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TRADE POLICY REVIEW

Report by

MAURITIUS

Revision

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 Mauritius is attached.

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

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I. INTRODUCTION

1. The period 2001-07 which is covered by the third Trade Policy Review of Mauritius has been marked by intense international trade policy changes that had strong repercussions on the Mauritian economy. It is during that period that Mauritius started experiencing the effects of the Uruguay Round Agreements with full intensity. In fact, the termination of the Multi-Fibre Arrangement and the gradual phasing-out of the agricultural subsidies in Europe indirectly and severely affected the export interests of Mauritius in textile and sugar. The domination of the world market by products from low cost competitors also posed serious challenges to the competitiveness of Mauritian exports. Moreover, trade preferences, which have always played a critical role in the development of Mauritius, are being eroded due to continuous trade liberalization.

2. Moreover, as a Net Food Importing Developing country, Mauritius has been affected by the price surge in basic food commodities which led to deterioration in our balance of trade. This situation has put strains on our food sourcing capacity and has also constrained policy options.

3. These trade developments had profound impacts on the socio-economic structure of Mauritius, and required painful adjustments. Despite these economic problems, Mauritius has refrained from the temptation of policy reversals and has maintained a high degree of openness. Consistent with its effort to remain fully integrated within the world economy, Mauritius has been very pro-active both on the national and international fronts. As from the year 2005 it has invested in an ambitious economic reform programme which aims at moving Mauritius away from preference dependence to global competitiveness. The key elements of this economic reform include modernisation of the traditional sectors, economic diversification, bolstering of the emerging areas sectors moving towards a services-oriented economy.

4. However, Mauritius is of the view that support from the international community is critically important for its economic reform programme to be sustainable. That is why Mauritius has been fully engaged in international trade negotiations and economic diplomacy. At the WTO, Mauritius has always canvassed the idea that the "one-size-fits-all approach" will penalize the small, weak and vulnerable economies with the risk of marginalization. In this respect, it has advocated a trade solution with a view to mitigating the problems of preference-dependent countries. Mauritius has also deployed considerable efforts in the advancement of the WTO Work Programme on Small Economies and the Aid for Trade initiative.

5. At the same time, Mauritius multiplied its efforts towards market diversification. While consolidating its trade and economic relations with its traditional partners through the conclusion of the Economic Partnership Agreement with the EU and the Trade and Investment Framework Agreement with the US, Mauritius has taken the initiative to enlarge its horizon to other trading nations and explore the avenues of South-South trade. It has embarked on trade and economic cooperation negotiations with India and Pakistan and has started bilateral trade dialogue with other countries like China, Brazil and Russia.

6. It has to be underlined that throughout the process of trade policy formulation and trade negotiations, Mauritius has continued with its tradition of a participatory approach whereby all national stakeholders are taken on board. There exists not only a structured dialogue between the government and private sector, but the latter is also fully involved in trade negotiations at multilateral, regional and bilateral levels.

II. ECONOMIC OVERVIEW OF MAURITIUS

(1) STRUCTURAL CHANGES IN THE MAURITIAN ECONOMY

7. The current economic set up of Mauritius is characterised by structural changes as evidenced by a lower contribution of the traditional sectors, namely sugar and textile to GDP and a corresponding larger contribution of the tertiary sector, which includes the services industries. The relatively lower contribution of the sugar sector, comprising both sugar cane and sugar manufacturing, from 5.2% in 2001 to 3.1% in 2007, and of the textiles and clothing sector from 10.3% in 2002 to 6.8% in 2007 were mostly due to the emergence of faster growing economic sectors such as hotels and restaurants, financial intermediation and real estate, renting and business activities. This is shown in Table II.1 below.

Table II.1
Percentage distribution of gross domestic product by industry group at current basic prices (main sectors), 2001-07

	2001	2002	2003	2004[1]	2005[1]	2006[1]	2007[2]
Agriculture, hunting, forestry and fishing	**7.3**	**6.3**	**6.4**	**6.5**	**6.0**	**5.5**	**4.8**
Sugarcane	4.0	3.1	3.3	3.5	3.2	2.8	2.3
Other	3.4	3.2	3.1	3.0	2.8	2.7	2.5
Manufacturing	**23.3**	**22.4**	**21.5**	**21.0**	**19.8**	**20.1**	**19.8**
Sugar	1..2	1.0	1.0	1.1	1.0	0.9	0.7
Food excluding sugar	-	4.2	4.7	4.8	5.1	5.6	5.6
Textiles and Clothing	-	10.3	9.0	8.1	6.7	6.6	6.8
Other	-	6.9	6.8	7.0	7.0	7.0	6.7
Construction	**5.5**	**5.7**	**6.0**	**5.8**	**5.6**	**5.6**	**6.4**
Hotels and restaurants	**7.4**	**7.1**	**6.9**	**7.4**	**7.7**	**8.5**	**9.2**
Transport, storage and communications	**12.9**	**13.5**	**13.4**	**12.9**	**12.6**	**12.1**	**11.9**
Financial intermediation	**8.8**	**9.1**	**10.0**	**9.8**	**10.3**	**10.4**	**10.6**
Insurance	2.4	2.6	2.7	2.8	2.9	2.8	2.8
Banks	5.5	5.7	6.3	5.9	6.2	6.4	6.5
Other	0.9	1.0	1.0	1.1	1.2	1.2	1.3
Real estate, renting and business activities	**9.0**	**9.3**	**9.5**	**9.7**	**10.2**	**10.5**	**11.0**

1. Revised.
2. Forecast.

Source: Central Statistic Office.

8. The textiles sector in particular witnessed negative sectoral growth rates over the 2003-05 period, including a record 14.7% drop in 2005 (as demonstrated in Table II.2). This can be mainly attributed to the impact of the dismantling of the Multi Fibre Arrangement. Though modest positive growth was recorded in the subsequent years, the sector is yet to recover fully.

9. The economy now seem to be driven by the services sectors, especially activities in "Hotels and Restaurants", "Transport storage and communications", "Real estate, renting and business activities" and "Financial intermediation".

10. As shown in Table II.1, the contribution of the hotels and restaurant sector to GDP increased from 7.4% in 2001 to 9.2% in 2007. The sectoral real growth rate was quite moderate over the period 2001-06, with a maximum of 5.6% in 2005. However, the Central Statistics Office has estimated the

expansion of the hotel and restaurants sector at 13.1% in 2007 after a modest growth of 3.5% in 2006. This has been based on a record tourist arrivals estimated at 900,000 for year 2007.

11. The financial intermediation sector's contribution to GDP increased from 8.8% in 2001 to 10.6% in 2007 (Table II.1). The contribution of this sector to GDP has revolved around 10% since the year 2005. It has been estimated that the sector grew by 7.3% on 2007 following growths of 5.1%, 7.6% and 11.1% in insurance, banks and other financial intermediation activities respectively (Table II.2).

Table II.2
Gross domestic product-sectoral real growth rates (% over previous year), for main sectors, 2001-07

	2001	2002	2003	2004[1]	2005[1]	2006[1]	2007[2]
Agriculture, hunting, forestry and fishing	**+7.0**	**-16.3**	**+1.9**	**+8.1**	**-5.4**	**+0.6**	**-6.8**
Sugarcane	+9.9	-25.0	+3.7	+10.6	-9.2	-2.9	-12.8
Other	+4.0	-6.1	+0.1	+5.4	-1.1	+4.5	-0.7
Manufacturing	**+4.4**	**-2.4**	**0.0**	**+0.6**	**-5.5**	**+4.0**	**+3.5**
Sugar	+9.9	-25.0	+3.7	+10.6	-9.2	-2.9	-12.8
Food excluding sugar	-	-	+17.5	+4.4	+2.1	+9.6	+4
Textiles and clothing	-	-	-6.9	-7.2	-14.7	+2.9	10.1
Other	-	-	-0.7	+6.6	+0.4	+1.8	-1.2
Construction	**+5.2**	**+6.3**	**+10.2**	**+0.5**	**-4.4**	**+5.2**	**+15**
Hotels and restaurants	**+1.2**	**+3.1**	**+3.0**	**+2.4**	**+5.6**	**+3.5**	**+13.1**
Transport , storage and communications	**+9.1**	**+7.7**	**+6.6**	**+8.1**	**+7.7**	**+7.4**	**+7.7**
Financial intermediation	**-8.5**	**+5.8**	**+11.7**	**+4.3**	**+5.4**	**+7.0**	**+7.3**
Insurance	+5.0	+5.0	+5.0	+5.0	+5.0	+5.0	+5.1
Banks	-15.0	+3.6	+14.2	+2.0	+4.8	+7.1	+7.6
Other	+5.4	+22.6	+15.2	+15.9	+9.5	+11.0	+11.1
Real estate, renting and business activities	**+7.7**	**+5.9**	**+6.6**	**+6.7**	**+6.5**	**+6.3**	**+7.5**
Gross Domestic product at market prices	***+2.6***	***+1.9***	***+4.3***	***+5.8***	***+1.2***	***+3.9***	***+5.6***
Manufacturing industries previously operating with an EPZ certificate	***+4.4***	***-6.0***	***-6.0***	***-6.8***	***-12.3***	***+4.6***	***+8.0***

1. Revised.
2. Forecast.

Source: Central Statistic Office.

12. It is worth noting that for the year 2007, a good performance was noted in some secondary sectors, namely manufacturing and construction respectively. The GDP Sectoral real growth rate of the manufacturing sector had been seriously affected by the low performance of the textile sector since the end of the Multi-Fibre Arrangement. However, there has been an improvement since the year 2006. For the year 2007, it is expected that the manufacturing sector will grow by 3.5% after a growth of 4 % in 2006 namely on account of respective growth rates of 10.1% and 4% in the textile and food processing industries (Table II.2).

13. The Construction sector contributed 5.5% to GDP in 2001 as compared to an estimated figure of 6.4% for the year 2007 (Table II.1). It should be noted that the GDP sectoral real growth rate of the construction sector surged from 5.2% in 2006 to 15% in 2007, mainly due to the construction of

projects under the Integrated Resort Scheme (now part of the Investment Promotion (Real Estate Development Scheme) Regulations 2007).[1]

(2) BALANCE OF PAYMENTS

14. After having registered four successive years of surpluses since 2000, the current account of the balance of payments turned around in 2004-05 to post a deficit of Rs6,321 million and an even larger deficit of Rs10,187 million in 2005-06, mostly due to the faster growth of imports relative to exports. For the fiscal year 2006-07, the deficit on the current account deteriorated further to reach Rs17,469 million, largely on account of a marked worsening of the deficit in the merchandise account following the purchase of two aircrafts.

15. From a surplus of Rs3,225 million in 2003-04, the overall balance of payments, measured as the change in reserve assets excluding valuation changes, registered a deficit of Rs3,133 million and Rs3,019 million in 2004-05 and 2005-06, respectively. The country's external position witnessed an improvement in 2006-07, as the overall balance of payments recorded a surplus of Rs6,603 million.

Table II.3
Balance of payments
(fiscal year)

						Rs million	
	2000-01	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**
Current account Balance	+4,257	+7,458	+3,554	+1,383	-6,321	-10,187	-17,469
GDP market prices	124,825	137,289	149,577	165,440	181,025	195,441	216,556
Current Account Balance as a % of GDP	3.4	5.4	2.4	0.8	3.5	5.2	8.1
Overall Balance of Payments	+5,107	+5,908	+9,099	+3,225	-3,133	-3,019	+6,603

Source: Bank of Mauritius Monthly Statistical Bulletin and Central Statistics Office.

(3) STRUCTURE OF IMPORTS AND EXPORTS

16. Total exports of goods and services increased from Rs 90.5 billion in 2001 to Rs 140.6 billion in 2007, whereas total imports of goods and services increased from Rs 82.6 billion in 2001 to Rs 159.0 billion in 2007.

17. Exports have traditionally targeted mainly the US and European markets, accounting for 20.3% and 67% of exports in 2001. However, the recent years have demonstrated a diversification for our target markets. A good progression was noted on the South African and Asian markets. The percentage of exports to South Africa increased from 0.8% in 2001 to 2.2% in 2006 as a result of

[1] The IRS was first enacted in August 2002 under the Investment Promotion (Integrated Resort Scheme) Regulations 2002. The Investment Promotion Act was subsequently amended in 2007. As of date, the Investment Promotion (Real Estate Development Scheme) Regulations 2007 comprises two schemes: the Integrated Resort Scheme (IRS) for large landowners (more than 10 hectares) and the Real Estates Scheme (RES) for small landowners (at least 1 arpent but less than 10 hectares). Both the IRS and the RES are targeted at non-citizens. However, the IRS involves the construction and sale of luxury residential units to foreigners and technical specifications state that it should be on freehold land of more than 10 hectares to be sold at a price exceeding USD 500,000. The RES allows small landowners to develop and sell residential property to non-citizens. The RES should be built on freehold land of not more than 10 hectares.

trade liberalisation in the context of the SADC Trade Protocol. Exports to the Asian countries increased from 1.6% in 2001 to 16.7% in 2006.

18. During the same period exports to the US declined from 21% in 2001 to 8.3% in 2006. Decline in exports to Europe was comparatively marginal, decreasing from 67% to 61.7%. The loss of market share on the US market was mainly due to the fact that unlike other textiles and apparel exporters under AGOA Mauritius did not benefit from the third country fabric provision and had therefore to source its yarn or fabrics either from the US or from the region.

19. The structure of exports had also been characterized by structural changes. The export of prepared and preserved fish increased from 4% of total exports in 2001 to 10.3% in 2006 as well as frozen fish for which there were no exports in 2001 but made up 2.9% of total exports in 2006.

20. A number of new sectors also performed well. Exports of machinery and transport equipment increased from 1.7% in 2001 to 17.5% in 2006. Moreover, the exports of office machinery and telecommunications equipment also witnessed an upward trend. The increase was mainly fuelled by the rise in the exports of telecommunications and sound recording and reproducing apparatus and equipment, where exports were non-existent in 2001 subsequently made up 12.3% of total exports in 2006. The change in the structure of exports demonstrates the changing nature of the Mauritian economy characterised by diversification from traditional sectors into new sectors, like fish products and high-tech products.

21. As far as imports are concerned, Europe and Asia have consolidated their positions as our main sourcing partners. As a share of total import, imports from Europe increased from 31% in 2001 to 36.2% in 2006. Imports from Asia also showed a progression from 40% to 45.6% whilst imports from the Middle East showed a satisfactory progression, from 6.2% to 8.4%.

(4) MAIN CHALLENGES TO ECONOMIC GROWTH

(i) Inflation

22. Inflation, which is measured by the percentage change in the yearly average Consumer Price Index (CPI) in Mauritius, rose from 5.1% in 2005-06 to a double-digit figure of 10.7% in 2006-07. The important increase in the inflation rate is to a large extent attributable to budgetary measures, the pass-through of the exchange rate depreciation to domestic prices, the increase in freight rates and adverse climatic conditions in certain exporting countries leading to a hike in prices of some imported commodities.

23. After surging to 10.7% during the 12 month period ending June 2007, the inflation rate has assumed a declining trend and stood at 8.8% in December 2007. It is forecast that, barring any major economic shocks to the economy, the rate of inflation would subside to around 8.0% in fiscal year 2007-08. In the medium term, the objective of the Bank of Mauritius is to narrow the inflation differential between Mauritius and its major trading partners.

(ii) Unemployment

24. Official statistics indicate that the unemployment rate for the first quarter of the year 2007 reached 9.6%. As shown in Table II.4 below, the unemployment rate has averaged 9% for the past three years. The manufacturing sector seems to have been the most severely affected as it witnessed some 17,500 job losses for the period 2001-07. The agricultural sector has also to some extent been affected, pending major reforms to be undertaken by the sugar industry.

25. The labour market situation emphasises the fact that it takes time to tackle job mismatch and other structural inefficiencies. As such, a prompt implementation of measures aimed at improving the adaptability of the workforce to changing demand conditions – including human resource development and an overhaul of labour legislation – is highly warranted.

(iii) Budget deficit

26. In view of the budgetary reforms, the ratio of the budget deficit to GDP declined by 1% between 2006 and 2007 as evidenced by Table II.4 below. Accordingly, public sector debt is expected to maintain a downward trend and reach more sustainable levels.

Table II.4
Other economic indicators

	2001	2002	2003	2004	2005	2006	2007
Rate of inflation % Calendar year	5.4	6.4	3.9	4.7	4.9	8.9	8.8
Rate of inflation % Fiscal year	4.4	6.3	5.1	3.9	5.6	5.1	10.7
Unemployment Rate Mid year %	6.8	7.2	7.7	8.4	9.6	9.1	9.2
Government Recurrent Revenue Rs million, Fiscal year	24,149	24,606	29,487	32,404	35,074	38,183	41,335
Government Recurrent Expenditure Rs million, Fiscal year	31,398	29,577	33,529	36,879	40,564	45,237	48,215
Ratio of Budget deficit to GDP at market prices	-6.7	-6.1	-6.2	-5.4	-5	-5.3	-4.3

Source: Bank of Mauritius.

(iv) Trade deficit

27. Since 2001-02, the country has been experiencing worsening year on year trade deficit. The trade deficit (excluding purchases of aircrafts and marine vessels) which stood at Rs 8,638 million in 2001-02 has deteriorated to reach Rs 38,323 million in 2006-07, reflecting the relatively faster growth in value of imports compared to exports. In the wake of surging oil prices on the world market, the import bill for petroleum products has witnessed a more than three fold increase between 2001-02 and 2006-07.

28. With imports prices (+56.1%) increasing strongly compared to export prices (+39.0%) between 2001-02 and 2006-07, the terms of trade index (base year 2003 = 100), defined as the ratio of the export price index to the import price index, in Mauritius decreased by 10 percentage points from 93 to 83.

(v) Depreciation of the Mauritian Rupee

29. Over the period 2001-07, the rupee, on average, has depreciated against all major currencies. On a point-to-point basis, the rupee, between 2001 and 2007, recorded the highest depreciation against the New Zealand dollar (47.8%), followed by the Australian dollar (43.5%), euro (40.1%), Swiss franc (34.9%) and Pound sterling (34.1%). The Mauritian Rupee registered 8.3% depreciation against the U.S. dollar between 2001 and 2007.

Table II.5
Exchange rate of the Rupee *vis-à-vis* major currencies
(period average)

Indicative Selling Rates	2001	2002	2003	2004	2005	2006	2007
Australian dollar	15.186	16.4858	18.6967	20.5989	22.7408	24.1339	26.8831
Hong Kong dollar	3.7904	3.9017	3.6989	3.6254	3.8661	4.1456	4.128
Indian rupee (100)	62.939	63.3347	62.504	62.8425	68.6707	71.3506	78.2158
Japanese yen (100)	24.1479	24.199	24.711	25.8964	27.0826	27.5816	27.3625
Kenya shilling (100)	37.7979	38.9254	38.2962	36.0465	40.2517	45.1096	48.2507
New Zealand dollar	12.3071	14.1438	16.7587	18.7105	21.1115	20.8183	23.5697
Singapore dollar	16.5042	17.0269	16.5752	16.7193	18.0565	20.2224	21.4372
South African rand	3.486	2.9296	3.8611	4.4475	4.7688	4.8433	4.6283
Swiss franc	17.353	19.4505	21.2078	22.5163	23.8856	25.4604	26.6644
US dollar	29.2627	30.1482	28.5549	27.959	29.7457	31.7212	31.9133
Pound sterling	42.1365	45.3325	46.6188	51.2678	54.0962	58.9711	63.9774
Euro	26.1961	28.5276	32.2748	34.7338	36.9957	40.3405	43.762

Source: Bank of Mauritius.

(vi) Direct investment flows

30. Since 2006, there have been substantial foreign direct investment (FDI) inflows directed mainly to the tourism and banking sectors. FDI in the tourism sector took place in the hotel industry and gathered momentum lately under the Integrated Resort Scheme[2] which is now part of the Investment Promotion (Real Estate Development Scheme) Regulations 2007. As demonstrated in Table II.6 below, FDI in the tourism sector surged from a mere Rs 100 million in 2002 to Rs 4.6 billion in 2007. Within the banking sector, new banks became operational while there was also a rise in the share capital of certain foreign-owned banks.

Table II.6
Foreign direct investment in Mauritius by sector, 2001-07

					Rs million		
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007[1, 2]**
Export Processing Zone	3	41	77	248	106	90	71
Tourism	-	100	103	121	536	2,610	4,610
Banking	600	316	1,301	310	454	3,511	2,246
Telecommunications	-	-	-	38	175	43	16
Other	333	522	485	1,079	1,536	968	2,058
Total	**936**	**979**	**1,966**	**1,796**	**2,807**	**7,222**	**9,001**

1 Provisional.
2 January to September.

Source: Bank of Mauritius Monthly Statistical Bulletin.

31. As demonstrated in Table II.7, FDI outflows were mainly directed towards the manufacturing, tourism and agricultural sectors. Mauritian investors have delocalised some of their textile production units to lower cost countries in the region. FDI from Mauritius has been substantial in the tourism

[2] As explained in the first section (footnote 1), the IRS Scheme was first enacted in 2002. The first IRS Certificates were issued in 2005.

sector in the Seychelles and Maldives. Local sugar companies have also carried out substantial investment in the agricultural sector in mainland Africa, namely in Mozambique, Tanzania and Uganda.

Table II.7
Direct investment abroad by sector, 2001-07

	Rs million						
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007[1, 2]**
Tourism	-	-	137	422	967	391	528
Banking	47	-	440	-	-	-	-
Manufacturing	-	245	41	101	258	335	118
Other	36	33	538	447	717	408	234
Total	**83**	**278**	**1,156**	**970**	**1,942**	**1,134**	**880**

1 Provisional.
2 January to September.

Source: Bank of Mauritius Monthly Statistical Bulletin.

(vii) Net international reserves

32. As demonstrated in table 8 the net international reserves of the country[3], increased to Rs 74,192 million as at end-December 2006 compared with Rs 35,764 million as at end-December 2001. The end-November 2007 level of net international reserves of the country, based on the value of the import bill for fiscal year 2006-07, (exclusive of the purchase of aircrafts) represented 41.2 weeks of imports.

Table II.8
Net international reserves, December 2001-November 2007

	Bank of Mauritius Net Foreign Assets	**Banks Net Foreign Assets[2]**	**Others[1]**	**Net International Reserves**	**Import Coverage (No. of weeks)**
	(Rs million)				
Dec-01	25,220	9,992	553	**35,764**	**33.0**
Dec-02	35,617	7,850	575	**44,041**	**35.8**
Dec-03	40,805	7,248	849	**48,902**	**39.2**
Dec-04	44,948	6,917	690	**52,824**	**36.1**
Dec-05	41,117	14,664	768	**56,549**	**31.6**
Dec-06	44,127	29,522	543	**74,192**	**35.5**
Nov-07	51,988	35,721	333	**88,042**	**41.2**

1 Comprises Foreign Assets of the Government and the country's Reserve Position in the IMF.
2 With effect from June 2005, comprises the Net Foreign Assets of banks, adjusted for transactions of Global Business Licence Holders.

Source: Bank of Mauritius.

III. THE ECONOMIC REFORM PROGRAMME

33. Mauritius is currently implementing an ambitious reform programme aimed at moving away the economy from dependence on trade preferences to global competitiveness.

34. Moreover, it is doing so in a difficult environment because of trade shocks caused by the erosion of trade preferences in sugar and textiles and the rise in oil prices.

[3] The net international reserves are made up of the net foreign assets of the banking system, the country's reserve position with the IMF, and Government's foreign assets.

35. The reform programme is aimed at putting the economy onto a higher growth path and therefore making it less vulnerable to external shocks. The reform programme is particularly aimed at achieving the following:

(i) Reduction in the budget deficit and the debt burden in order to bring them to more sustainable levels;
(ii) Improving productivity in the traditional sectors of the economy with a view to restoring their competitiveness and facilitating the development of exports;
(iii) Improving the institutional framework for business by streamlining procedures for business registration and incentives schemes in order to attract more foreign direct investments; and
(iv) Facilitating employment creation and promoting social equity.

(1) COMPONENTS OF THE REFORM PROGRAMME

36. With a view to achieving the above key objectives, the programme is articulated around the following four main pillars:

(i) Consolidating fiscal performance and improving public sector efficiency;
(ii) enhancing trade competitiveness;
(iii) improving the investment climate; and
(iv) democratising the economy through participation, social inclusion and sustainability.

37. The reforms which have started with the 2005/2006 budget encompassed *inter alia*:

- The reduction of tax expenditures (exemptions and exonerations) by 0.5% of GDP;
- the adoption of a legislation to abolish ministerial discretion over tax and duty exemptions;
- measures to strengthen tax administration;
- the revision of the corporate tax rate;
- the unification of investment incentive regimes;
- the deepening of financial services, measures to reduce time to start business;
- ease restrictions on work and residency permits and expand support to SMEs;
- the preparation of a master plan for poverty reduction; and
- the implementation of training and re-employment programmes.

(i) Fiscal consolidation and improved public sector efficiency

38. Fiscal consolidation is also at the core of the reform programme and intends to curb deficits and debt on a downward path by the following measures:

(i) Limiting government borrowing to the financing of the capital budget; and
(ii) reducing the ratio of net public debt to GDP.

39. The Government intends to achieve the above results through the Medium-Term Expenditure Framework (MTEF). MTEF will underpin this consolidation anchoring annual budgets within an aggregate multi-year framework and enabling the Government to set priorities and resolve budgetary trade-offs. At the same time, there is a lot of emphasis on improving revenue collection through, namely, the recent setting up of the Mauritius Revenue Authority; a reduction in tax expenditures and less discretionary ministerial powers to remit taxes and duties. At the same time, modifications to the structure of direct taxes has streamlined incentives and increase equity. The expectation is that the new tax structure will better reward effort, innovation and entrepreneurship, increase transparency,

and encourage investment and job creation, especially by small and medium enterprises (SMEs). On the expenditure side, policy measures focus on eliminating waste and increasing efficiency. More careful monitoring of capital projects is intended to improve the quality of public investments and discourage unjustified cost overruns. Closer scrutiny of recurrent expenditures will reduce waste and improve efficiency.

(ii) Improving trade competitiveness

40. The centrepiece of the effort to improve trade competitiveness is an overhaul of the incentive framework to reduce distortions and biases. A three-year programme (2006-09) to liberalize tariffs and turn Mauritius into a duty-free island will level the playing field between those producing for the domestic and export markets. The tariff liberalization programme is aimed at achieving a low and uniform level of protection for the manufacturing sector while preparing Mauritius to become a 'duty free island'.

(iii) Customs tariffs reform

41. At the time of the last Trade Policy Review a 10% additional duty was valid for goods attracting 55% duty when imported from "non-scheduled countries". In April 2005, the 10% additional duty was removed. Thus customs tariffs became fully compliant with the Most Favoured Nation Rule of the WTO.

42. Customs Tariff reforms started with the 2005 Budget. In the 2005 Budget, the top tariff rate was lowered from 80% to 65% and tariffs were eliminated on a large number of products. However, as from the 2006 Budget, the tariff structure was overhauled and tariff liberalization was accelerated with a view to moving towards a Duty Free Island. The 2006 tariff reform led to the following changes:

- The maximum *ad valorem* tariff was brought down from 65% to 30%;
- the rates of 65%, 55% and 40% was lowered to 30%;
- the tariff structure has been simplified with only 3 non-zero bands (10,15 and 30 %) as compared to 7;
- 79% of all our tariff lines have become duty-free i.e attracting zero duty; and
- the simple average tariff rate has been brought down from 9.5 to 6.6%.

(iv) Reform of excise duties

43. Since the last Trade Policy Review of Mauritius, numerous changes have been brought to the excise duties, especially to achieve compliance with the Most Favoured Nation Principle and the National Treatment Principle of the WTO.

Motor cars

44. A 60 % duty surcharge was previously levied on motor cars imported from non-scheduled territories. This additional duty surcharge was abolished as from 12 June 2001. The same rate of excise duty now applies on motor cars irrespective of its origin. The same rate applies to domestic manufacture of cars or imported ones.

Cigarettes

45. Imported cigarettes and locally-manufactured ones were subject to different rates of excise duty. A new structure was put in place in July 2005, whereby the same rate of excise duty is now applicable to both. The rates are specific and are based on classification by Tobacco Board in four categories. The rates vary from Rs 1,770 to Rs 2,370 per thousand cigarettes.

Alcoholic products

46. In June 2006, the excise duties on alcoholic products were reformed. The main objectives of the reform were to encourage value addition and export in the sector, move towards international best practices and make the excise taxation system WTO-compliant. The following principles were adopted in reforming the excise taxation:

- Rationalisation and simplification of categorization of alcoholic products;
- removal of existing tax biases against production of quality products from molasses and cane juice;
- phasing out of the duty differential between bulk importation and importation of bottled spirits;
- spirits would be taxed on an Absolute Alcohol Content basis so that the higher the alcoholic content, the higher the duty amount; and
- application of the same rate of duty on local production and on imports.

(v) The value added tax

47. A 10% VAT was introduced as from 7 September 1998 in replacement of the 8% sales tax. The rate was subsequently increased from 10% to 12% in July 2001 and from 12% to 15% in July 2002. It is currently applied on all supplies made by a taxable person in the course of furtherance of any business, unless specifically exempted or zero-rated by law. Main exempted[4] goods and services include:- basic foodstuffs (rice, flour, butter, milk, cheese, infant food), health (medical, hospital and dental services, pharmaceutical products and antibiotics) and others such as public transport, educational and training services, journals, herbicides etc. Main zero-rated[5] supplies include wheat flour, edible oil, margarine, ghee, milk, yogurt, poultry, electricity, water etc.

48. In the 2006 Budget, the annual turnover threshold above which VAT registration is compulsory was lowered from Rs 3 million to Rs 2 million. However, professionals such as accountants, auditors, advertising agents, advisers, consultants, notaries among others are required to register irrespective of their turnover. The turnover threshold for submission of VAT returns on a quarterly basis was set at Rs 10 million instead of Rs 12 million. However, flexibility is given to a taxpayer with a turnover below that amount to choose to submit his return every month. VAT which has been paid on capital goods is refunded by the MRA if the amount involved is at least Rs 100,000 against Rs 150,000 two years back.

[4] For exempted goods VAT is not charged on output, However VAT paid on inputs cannot be reclaimed as credit/refund. Thus, the VAT will be borne by the manufacturer.

[5] Zero rating refers to a situation in which the rate of tax applied to sales is zero, though credit/refund is still given to VAT paid on inputs. In this case, the firm will be granted full credit/refund of VAT paid on inputs. Exports, which are zero-rated, mean that exports leave the country free of any domestic VAT.

49. With the consolidation of investment certificate regimes and the integration of the EPZ sector and non-EPZ sectors, amendments were brought to the Value Added Tax Act by way of the Finance Act 2006. The special VAT regime for EPZ was abolished on 1 October 2006.

50. It indirectly favoured imported inputs over local ones and worked against development of inter-linkages in the economy. As a counterpart, a fast-track VAT refund system was put in place at the MRA. Additionally, with a view to easing the transition and limiting impact on cash-flows, a number of industrial inputs that were subject to VAT were made either exempt or zero-rated. These included cotton, yarn, fabrics, textile labels and accessories such as buttons and zippers, leather, dyeing services, silver and platinum, diamonds and other precious stones and textile machinery.

(vi) Addressing the cost of services

51. A second phase of the economic reform programme will tackle the high cost of services. The cost of International Private Leased Circuits (IPLC) will be reduced by 25% immediately, while increasing competition and strengthening the Information Communication Technology Authority (the telecommunications regulator) will promote more cost-effective supply in the future. Other measures call for liberalizing air access, developing ports infrastructure, increasing training and promotional efforts for the hospitality and tourism sector, and strengthening financial institutions.

52. Restoring global competitiveness also requires modernizing and restructuring existing sectors (sugar and textiles and clothing) and, where a role for the public sector is indicated, providing public support for the development of new activities such as ICT, financial services, specialty tourism, seafood and land-based ocean activities. Achieving these objectives will entail adequate planning and preparation of long term development plans and sectoral strategies as well as enhanced access to financial services.

53. Another challenge is to identify which services have potential for growth and what are the markets for these services. Export of professional services has been identified as one of the areas where the full potential remains untapped. The Government is in the process of developing a roadmap for the export of professional services in the following four areas: healthcare; HR training & development; IT and outsourcing; and professional services, including financial services.

(vii) Improving the investment climate

54. The range of reforms has started to make the regulatory environment more transparent and less burdensome. The Business Facilitation (Miscellaneous Provisions) Act enacted in August 2006 has amended 11 Acts with the objective to set a new course towards modernizing Mauritius by sweeping away the non-functional systems and putting an end to the suffocating bureaucracies that stifle enterprise.

55. The major reforms brought about by the Business Facilitation (Miscellaneous Provisions) Act eliminated the Trade Licence, merged the Building Permit and Development Permit into a single permit and reduced the number of days tremendously i.e. 3 days for an SME and 14 days for other businesses. It also provides for a new legal framework, which allows business to start operations on the basis of self-adherence to comprehensive and clear guideline with ex-post control and monitoring.

56. The plethora of incentive schemes has been streamlined with the abolishment of all investment schemes approval of investment projects, except for the Real Estate Development Scheme and Freeport Scheme. At present, there is no need to submit project briefs and feasibility studies before starting a business except for the Freeport sector and the Real Estate Development Scheme. Moreover, in 2006, a single occupation permit comprising the work and residence permits has been

introduced for certain categories of non citizens. In this regard, Mauritius aims at attracting the right foreign talent, know how, ideas and technology. The objective is to make of Mauritius the top 10 investment destinations in the world.

(viii) Democratizing the economy through participation, social inclusion and sustainability

57. The Government announced an Empowerment Programme to ease the burden of unemployment, enhance job prospects, reduce labour and skills mismatches and promote small and medium enterprise (SME) development. A big component of the programme will provide for on-the-job training or retraining for 20,000 unemployed and redeployed workers over the next five years. There will also be special programmes for women who have been particularly affected by the downsizing of the textile sector. Other components will make land available for small entrepreneurs, provide social housing and increase financial and technical support for SMEs.

58. Education and training will be key components of the Programme, designed both to broaden workers' access to jobs and increase the skills base available to employers. Two priority areas for skills development and upgrading are the tourism sector and ICT. The Government also will support upgrading and training of teachers and supervisory personnel, review the educational curriculum to encourage creativity and cognitive thinking, revitalize the "Zones d'Education Prioritaires" (ZEP) providing special support to pupils attending low performing primary schools, and develop a national strategy for tertiary education to enhance competitiveness in the global economy.

59. To ensure sustainability of social spending, social subsidy programmes will be reconfigured to target income support to the needy, and the pension age will be progressively raised from 60 currently to 65 years. Another objective is to ensure access to high quality health care for all, with special attention to vector borne disease (Chikungunya), HIV/AIDS which has been on an upward trend among drug users, and diabetes, as Mauritius has one of the world's highest prevalence rates.

(ix) Reform in the labour market

60. As part of the reforms aimed at addressing the existing rigidities and mismatch of skills in the labour market, the Government has already announced its intention to review the current labour laws and regulations. The main objective is to set up a National Wages Council which will replace the current centralized system of wage determination. The implementation of the Wages Council will allow enterprises to focus on enhanced productivity and competitiveness as well as cost reduction.

61. In that respect two pieces of legislation, namely the Employment Relations Bill and the Employment Rights Bill, are presently in the final stages of drafting and will be presented to the Cabinet and the National Assembly in the very near future. The objects the Employment Relations Bill are to consolidate and revise the existing legislation, with emphasis on the "collective bargaining" process and enhancing the dispute settlement mechanism. The Employment Rights Bill, in addition, seeks to introduce a workfare programme with a view to consolidating measures relating to the training and re-skilling of workers, given the mobility of labour which the new economic paradigm demands.

(x) Diversifying the economic base

62. Mauritius has been a monocrop economy in the 1970s, and later diversified its economic base to encompass textile, sugar and tourism in the 1980s to the early 1990s. Slowly, the services sectors started to assume a more prominent role with the financial services sector, the consolidation of tourism services and Freeport activities. Now the target is to consolidate the existing productive

sectors and to further enlarge the spectrum of economic activities. Those new sectors which have been identified include: ICT/BPO, Real estate, seafood, aquaculture, pharmaceutical, and energy.

63. The development of the Land Based Oceanic Industry, which ranks highly on the economic development agenda of Government, will contribute to widen the economic base of the country and boost existing industries through linkages with sectors like tourism and manufacturing.

64. Mauritius is ideally positioned to exploit deep-sea water of the Great Conveyor Belt.[6] In this regard, the objective of Government is to commercially exploit the position of Mauritius on the Great Conveyor Belt through technologies and processes that are sustainable, environmental friendly and which result in niche products that are in great demand in the world. These products might include, inter alia, desalinated bottled water; fish and fish related products from aquaculture; thalassotherapy; pharmaceutical as well as cosmetic products.

(xi) Cost of the Economic Reform Programme

65. The cost of the reform programme has been estimated to be some four billion euros, which is roughly equivalent to the current GDP of Mauritius over the next 10 years, with investment in production and infrastructure development accounting for respectively 1.9 billion and 1.8 billion. As a small economy, it would be difficult for Mauritius to successfully implement this reform programme without the assistance for external development partners. While domestic resources and Investment could finance 50% of the cost of the reform, the remaining 50% will have to be met by FDI and external assistance, including grants and concessional loans. In this regard Mauritius awaits the early operationalisation of the Aid for Trade initiative under which it expects to secure enough resources to finance the Reform Programme.

IV. LOCAL TRADE ENVIRONMENT

(1) TRADE LICENSING

66. In Mauritius, trade policies are geared towards securing a liberal trading environment where import, export and re-export activities can take place with minimal restrictions. There are a limited number of products which are subject to import control. Existing control relate mainly to health, sanitary and phytosanitary, security, social and environmental concerns. The delivery of permits is under the purview of the relevant ministries such as Commerce, Health, Agriculture, Fisheries or other controlling agencies. Similarly for exports, there are no restrictions except for a few products of strategic importance where export permits are required such as cement, silver and gold. Clear rules and procedures are available on the web site of the Ministry of Industry, Small and Medium Enterprises, Commerce and Co-operatives for obtaining import and export permits.

(2) COMPETITION

67. With a view of providing a competitive trading environment, the Competition Act was voted in Parliament in November 2007. The Competition Act establishes the legal framework for the control of restrictive business practices so as to enhance competition in Mauritius and provide for fair and transparent competition rules. The Act also provides for the setting up of an independent Competition Commission to administer all matters relating to competition in Mauritius.

[6] The Great Conveyor Bell circles the globe moving massive undercurrents of 2,500 year old seawater of the highest purity, free of pollutants and rich in important minerals and nutrients.

V. TRADE FACILITATION MEASURES

(1) NEW FACILITIES AT THE LEVEL OF THE MAURITIUS CUSTOMS

68. Since the recent years, Mauritius has adopted a programme for the Reform and Modernisation of our Customs facilities to provide world-class service to stakeholders as follows:

(a) Single document for implementation procedures

69. With the implementation of the automated Customs Management System (CMS), a single document (SGD) as recommended by WTO/WCO has been introduced to replace all the different sets of documents which were being used to clear goods from Customs. The SDG is submitted electronically, processed and validated by CMS using the Electronic Data Interchange (EDI-TradeNet) platform. This has been a key component in the trade facilitation concept and all customs declarations for imports/exports, freeport transactions and movements of containers are done using the Single Goods Declaration.

(b) Risk assessment and management techniques

70. Through the application of risk Management Techniques and establishment of user friendly procedures, Customs is trying to identify and concentrate only on those vessels, consignments and travellers who represent the highest risks to the country in terns of revenue collection, protection of society, environment and IPR.

(c) Post audit clearance

71. Post audit clearance is used as an effective tool for customs control and it facilitates trade by allowing the rapid clearance of goods through customs rather than attempting to verify declaration when they are presented. It is a process which enables customs officers to verify the accuracy of declaration, through the examination of books, records, business systems and all relevant customs commercial data held by person or companies directly or indirectly involved in international trade.

(d) Publication on the Internet

72. Information on customs requirement that is of interest to the general public is available on the website of the Mauritius Revenue Authority (MRA). Customs laws and regulations are also published in Government gazette. Publication of applied tariff rates is also available on the internet.

(e) Publication of fees and charges

73. Any fees and charges to be paid in connection with importation and exportation are specified in the Customs Regulations.

(f) Voluntary compliance

74. The Customs Department of the MRA is encouraging voluntary compliance by rewarding compliant traders with a new, expedited cargo clearance process. A history of compliance and proof of being compliant in the past (through a customs compliance audit) are some of the prerequisites for becoming eligible for membership to the CARGO FAST TRACK.

75. Membership to the Fast Track allows traders to continue to get their paperless import/export declarations processed through a special new BLUE CHANNEL clearance process. Blue Channel

goods undergo a low rate of random cargo inspection and even when required it is undertaken at the importer's premises.

(g) Single Window

76. A single window has been made operational at the Cargo Inspection Shed at the New Cargo Terminal. The aim is to provide office and counter space for inspectors employed by other government agencies. The single window ensures officer availability and customer convenience when cargo must be inspected by other agencies, samples taken or laboratory analysis performed.

(h) One Stop Shop for Exporters

77. A single Window for exporters has been opened and hours of work extended in order to allow exporters to have their export declarations processed and certificates of origin issued.

(2) THE MAURITIUS CARGO COMMUNITY SERVICES (MCCS) PROJECT

78. The Mauritius Cargo Community Services (MCCS) emanates from a partnership between the public sector and private sector including the Mauritius Chamber of Commerce and Industry, the Mauritius Export Association, the State Investment Corporation and the Mauritius Ports Authority. The MCCS aims to set up an integrated logistics platform in Mauritius by interlinking all stakeholders so as to optimise supply chain business processes between all cargo stakeholders. The new system is expected to considerably improve the dwell time for the movement of goods through the port by optimisation of data capture and tracking of goods.

VI. PERFORMANCE OF MAIN SECTORS

(1) TOURISM SERVICES

79. The tourism sector continued to register a positive growth from the years 2001-06, with a continued increase in tourist arrivals. In 2006, the gross earnings per tourist reached Rs 40, 521 which is almost double the Rs 27,511 figure for the year 2001.

80. At present, the tourism sector is regulated by two main pieces of legislation, namely the Tourism Authority Act 2006 and the Tourism Employees Welfare Act. The objectives of the Tourism Act is to better regulate the operations of the pleasure craft and also tourism enterprises which include all businesses dealing with tourists such as hotels, restaurants, diving centres, tour operators, car rental companies and so on. The Tourism Employees Welfare Fund act aims at establishing a fund for the social and economic welfare of employees of tourism enterprises and their families.

81. It is useful to note that the tourism sector is largely dominated by the local group of hotels. Furthermore, the market is highly concentrated, with the six biggest hotel groups, namely New Mauritius Hotels, Sun Resorts, Naiade, Constance Hotels, Apavou and Accor controlling 60-65% of the market.

82. Mauritius is aiming at 2 million tourists by the year 2015. This would require a 10.5% growth per annum, if account is taken of the fact that tourist arrivals for the year 2006 totalled approximately 788,292 tourists. With a view to maintaining and sustaining the present growth in the tourism industry, the Ministry of Tourism has elaborated a few basic guidelines which are expected to guide a coherent and cohesive development strategy in the tourism sector. The guidelines would cover the following:

(i) Grading: Priority of consideration would be given to hotel projects of either 4 or 5 star category in order to concentrate on traffic flows belonging to the high spending tourists.
(ii) Investment: Government will exercise more caution in the choice of foreign investors to ensure a diversified mix of capital mobilization. Opportunities would be given to international brand names to invest in luxury hotel development and thereby benefit from their existing marketing network and expertise.
(iii) Coastal guidelines: Some specific guidelines regarding for example, height, plot coverage of buildings have been elaborated with a view to protecting the general landscape and seascape characteristics of our natural landscape. Moreover, built structures which combine judicious land use with environment friendly development would be privileged.
(iv) Government would not encourage the development of sites which are not conducive to quality development. Promoters would also be expected to make maximum use of the available beachfront.
(v) Projects would have to strike the right equilibrium between the exigencies of the tourism sector and the recreational needs of the Mauritians.
(vi) Islets: Projects would only cover those islets which are not classified as strict nature reserves and which have a tourist potential.

(2) INFORMATION COMMUNICATION TECHNOLOGY SERVICES

83. In line with the ICT vision of Mauritius to make of ICT a pillar of the economy and to position the country as a Regional ICT hub, the National ICT Strategic Plan (NICTSP) 2007-11 has recently been adopted at Government level. It sets the framework for Government and Private sector interventions to meet the following the primary targets over a period of five years:

- A 7% contribution into Mauritius GDP from offshore ICT export services which currently stands at less than 1%;
- employment to increase from around 10,000 to at least 29,000 individuals in the ICT sector;
- doubling the number of foreign investors into the ICT sector in Mauritius.

84. The NICTSP would also seek to maximize the growth of the ICT industry for the export market and aim at making Mauritius a regional business hub. It would try to do so by identifying schemes and facilities aiming at creating a more conducive environment to attract international partnerships.

(a) Recent Development in the ICT Sector

Infrastructure

85. A modern telecommunications infrastructure has been developed. Mauritius has been connected to the SAFE/SAT3/WASC submarine fibre optic cable system which provides high bandwidth international connectivity. The South Africa Far East (SAFE) cable network links Mauritius to Europe via South Africa and to Asia via India and Malaysia. Deregulation of the telecommunications sector has resulted in the expected reductions in tariffs coupled with enhanced quality of service.

86. The costs of international connectivity as well as local phone costs experienced a significant decline recently. The connectivity costs between Mauritius and Europe decreased by up to 52% over less than a year (from December 2005 to July 2006). Local phone costs were reduced by 27% (in

December 2005). International Private Lease Circuits (IPLC) tariffs were brought down in July 2006 resulting in an average drop of around 19% in the then existing rates. In September 2007, a further 20% decrease in the tariffs of the Half-Circuit, (IPLC) was undertaken to further promote Mauritius as a competitive ICT destination and is expected to boost investment in Business Process Outsourcing and Call Centre businesses.

87. The international connectivity status of Mauritius has been enhanced whilst also emphasizing the role of Mauritius as the bridge between Africa and Asia. This is done by exploring alternatives to facilitate connectivity to the Eastern Africa Submarine System (EASSy cable. In late 2006, Mauritius officially became part of the EASSy project by signing the NEPAD ICT Broadband Network Infrastructure Protocol. Mauritius is spearheading, at the level of the IOC, an inter-island connectivity project which will consist of, the creation of a submarine cable network between its member countries with an option of connecting to the EASSy cable or any other alternative submarine cable.

Legal framework

88. A crucial element for ICT development is a proper legal and regulatory framework. In this perspective, appropriate legislations on data security, protection against cyber crimes, the liberalisation and regulation of telecommunications and data protection have been enacted.

Human Resources

89. The availability of a critical mass of qualified and skilled manpower is a sine qua non factor for ICT development. To build capacity for the ICT sector, educational and training institutions have been offering new courses in ICT and have considerably increased their student intake.

90. ICT education and culture has been further promoted through the provision of broadband Internet connectivity in all schools; the installation of at least 5 computers in each primary school; the implementation of the Universal ICT Education Programme which provides a universally recognised basic benchmark imparting computer literacy/proficiency skills in the different segments of the population at a not-for-profit cost; the launching of the Community Empowerment Programme; the implementation of Public internet access points to service the community (Internet facilities to the unemployed, old age people and people with inabilities is provided free of charge).

Export oriented Industry

91. The ICT industry in Mauritius has evolved towards export-oriented services. An increasing number of foreign ICT companies are setting up their development centres in Mauritius to conduct software development, multimedia, BPO and ITES activities for the export market. Key players already in Mauritius include Microsoft, Infosys, Accenture, Oracle and Cisco.

92. ITES/BPO activities uptake such that A T Kearney, a world recognised global management consulting firm, has ranked Mauritius at the 25th position in its latest report, well ahead of major offshoring competitors. It is the only one of four new entrants in the Index to jump into the top 25 countries. As at March 2007, there were 185 BPO companies employing 6,960 persons with a cumulative investment of Rs 1.5 billion. Moreover, an additional investment of Rs 542 million is also envisaged by these companies.

(b) Other Recent Development to enhance the efficiency of the ICT Sector

93. Initiatives to facilitate the development of the local ICT industry include the following:

(i) The management of an ICT Incubator Centre by the National Computer Board (NCB);
(ii) participation in international ICT exhibitions to promote the local ICT industry such as SeCA, a major call centre fair held in Paris, Govtech in South Africa and Outsource World in New-York which are IT and BPO events;
(iii) the organisation of Infotech, the largest national annual ICT event;
(iv) the holding of the ICT Regional Conference and the Buyers-Sellers Meet, which bring together local and international ICT operators;
(v) the facilitation of exports of ICT products and services;
(vi) the compilation of promotional materials; and
(vii) the setting up of portals to promote the expansion of the ICT industry.

94. Moreover, the coming into operation of a number of Government computerisation projects as well as the availability of on-line services will ensure more efficiency and effectiveness in the delivery of Government services.

(3) FINANCIAL SERVICES

95. Financial Services consist of banking and non-banking activities and currently contributes about 11% to real GDP and is growing by an average rate of 8% per annum. The financial Services sector employs around 9300 persons.

(a) The Banking Sector

96. With the continued development and sophistication of the banking industry, the Bank of Mauritius (BOM) has enhanced its regulatory framework consequent to the promulgation of the Banking Act 2004 and the Bank of Mauritius Act 2004. The Banking Act 2004 provides for the integration of domestic and offshore banking business and eliminates the previous distinction between offshore banks and domestic banks. The new legislation has helped to dissipate the misapprehension regarding regulation of offshore banks and further improve the overall image of our financial sector.

97. The Banking Act 2004 has also been amended in 2007 to enable existing and new banks to provide Islamic financial services in Mauritius.

98. Under the Bank of Mauritius Act 2004 and Banking Act 2004, the BOM is responsible for the regulation and supervision of banks, money-changers and foreign exchange dealers, and the deposit-taking activity of non-bank financial institutions. The other activities of non-bank financial institutions are regulated and supervised by the Financial Services Commission under the authority of the Financial Services Act 2007. A banking licence should be accompanied by the payment of non-refundable processing fee as stipulated in the regulations made under the Banking Act 2004 and other guidelines/regulations issued under this Act. The banks are required, under the Banking Act, to submit returns and statements as per format and frequency prescribed by the BOM.

99. The minimum capital for operating a bank in Mauritius is MUR 200 million or the equivalent amount in any freely convertible currency held in assets in or outside Mauritius, as may be approved by BOM or such higher amount as may be prescribed, after deduction of the accumulated losses. Banks have also to maintain a risk-weighted capital adequacy ratio of 10% or such higher ratio as may be specified by BOM.

100. Banks have to comply with the provisions of the Financial Intelligence and Anti-Money Laundering Act 2002 and regulations issued under that Act. The Act provides inter-alia, for measures to combat money laundering and that exchange of in relation to money laundering and reporting of

suspicious transactions to the Financial Intelligence Unit, established under the Act. The Act replaced the Economic Crime and Anti-Money Laundering Act 2002.

101. The BOM has set up the Mauritius Credit Information Bureau (MCIB) in December 2005 as part of its objective to ensure the development of an overall sound credit environment. At present 13 banks are the main participants of the MCIB. Other banks and non-bank deposit taking institutions are expected to join the MCIB in the year 2008. The MCIB acts as a repository of credit information, which is used by banks to assess the actual exposure of borrowers as well as their total risk profiles. Institutions involved in the MCIB update information on their customers' debts which is in turn consolidated by the MCIB and provided on an on-line basis to participating banks. As from 1 December 2005, it is mandatory for all participants to make the necessary enquiry from the MCIB before appraising or reviewing any credit facility. The MCIB aims at facilitating credit decision making for banks by providing them with a summary of borrowers' overall indebtedness towards other participating institutions. The MCIB is a useful instrument for the participating banks to reduce the level of non-performing advances in their portfolios.

102. After extensive consultation with banks during the year 2005-06, a consensus was reached on the International Bank Account Number (IBAN) format which was implemented by the banks as from March 2006. Banks were requested to issue an IBAN to their clients as from 1 April 2006. The BOM has also made a request to the European Committee for Banking Standards (ECBS) to register the IBAN format for Mauritius.

103. With a view to further modernizing the Payment System in Mauritius the BOI has embarked together with commercial banks, on a Cheque Truncation Project. Cheque Truncation represents a paradigm shift in the processing and clearing of cheques whereby the recto and verso image of cheques are captured and forwarded by electronic means to the paying bank for clearing. The main benefits of the system are that it improves the payment system by reducing the clearing delay to same day settlement and eliminated the physical movement of cheques through the clearing house. The project is expected to go live in August 2008.

104. Another important development brought by the Bank of Mauritius Act 2004 was the establishment of a Monetary Policy Committee (MPC). The MPC would be responsible for the formulation of the monetary policy to be conducted by the Bank of Mauritius. The MPC was launched on 23 April 2007. The members of the MPC are the Governor, the two Deputy Governors, two Board members appointed by the Minister of Finance and three other persons appointed by the Minister who are neither Board Members nor employees of the Bank. The Governor is the Chairperson of the MPC. The MPC holds its meetings on a quarterly basis. Interim MPC meetings may be convened as and when the need arises. To provide for further independence of the MPC, decisions of the MPC no longer requires the approval of the Board of Directors of the Bank of Mauritius after the enactment of the Finance Act 2007. Effective September 2007, the MPC formulates and determines monetary policy.

(b) Non-Banking Financial Services Sector

105. In an attempt to keep pace with evolving international developments in the financial services industry, major changes were brought to the regulatory framework and the set up of financial services since the last trade policy review of Mauritius. The non-banking financial services sector, which includes the global business sector, the insurance industry and capital market, is regulated since 2001 by an integrated regulator, the Financial Services Commission (FSC).

(c) Reforms and Legislative Changes

106. The Financial Services Act 2007(FSA) was introduced in 2007 to streamline and consolidate the licensing, regulatory and supervisory framework for various non-bank financial institutions and financial service providers.

107. The FSA introduces a new concept of global business, which must now have substantive business activities being controlled and managed from Mauritius.

108. In a view to attract further investment and to make Mauritius a more competitive jurisdiction there no longer is a prescribed list of activities qualifying for a Category 1[7] global business. A global business company holding a Category 1 licence will now be able to conduct any activity, provided it is not unlawful or contrary to public interest or will not cause prejudice to the good repute of Mauritius.

Insurance Sector

109. A new Insurance Act was introduced in 2005 to replace the Insurance Act 1987. The new Act purports to improve the soundness of the insurance market in Mauritius and aims at enhancing the regulatory and supervisory insurance framework by incorporating international standards set out by the IAIS.

110. Insurance companies are now subject to a risk based capital requirement as per international standards. Special focus has also been placed on early warning systems and the protection of policyholders.

Capital Market Sector

111. The Securities Act 2005 has brought the regulation of the securities market in Mauritius in line with internationally accepted standards and principles, namely the principles of the International Organisation of Securities Commissions (IOSCO). This has enhanced the confidence of both local and foreign investors in our securities markets.

112. The new framework ensures an adequate level of protection to investors, as well as an orderly, fair, efficient and transparent market. Furthermore it puts in place a system of proper disclosure, control and supervision of market intermediaries and self-regulatory organisations.

113. Any securities exchange, settlement and clearing facility as well as securities trading system require a licence from FSC.

114. Investment dealers and Investment advisers must observe capital and liquidity requirements and other prudential requirements.

[7] A category 1 Business corporation meant activities which were carried out within Mauritius in foreign currency in the following areas: Aircraft financing and leasing, asset management, consultancy services, employment services, financial services, funds management, ICT services, insurance, licensing and franchising, logistics and/or marketing, operational headquarters, pension funds, shipping and ship management, trading and any other activities as may be approved by the commission.

(4) THE MANUFACTURING SECTOR

115. The manufacturing sector remains a major pillar of the economy as it currently contributes 19.8% to GDP. As at December 2007, the manufacturing sector employed some 123,200 workers representing around 23.5% of the total work force. However, it is worthwhile, noting that in 2001, the manufacturing sector generated some 140,700 jobs (around 28.5% of the total workforce). The 17,500 job losses for the time period 2001-2007 were mainly due to contraction in the former EPZ sector.

116. It is important to note that as from this year the Central Statistical Office no longer makes any distinction between the EPZ and non-EPZ sector. In fact the Finance Act 2006 has abolished all incentive schemes initially provided for under the Industrial Expansion Act of 1993. There is currently no EPZ regime in Mauritius. Some incentives given to companies involved in spinning activities have been grand-fathered. Companies having started their operations by 30 June 2006 in spinning, weaving, dyeing and knitting activities, will be exempted from corporate tax form 10 income years from the income year in which they started their operations. Moreover, those Companies starting their operations between 1 July 2006 and 30 June 2008 and engaged in spinning, weaving, dyeing and knitting activities will be exempted from corporate tax up to 30 June 2016. Companies exempted as above will pay corporate tax at the rate of 15% after the period of exemption.

117. The average growth rate for the manufacturing sector for the period 2001-07 stood at approximately 0.5% mainly due to difficulties encountered in the former EPZ sector which recorded negative growth rates for the period 2002-05. However the manufacturing sector recorded 4% growth in 2006. A growth rate of 3.5% is forecast for the year 2007. Several initiatives to re-engineer the manufacturing sector have been undertaken by Enterprise Mauritius, which is a collaborative partnership between public and private sectors. Actions have been initiated in terms of business development, capacity building to enhance export readiness of industrial operators and product development taking into account the limited product basket.

118. Trade Promotions in major international fairs in various sectors including apparel, agro industry, and printing have been undertaken to develop new export avenues for SMEs. Enterprise Mauritius is also active in assisting Mauritian companies to develop cross border regional initiatives.

119. However, textile rebounded in 2006 as it recorded a GDP sectoral real growth rate of 2.9%.

120. Textiles remain an important contributor to the manufacturing sector. However, other sub sectors have also performed well recently, namely:

- **Fish and fish preparations** sector has been increasing steadily over the years from Rs 1.8 billion in 2001 to Rs 7.1 billion in 2006. For the first semester 2007, an increase of 14.1% was experienced compared to the same period last year. This is attributed mainly to the rise in the price of Tuna fish resulting from a short supply of fish.
- **Optical goods** sector witnessed a declining trend during the period 2001 and 2003. However, since 2004, there was a reversal in the declining trends; from Rs 159 million in 2004 to Rs 207 million in 2006. For the first semester 2007, exports for this sector reached Rs 100 million.
- **The pearl and precious and semi-precious stones sub-sectors** has been increasing steadily over the years from Rs 881 million in 2001 to Rs 1,514 mn in 2006. For the first semester 2007, exports for the sector stood at Rs 748 million.
- **Jewellery, goldsmith and silversmith wares** witnessed an upward trend during the period 2001 and 2005 with a peak in 2002. For the year 2006, a decline was noted and for the first semester of 2007, exports stood at Rs 457 million.

- After an unfavourable performance in 2002, **watches and clocks** has been increasing steadily as from 2003. For the first semester 2007, the upward trend has persisted to reach Rs 303 million.
- Exports of **toys, games and sporting goods** have experienced a downward trend since 2003. The decline of this sector is attributed to the closures of several enterprises in this sector.

(5) THE AGRICULTURAL SECTOR

121. The contribution of the agricultural sector to GDP registered a decline from 7.3% in 2001 to 4.8% in 2007. For the sugar sector, which includes both sugar cane and sugar milling, the decline in contribution ran from 5.2% to 3.0% over the same period.

122. Mauritius's increasing reliance on food imports, be it for direct consumption or for processing, has revealed the precarious nature of its food security. The frequent outbreak of diseases, natural calamities and climate change, which greatly affect agricultural production over the world, coupled with the gradual phasing out of export subsidies in developed countries, are having an increasingly marked impact on the local economy.

123. Over the 2001-05 period, Mauritius has imported food for an average value of Rs8,120 million annually. The average yearly increase was of the order of Rs 750 million and in 2005, the import bill for agricultural and food products amounted to Rs 9,700 million. This represents about 10% of the country's total imports. The Food Import Bill is however just below the level of foreign currency earnings derived from sugar exports (Rs 10,536 million in 2005).

124. The above situation will most likely worsen in the near future as sugar prices drop (by 17% this year and by a total of at least 36% as from 2009) and food prices continue to soar on international markets. The plight of Mauritius as a Net Food Importing Developing Country (NFIDC) will require adequate redress measures, including those, which may be taken at the international level, namely the WTO.

(a) From a Sugarcane Island to a Broad-Based Economy

125. By providing Mauritius with a predictable and stable source of earnings over the years, the Sugar Protocol has been instrumental in developing the local sugar industry and in fostering the economic diversification of the island. Revenues from sugar exports have continually been re-invested into other economic activities, some of which have today developed into major pillars of the Mauritian economy, namely manufacturing, tourism and finance. Sugar is still an important pillar of the economy and will continue to play a vital role in the socio-economic fabric of Mauritius and its physical environment.

126. Practically all of Mauritius' sugar production is exported to the EU under the ACP/EU Sugar Protocol. Sugar currently accounts for almost 24% in value terms of the country's domestic exports of goods and up to 3.1% of its GDP (of which 0.7% from sugar milling).

127. However, under the new EU sugar regime, which lasts from 1 July 2006 to 30 September 2015, the EU reference price for both raw and white sugars will undergo a staged cut up to 36% by October 2009.

128. As the biggest quota holder under the Sugar Protocol (37%), Mauritius is the mostly affected country. It is expected to lose up to €895 million during the nine years of the implementation of the new Sugar Regime and suffer from a direct permanent loss of €95 million annually.

129. The adverse impact of this fall in sugar export earnings is compounded if the less tangible benefits of the Sugar Protocol are also considered. These benefits are just as valuable, particularly with regard to the multi-functional role of the sugar industry and its benefits to other industries as well as to the country's physical environment.

130. The high versatility of the crop has actually enabled value optimisation of its main product, sugar, into a wide variety of higher value-added sugars, as well as the production of valuable co-products such as electricity from bagasse. The sugar sector has thus evolved into a vast sugar cane cluster with a very high multiplier effect at the macro-economic level. More importantly, the industry has consistently met its overseas market commitments over a period of more than 30 years without any interruption.

(b) Domestic Reforms

131. The agricultural sector and in particular its sugarcane cluster is to remain a major source of wealth for the Mauritian economy and one of the country's main development pillar.

132. In 2005, against a backdrop of decreasing revenue resulting from the drastic price cut of 36% over a period of 4 years, Government launched the Roadmap for the Sugarcane Industry for the 21st Century and subsequently in 2006, the Multi-Annual Adaptation Strategy (MAAS) Action Plan 2006-15. The MAAS aims at further rationalising and integrating the sugar sector by its conversion into major clusters having the capacity to tap to the fullest potential the country's sugar cane biomass resource, converting it into the most economically viable and sustainable production mix, consisting mainly of sugars, electricity and ethanol. The plan calls for, amongst others, centralisation of sugar factories, regrouping of small planters, right-sizing of human resources through a Voluntary Retirement Scheme, extension of field mechanisation through land derocking and preparation, and the production of electricity and ethanol from the cane biomass.

133. The Action Plan contains bold and deep measures aiming at ensuring the long term viability and sustainability of the industry and enabling it to continue fulfilling its multifunctional role in the country. The MAAS has received broad consensus with the industry's stakeholders. The course is thus set for a new development age for the Mauritian agricultural sector at large.

134. The core objectives of the plan are thus to:

(i) Further modernize and diversify the sector with a view to transforming it into a more cost-efficient and competitive sugar cane cluster, geared towards the production of raw, white, industrial and special sugars, electricity from bagasse/coal and ethanol from molasses;
(ii) Continuing to fulfil the sugar trade commitments of the country; and
(iii) Helping to reduce the country's dependency on imported fossil fuels and on oil in particular.

135. The unilateral denunciation of the Sugar Protocol by the EC compounded with possible high tariffs cuts on sugar on its exports market could give a serious blow to the sugar sector in Mauritius at a time when it is reforming its industry become more competitive. The importance of sugar to the Mauritian economy has been recognized by the WTO secretariat in a study on preferences and by the Chair of the WTO Negotiating Group on Agriculture. The latter indicated in the modalities paper on agriculture of July 2006 that trade preferences in sugar is a "big ticket" thereby acknowledging the sensitivity of this commodity. Mauritius is aware that as a result of liberalization preference erosion is inevitable. However Mauritius believes that countries that are presently benefiting from long standing preferences (sugar in our case) should be given sufficient policy space to adjust by preserving to the

maximum extent possible through namely lower tariffs cuts over a longer period on markets of export interest to them.

(c) Non-Sugar Agricultural Sector

136. Since the mid-seventies, various policies have been implemented in Mauritius with a view to promoting the development of the non-sugar agricultural and agro-industrial sectors. The objectives were to achieve self-sufficiency, increase food self-reliance and reduce dependency on imports, and to encourage the export of high value crops and the development of the agro-processing sector.

137. However, in spite of various incentive measures, the overall results have been well below expectations, except for a few success stories such as the production of fresh vegetables, of poultry meat and eggs. This situation is mainly due to the fact that Mauritius suffers from a number of inherent constraints, including, inter alia, a narrow domestic market, pressure on land and on other natural resources, generally unfavourable agronomic and climatic conditions and the limited range of crops which can be grown on an economically viable scale.

138. Some agro-processing industries targeting mainly the local market have succeeded in establishing themselves in the transformation of imported raw materials (edible oil refining, animal feed compounding and wheat flour milling, food processing). As concerns agricultural exports, they are limited to anthurium flowers and to small volumes of tropical fruits, e.g. pineapples and litchis.

139. Mauritius therefore still faces major challenges of food security and remains vulnerable to the volatility of international food prices and trade terms. The gradual liberalization of trade in agriculture is bringing about major structural changes to the global market for agricultural and food commodities. The reduction in domestic support and the gradual elimination of export subsidies will discourage exports to the detriment of net food importing countries, which have usually taken advantage of their relative cheapness.

140. In addition, the increasing demand for better quality and safer products which can withstand the test of traceability will exert more pressure on the global market, as a result of which the supply of foodstuffs, particularly for net food importers like Mauritius, could well become problematic. In other words, having the financial means of buying food will no longer be synonymous with guaranteeing the food security of a nation.

(d) The Way Forward for the Non-Sugar Sector

141. It is against this background that Mauritius is undertaking a review of its agribusiness sector, with a view to assessing its strengths and weaknesses and also to identifying the opportunities and threats for its future development.

142. The objectives are namely to:

(i) promote a transition from the traditional, practices towards a sophisticated, technology-based approach to agriculture with a focus on attaining a certain degree of self-sufficiency;
(ii) meet quality exigencies;
(iii) develop the local agro-processing industry;
(iv) promote entrepreneurship;
(v) optimise export opportunities;
(vi) conform to international norms governing food safety; and
(vii) maximise on the potential benefits of regionalisation.

VII. IMPLEMENTATION OF URUGUAY ROUND AGREEMENTS, BILATERAL AND REGIONAL COOPERATION

(1) CHALLENGES AND CONSTRAINTS IN IMPLEMENTING THE RESULTS OF THE URUGUAY ROUND AGREEMENTS

143. Despite its smallness and resource constraints, Mauritius has made tremendous efforts in implementing the Uruguay Round Agreements. With a view to increasing transparency in its trade regime, Mauritius has to a very large extent responded to its notification obligations. Trade Policy Formulation is undertaken in consultation with various stakeholders both from the public and private sector. Moreover, the enquiry points for sanitary and phytosanitary measures (SPS), Technical Barriers to Trade (TBT) and Trade in Services have been operational since 1995.

144. Mauritius has established regulations that permit effective action against any act of infringement of Intellectual Property Rights (IPR). The Judiciary has been granted adequate power to require infringers to pay damages to compensate IPR holders for the injury suffered. The following pieces of legislation which encompass our obligations under the TRIPS Agreement have been passed by Parliament:

- The Patents, Industrial Designs and Trademarks Act 2002
- The Protection against Unfair Practices (IPR) Act 2002
- The Layout designs (topographies) of Integrated Circuits Act 2002
- Geographical Indications Act 2002

145. It should be noted that the Copyrights Act is in force in Mauritius since 1997. Regarding Industrial Property Legislation, only the Patents, Industrial Designs and Trademarks Act 2002 and the Protection against Unfair Practices Act have been proclaimed, due to capacity constraints.

146. The Industrial Property Office is responsible for processing registration of patents, trademarks and industrial designs. The Anti-Piracy Unit has been set up within the Police Department for the enforcement of IPR by intercepting counterfeit and pirated goods.

147. It is also worth worthwhile noting the Trade Remedies Bill is in the final stages of drafting and scheduled to be passed by parliament in early 2008.

(2) PARTICIPATION IN THE DOHA DEVELOPMENT ROUND

148. Mauritius believes in a fair and rules-based multilateral trading system which aims at results which are balanced, all inclusive and equitable. Mauritius has actively participated in all the WTO Ministerial Conferences since the Uruguay Round and is currently active in the Doha Development Round negotiations.

149. As a small island developing state, Mauritius has been very vocal with a view to ensuring that its concerns are adequately addressed in the context of the WTO negotiations. Its main concerns are characterised by the exiguity of its market, geographical isolation, and proneness to natural disasters among others. In this regard it has been on the fore regarding the elaboration of a Work Programme for Small Economies in accordance with Paragraph 35 of the Doha Ministerial Declaration. One of the major concerns of Mauritius is related to the loss of Market Access which will result from the erosion of trade preferences. In this regard, it has with its ACP partners identified those products that are the most vulnerable to preference erosion for which it is seeking a trade solution.

150. In light of the coherence mandate of the WTO, Mauritius strongly advocates for the extension of support facilities to enable the most vulnerable countries to fully participate in International Trade and to integrate the multilateral trading system. In this regard, it has played a major role in framing the Aid for Trade initiative as a major development component of the Doha Development Round and has been actively involved in the WTO Aid for Trade Task Force in representing the ACP Group.

151. While there is general consensus on the broad recommendations of the Aid for Trade (AFT) initiative, there is an urgent need now to ensure that the AFT is operationalised as early as possible, independently of the results of the WTO negotiations. Mauritius strongly believes that Market Access will never deliver in the absence of the capacity to produce. For Mauritius this is very important in view of the erosion of the Trade Preferences which can be offset by Aid for Trade as well as the reform program whose financing is expected to be partially met by Aid for Trade funds.

(3) BILATERAL RELATIONS

152. Mauritius gives significant importance in consolidating its ties with existing partners such as India and Pakistan as well as forge new strategic partnerships. In this context, Mauritius and India are working towards the conclusion of a Comprehensive Economic and Partnership Cooperation Agreement (CECPA). The CECPA would provide a new dimension to the trading arrangement between the two countries, encompassing not only trade in goods, but also services, investment and economic cooperation. Talks on the Preferential Trading Agreement and Economic Cooperation under the CECPA were completed in August 2006 and the PTA is expected to be signed this year.

153. Moreover, Mauritius and Pakistan signed a Preferential Trading Agreement on 30 July 2007 which came into force on 30 November 2007. The PTA applies to a list of thrust products that constitute a good potential in dynamising trade. The two countries have agreed to extend tariff concessions to each other on more than 100 tariff lines during the initial period and subsequently expand this list during the course of future talks at the level of the Joint Working Group. The Joint Working Group Mauritius/Pakistan will start discussions on the Free Trade Agreement (FTA) in early 2008. The FTA would cover substantially all trade except a few sensitive products.

154. A Trade and Investment Framework Agreement (TIFA) between Mauritius and USA was signed on the 18 of September 2006 in Washington with the objective of strengthening and expanding trade ties between Mauritius and the US. It also provides the opportunity to work more closely on a broad range of issues, including moving the WTO Doha Development Round forward and on implementation-related issues with respect to the African Growth Opportunity Act (AGOA). It is expected that the TIFA would pave the way for deeper economic relations between the two countries. Both countries are now working on the conclusion of a Bilateral Investment Treaty.

155. Mauritius is also working towards the strengthening of its economic and trade relationship with the People Republic of China. Both sides expect to enhance their long existing economic ties through an Economic and Trade Cooperation Agreement.

156. Similarly the possibility of concluding a Comprehensive Economic and Trade Cooperation Agreement with Russia and Brazil is also being explored.

157. Mauritius is committed towards fostering South-South Cooperation. In this regard it made a request for observer status in the SAARC. The 29th Session of the South Asian Association for Regional Cooperation (SAARC) Council of Ministers held on 7 December 2007 in Delhi has welcomed Mauritius to be associated as Observer. Mauritius is also keen to strengthen trade and economic relation with the Association for South East Asian Nations ASEAN and its member states and in this regard has applied for observer status in the organisation.

(4) REGIONAL INTEGRATION

158. Regional integration is viewed as a logical expansion of the economic space of Mauritius. In this respect, Mauritius has been very proactive in the regional negotiations at the level of the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA), the Indian Ocean Rim Association for Regional Co-operation (IOR-ARC) and the Indian Ocean Commission (IOC) with the aim of facilitating trade and economic cooperation through the removal of tariff and no-tariff barriers, and harmonization of the various standards on sanitary and phytosanitary measures, and technical regulations.

(i) Southern African Development Community (SADC)

159. One of the main objectives of the SADC Trade Protocol is to achieve a Free Trade Area (FTA) by 2008 whereby 85% of all intra-SADC trade will be duty free, and the remaining 15% (sensitive products) will be liberalized by 2012. It has to be noted that the list of sensitive products of Mauritius amounted to around 10% at the time of entry into force of the SADC Trade Protocol.

160. However, Mauritius has not been able to reap the full benefits of the Trade Protocol due to several trade-related constraints namely the stringent rules of origin and the non-tariff barriers. The Mid-Term Review of the SADC Trade Protocol has strongly recommended that the SADC rules of origin be made simpler, flexible and adapted to the region's own realities. As regards to the negotiations pertaining to the SADC Custom Union, Mauritius has consistently underlined the importance of the consolidation of the SADC FTA before moving ahead in the regional integration process.

(ii) Common Market for Eastern and Southern Africa (COMESA)

161. Mauritius has been a founding member of the Preferential Trade Area (PTA) for Eastern and Southern Africa which existed prior to the establishment of the COMESA. The adoption of the COMESA Treaty in 1993 replaced the PTA. As far as trade is concerned, one of the main objectives of the COMESA Treaty was the establishment of a Free Trade Area which was successfully launched in October 2000. Mauritius, along with eight other COMESA Members, became members of the Free Trade Area since its launching. The Free Trade Area now has 13 participating member states[8], out of 19 member countries.

162. Mauritius is also an active participant in discussions aimed at establishing the COMESA Customs Union by December 2008. The Common Tariff Nomenclature is being finalised and the rates for the Common External Tariff have already been agreed by the COMESA Council of Ministers as follows:

Raw Materials	0%
Intermediate Goods	10%
Finished Goods	25%
Capital Goods	0%

163. It is worth noting that the COMESA CET Rates have formed the basis for tariff liberalisation between the EU and the Eastern and Southern Africa countries in the context of the Economic Partnership Agreement (EPA) negotiations.

[8] Djibouti, Burundi, Comoros, Egypt, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Sudan, Zambia, Zimbabwe.

(iii) Economic Partnership Agreement (EPA)

164. In June 2000, 15 European Union (EU) countries and the African, Caribbean and Pacific (ACP) group of 77 developing nations signed a new 20-year trade and economic cooperation agreement. It called for fundamental changes in their longstanding relationship to reflect the changing times. The Cotonou Agreement replaced four successive Lomé Conventions, three of which were of five years duration while the fourth was for 10 years with a mid-term review. The successive agreements offered not only preferential, non-reciprocal access to EU markets for most ACP exports but also provided aid to finance much needed development projects in ACP countries.

165. The Cotonou Agreement, however, represented a fundamental departure from the Lomé Conventions. The advent of the WTO provided for a fundamental shift away from those trade preferences which were behind the success of sugar, bananas and rum in many ACP states. In this respect, anticipating the inevitable phase-out of preferences and the adoption of new trade liberalizing rules, Cotonou committed the EU and ACP to begin negotiations on their first-ever reciprocal "Economic Partnership Agreements" (EPAs).

166. The EU and six ACP regions engaged in EPA negotiations in 2004 to conclude their respective agreements before 31 December 2007 when a WTO waiver for existing EU preferences was scheduled to expire.

167. Mauritius, along with 15 countries[9] has been negotiating within the Eastern and Southern Africa (ESA) configuration. The main areas of negotiations were divided in six clusters, namely market access, development, fisheries, agriculture, trade related issues and services.

168. Negotiations in most ACP regions, including the ESA configuration have been behind schedule as compared to the roadmap initially agreed with the EU. Consequently full negotiations could not been completed on the targeted date of 31 December 2007 in all the regions except for the Caribbean region which signed a full EPA on the 15 December 2007.

169. With a view to preventing any trade disruptions, the ESA countries agreed to focus on those aspects of the Agreement that would have to comply with the provisions of the WTO, namely trade in goods but also development to create the necessary balance. Consequently Mauritius together with four ESA countries Madagascar, Comoros, Seychelles and Zimbabwe initialled an interim agreement involving the trade in goods provisions, development chapter as well as issues where agreement has been achieved, including fisheries.

170. Mauritius initialled the interim agreement on 4 December 2007. It will liberalise almost 95% of its products within the next 15 years after a moratorium of five years as specified in the tariff schedule. The EC on the other hand would provide duty free quota free access on all products with the exception of sugar and rice which are subject to longer transition period.

171. The interim agreement also provides for more flexible rules of origin on several products including textiles and clothing. In the case of tuna, ESA countries will also benefit from an automatic derogation of 8,000 tonnes for canned tuna and 2,000 tonnes for tuna loins.

172. Development is a core priority for ESA countries. The Interim Agreement contains a comprehensive chapter on development, including a jointly agreed matrix comprising of projects linked to the EPA.

[9] Burundi, DR Congo, Comoros, Djibouti, Ethiopia, Eritrea, Kenya, Madagascar, Malawi, Rwanda, Seychelles, Sudan, Uganda, Zambia and Zimbabwe.

173. The Interim Agreement will be replaced by a full EPA. Negotiations are set to continue in 2008 on all outstanding issues, namely services, agriculture and trade related issues which include trade facilitation, SPS, investment, competition policy and government procurement.

(iv) Indian Ocean Rim Association for Regional Cooperation (IOR–ARC)

174. The main focus of the IOR-ARC is on economic cooperation and particularly on trade and investment. It is primarily an outward looking forum for economic dialogue and cooperation. The main difficulty for working on a trade agenda has been lack of a framework agreement. Some members are now working a draft PTA which is believed may provide the proper vehicle to liberalise trade in the region. However, the greatest challenge would be how to reconcile IOR-ARC PTA with the trade regime of the existing Free Trade Areas (FTAs) and Regional Economic Communities (RECs) in the region.

VIII. CONCLUSION

175. The third Trade Policy Review reveals the commitment of Mauritius to adhere to its WTO obligations and the willingness to undertake a serious economic reform programme on account of global economic challenges with a view to maintaining the economy on a strong growth path. Trade policies in Mauritius are an integral part of economic policies aimed at improving the standard of living of the population through the establishment of thriving, competitive and modern economy growing at high rates. However, given its small net-food importer, Mauritius remains vulnerable to external trade shocks. Without external support, it would be difficult for Mauritius to meet the adjustment costs with a view to improving competitiveness and confronting the challenges of globalisation. For Mauritius to maintain its development momentum, much would depend on not only the trade opportunities provided by the multilateral trading system, but more importantly as to how the WTO would address its concerns.

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