and phytosanitary norms above international ones.

(iii) The LAMY Initiative

121. The Cotonou Agreement contains provisions relating to the extension of duty free access for essentially all products to all LDC’s by the year 2005. However the EBA initiative came unexpectedly with quota and duty free access to all LDC’s, catching Mauritius unawares and unprepared to face the implications of the initiative.

122. The Sugar Sector will be the worst affected given the production cost in Mauritius which is twice as high as that of the world average. The opening up of the EU market will lead to a surge in imports from the LDC’s due to lower production cost. In fact various studies have shown that imports from the LDC’s to the EU will pose a real problem to Mauritius.

123. A study carried out by the “Association des Organisations Professionels du Commerce des Sucres pour l’Union Europeene” shows that countries like Bangladesh, Sudan, Zambia, Mozambique, Malawi etc can substantially increase their exports to EU at the expense of less competitive suppliers. Assuming that 50% of their current production and 65% of their planned capacity becomes available for exports in the medium term, exports to the EU from these countries will amount to some 1.6 million tonnes. The ACP quota is about 1.3 million tonnes. Such important increases will impact directly on exports from Mauritius.

124. As far as the price of sugar is concerned, it would appear that due to an increase in imports from the LDC’s, the average price of sugar on the EU market may fall by some 10% in 2005, 15% in 2000 and 20% in 2009. Moreover buyers of ACP sugar in the EU could have easier access to LDC sugar at lower prices and this could motivate them to exert pressure on countries like Mauritius to offer price discounts.

125. The sugar sector in Mauritius will therefore come under severe pressure due to the LAMY initiative. As indicated earlier, the EBA initiative has already caused the quota of Mauritius under the SPS Agreement to decrease substantially. The initiative is also bound to have far reaching implications on the other important sectors, in particular the textiles and clothing sector.

126. Complete duty free and quota free treatment for textiles and clothing imports from the LDC’s will bear directly on the export performance of Mauritius as a result of high production cost. Bearing in mind the potential of the LDC’s, the availability of raw materials in these countries, cheap labour and production costs etc, it will be more and more difficult for Mauritius to compete with them in the very near future.
Remedies

127. The strategy mapped out by Mauritius to address the above problems rests on two pillars: (i) the external front (ii) endogenous measures.

128. On the external front Mauritius has been canvassing the International Institutions to recognise the inherent constraints of the country as a Small Economy and as a Small Island Developing one which limits the prospect for growth and development. The UN General Assembly at its special session on Small Island Developing Countries held in September 1999 officially recognised the problems faced by SIDs relating to the environment and to development. Various Institutions like UNCTAD and the Commonwealth have been actively pursuing the SIDs Agenda. Unfortunately the WTO which is the main body responsible for International Trade Matters so far has still not elaborated a concrete action plan to address the concerns of Small Economies/ SIDs. The multilateral trading rules should contain provisions that cater to the specific situation of Small Economies/ SIDs that would smooth out their integration into the world economy.

129. On the internal front, measures have been taken to improve multi-factor productivity through investment in new technology and the shift to up market production. Substantial investment has also been made to improve management and information technology, infrastructure, training and better quality products.

130. To mitigate the problem of labour cost, labour intensive production is being delocalised to lower costs destinations in the region. The ongoing battle for sustained competitiveness also requires that beyond the imperative of improving multifactor productivity, ways and means are also worked out to reduce costs of supplies and equipment, freight, forwarding, utilities and other auxiliary costs. A whole set of measures should be set in place to address these specific problems. It is anticipated that support institutions that exist in Mauritius should assist in streamlining these cost elements in order to further sharpen the competitive edge.

IV. CONCLUSION

131. Despite the fact that Mauritius is all set to participate fully in the trade liberalisation process, it is increasingly being constrained in its advent to integrate the globalising world economy due to the adverse impacts of unbridled liberalisation on exports on the one hand and the limitations posed by its being a Small Economy on the other. On top of these constraining factors, unforeseen developments in the form of the LAMY initiative, for example have come to further exacerbate the already difficult market access conditions of Mauritius. In the circumstances, it is felt that unless the concerns of the country as a Small Economy is fully addressed and its access conditions to markets improved significantly, it may be difficult for it to integrate the world economy. The WTO and other International Institutions, including the World Bank and the IMF should therefore work on an action plan aimed at addressing the concerns of countries like Mauritius in a comprehensive manner so that they can effectively participate in International Trade.