David V. Goliath: Mauritius facing up to China

A Draft Scoping Study

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1. Introduction
1.1 Background

A number of recent studies have sought to assess the net economic impact of the Asian Drivers – India and/or China – on various countries. Sub-Saharan Africa as a regional grouping has received particular attention given China's quest for natural resources from the sub-continent and the Chinese government's declared policy to forge greater economic ties with its SSA partners. Most of the studies indicate that China's unfolding economic dominance will affect SSA economies differentially depending on their trade complementarity, industrial competitiveness, degree of export diversification and general economic resilience. These effects, as suggested by Jenkins and Edwards (2005) and Kaplinsky and Morris (2006a, b), can be classified into direct or indirect, competitive or complementary. It is possible, through careful analysis, to ascertain the nature of the aggregate effect along the three main vectors of influence – trade, investment and aid. Zafar (2007) argues that the resource-rich and oil-exporting countries of SSA will be the biggest winners; on the other hand, oil-importing countries that happen to be in direct export competition with China in the textile and clothing sector will lose significantly. Mauritius figures prominently in the latter group.

China's rise to economic stardom has coincided with, or was triggered by, several events, the effects of which have proved difficult to isolate. For example, both China's accession to the World Trade Organization in December 2001 and the phasing out of the Multifiber Agreement at the end of 2004 paved the way for Chinese exports to flourish. Kaplinsky and Morris (2006a) suggest that the MFA quota removal, which dramatically boosted Chinese clothing exports, has sowed the seed of de-industrialization in many SSA economies. In the same vein, Rojid and Ancharaz (forthcoming), using a computable general equilibrium framework, estimate that the dismantling of the apparel quotas would wipe off some 6 percent from real GDP growth in Mauritius.

However, an important limitation of the above studies has been their static assessment of the China effect, with no consideration for policy response. As the Mauritian case illustrates, effective remedial policies can help avert the adverse economic impact of China while tapping the opportunities for investment and aid that partnership with China entails. Consequently, this paper is founded on the premise that Mauritius stands to gain from the economic emergence of China in contrast to the prediction of doom of several studies.

The paper is organized as follows. The next section presents the features of the Mauritian economy that make it a special case in SSA, arguing that this uniqueness has generated more opportunities for Mauritius to benefit from the rise of China than challenges to contend with. Section 3 surveys the impacts on the Mauritian economy following the Jenkins and Edwards (2005) methodology. Section 4 discusses the government's policy response to China. Section 5 concludes.

1.2 Mauritius: A Case of Differential Impact

Mauritius is arguably an outlier among SSA countries and, as such, standard analysis of China's impact on African economies cannot be easily generalized to Mauritius. As a small island economy, with no natural resources, Mauritius understands that its economic survival rests crucially on an openness strategy pushed to its limits. The country adopted an export-oriented trade strategy back in 1970 with the setting up of an export-processing zone. As a result of sustained trade reforms since 1979, Mauritius boasts a very liberal trade regime, with low or zero tariffs on a broad range of goods and peak tariffs on a select list of sensitive products. Total trade as a percentage of GDP amounted to 128 % in 2006 compared to an SSA average of 68% (Table 1).

Table 1: Key Differences between Mauritius and SSA

	Description / Unit	**Mauritius**	**SSA**
GDP per capita	Constant 2000 US$	4522	583
Trade Openness	Trade as a % of GDP	128.3	68.6
Share of Manufactured exports in Total Exports	% of merchandise exports	69.9[1]	n/a
Share of value added in Agriculture	% of GDP	5.6	15.2
Share of value added in Manufacturing	% of GDP	19.1	14.4

Source: WDI Online (2006).
Notes: [1] Relates to year 2005.

China's quest for oil and other natural resources from SSA has caused an improvement in the terms of trade for resource-rich countries and generated significant gains to them. However, a side effect has been the increased risk of Dutch disease, which could jeopardize export stability and economic prosperity in SSA. Mauritius experienced the damaging consequences of Dutch disease when the sugar boom of 1973-74 led to a real appreciation of the rupee, which eroded the export competitiveness of the nascent EPZ sector and entailed massive fiscal and payments deficits. That episode was not repeated, partly because Mauritius had learned its lessons and undertook a series of structural adjustment measures that helped diversify the export base and build economic resilience. The latter has proved a key weapon in fighting off the onslaught of globalization, the erosion of trade preferences and the rise of China.

The degree of economic diversification of Mauritius relative to SSA is evident from Table 1. Mauritius is essentially a services-oriented economy, with a well developed, yet growing, manufacturing sector that contributed 20 percent to GDP in 2006, compared to 14.4 percent for SSA as a whole. Manufactured exports, while still dominated by textiles and apparel, are nevertheless more diversified than those of the typical SSA economy. The Mauritian EPZ produces a broad range of products, including flowers, footwear and leather products, wood and paper products, jewellery, electric and electronic products, watches and clocks, optical goods, and toys. Moreover, a number of non-EPZ enterprises that started out as import-substituting firms in the 1960s have graduated into competitive exporters of plastic and rubber products, consumer goods (beer, canned foods and juices, cosmetics, yoghurt), wheat flour, refined oil, livestock feed, etc. Since 2005, EPZ incentives, which had created and perpetuated a special regime for certain export-oriented enterprises, have been extended to all industries, irrespective of their market orientation. These changes bear witness to the increased dynamism and resilience of the export sector, which has helped it mitigate the adverse effects of external shocks, including the Chinese dominance.

1.3 A review of cooperation arrangements between China and Mauritius

Mauritius did not rush to befriend China once the latter's economic potential began to unfold. Mauritius-China cooperation goes as far back as 1972 when diplomatic relations between the two countries were established. The Mauritian Government has constantly supported the One China Policy – this in utter defiance of the international community. Moreover, the presence of a local Chinese community, small in size but economically significant, has helped maintain cultural ties with China, which paved the way for cooperation on the economic front as well.

Both countries maintain full-fledged embassies in their partner's capital; Mauritius, in addition, holds a consulate in Hong Kong, SAR. These diplomatic representations have played a key role in furthering cooperation between the two countries in many areas, including technical, scientific, economic and cultural. Table A.1 in the appendix summarizes the various agreements of cooperation between Mauritius and China since 1969 to date. It is evident that cooperation between the two countries has been particularly prolific in the cultural domain. Such cooperation is perhaps epitomized in the setting up of a Chinese Cultural Center, entirely funded by China, in Bell Village, Mauritius in 1988.

Mauritius has also benefited from Chinese technical assistance in agriculture and some infrastructure projects. Since 1984, the Chinese government has been regularly offering scholarships to Mauritian students to pursue university studies in China. In the area of economic cooperation, Mauritius and China have entered into treaties to avoid double taxation and to prevent tax evasion. In 1996, the two countries signed an Investment Promotion and Protection Agreement. Cooperation, especially on the economic/technical front, has received added momentum since 2004, as is evidenced by the number and scope of agreements signed between Mauritius and China in the past 3 years.

The year 2007 marked 35 years of diplomatic relations between Mauritius and China. In July 2007, the Mauritian Prime Minister led a 30-man-strong delegation comprising Government ministers, private sector operators and representatives from several para-public organizations engaged in export development and investment promotion in a week-long official visit to China to discuss bilateral cooperation on a broad range of areas, including infrastructure, trade, aid and FDI.

The Government of Mauritius rejoiced the signing of an Economic and Technical Cooperation Agreement, which, among other things, would result in a tripling of Chinese aid over three years. Much of this aid will be devoted to infrastructure projects. The delegation also finalized an accord with the Tian Li Group of industries for the setting up of an economic cooperation zone in Mauritius with investments to the tune of $ 500 million over the next 5 years, starting October 2007.

Thus, it appears that Mauritius is poised to gain significantly from China's economic prosperity. In fact, existing opportunities for economic cooperation, business and investment between the two countries suggest that both are likely to gain. On the one hand, the Mauritian economy's maturity and resilience will help minimize the adverse effects of China's growing dominance. On the other hand, historical ties with China will ensure a steady flow of Chinese aid on terms unmatched by the international financial institutions while duty-free access of Mauritian goods into the COMESA market and into a SADC-FTA expected to come in force in 2008 will generate a win-win situation for the two countries as China strategically uses Mauritius as a platform to penetrate the African market.

1.4. Assessing the Impact of China on the Mauritian economy: Methodological issues

While the analytical framework used to assess the impact of China on individual economies or regions have distinguished three impact channels – namely, trade, investment and aid – and two dimensions of effects – namely direct v. indirect and complementary v. competitive –, most empirical studies on Africa, including Zafar (2007), Kaplinsky and Morris (2006a, b), and Jenkins and Edwards (2005), have focused almost exclusively on one vector – trade. This bias reflects not only the prominence of trade in China-Africa relations; it also indicates the paucity of reliable data on Chinese investment and aid. Similarly, IDS (2006), in a major study of the impact of the Asian drivers on the developing world, identified environmental spillovers, and global and regional governance as additional vectors of impact but fell short of providing a detailed analysis along these dimensions due – arguably – to the absence of data.

This study draws on several data sources to provide a comprehensive analysis of China's effects on the Mauritian economy through trade, FDI and aid. Moreover, we also address an issue that has not been of much concern for SSA so far but that does matter for Mauritius – Chinese migrant workers. Invariably, the paper has a heavier inclination towards trade and, within this channel, towards one particular sector of economic activity in Mauritius – the EPZ.

2. Impact on Trade

It appears that the indirect impacts on trade have been more important than the direct impacts, and these have been generally adverse to the Mauritian economy. The direct impacts relate to the bilateral trade between Mauritius and China. Such trade has traditionally been skewed in China's favor.

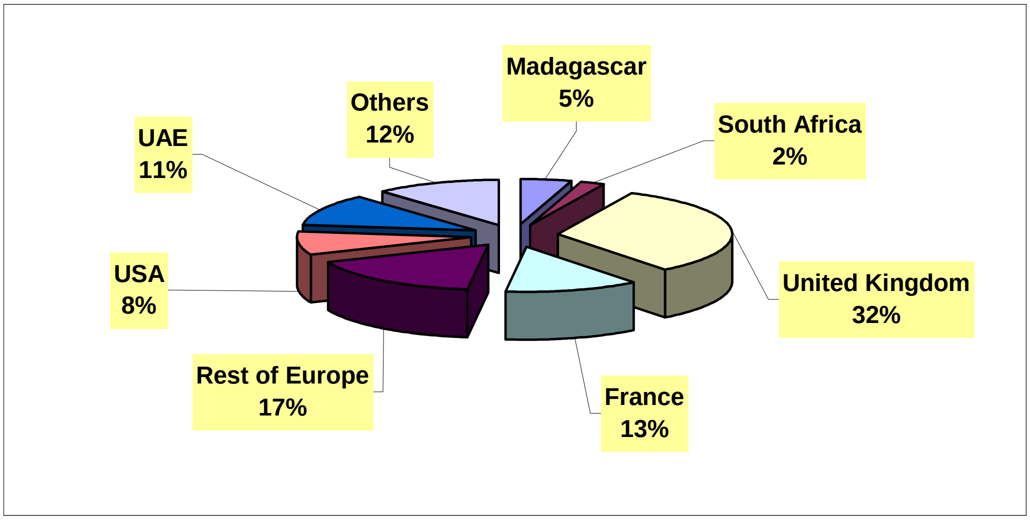
2.1 Direct Impacts

Figure 1 shows the major destinations of Mauritian exports in 2006. Europe and USA have been Mauritius' traditional export markets, absorbing over 70 percent of exports.[1] There is no evidence of diversification away from these markets in recent years in spite of the increasing awareness by the exporting community of the dangers

[1] The UAE accounted for 11% of exports in 2006. However, the bulk of this figure comprises of re-exports from the Freeport Zone of machinery and transport equipment, mainly cellular phones.

of market concentration. Government policy has also stressed the need to diversify export markets – as part of a wider strategy to strengthen economic resilience – but has achieved little so far.

Figure 1: Mauritius' Main Export Markets, 2006



China's absence from Figure 1 bears witness to the insignificance of Mauritius' exports to China. For example, Table 2 shows that, in 2006, China took in less than a quarter of one percent of Mauritius' exports. China's imports from Mauritius consist mainly of fish and fish preparations, and of manufactured products.

Mauritius' exports to China have remained marginal, and this despite the dramatic upturn in exports since 2002. From Rs. 7 m in 1995, exports to China increased to a peak level of Rs. 281 m in 2002 (Table 3).[2] Ever since, however, exports have been on a downward path, declining by a cumulative 41 percent over the period 2002-2006 to reach Rs. 166 m in 2006. Thus, it appears that the rapid growth of China since the turn of the new millennium has proved disastrous for Mauritian exports. The reasons for the reversal are not clear. It could be that China has shifted its imports of frozen fish from Mauritius to other sources, or that local production has substituted out China's imports of manufactured products from Mauritius.

Chinese imports have been of even greater consequence for Mauritius. The steady increase in imports from China over the past decade – more so since 2001 – has propelled China into the ranks of Mauritius' main import partners. In 2006, China accounted for some 9 percent of total imports (Figure 2), placing the country into a comfortable third position, ahead of South Africa, which has been a traditional source of imports at the regional level. At current trends, China will soon be competing for first place with France and India.

[2] In this report, all values pertaining to Mauritius will be quoted in the local currency (the Mauritian rupee) in order to preserve the originality of the data (obtained from the Central Statistical Office). Indicative exchange rates are given in Table A.2 in the Appendix. For ease of reference, note that the exchange rate over the period 2000-2006 has average Rs. 29 = US$1.

Table 2: China's share of exports by commodity groups, 2000 and 2006

Section	Description	*2000* China (Rs. Mn)	*2000* Total (Rs. Mn)	*2000* China's share of total exports (%)	*2006* China (Rs. Mn)	*2006* Total (Rs. Mn)	*2006* China's share of total exports (%)
0	Food and live animals	-	7201	0.00	86	20185	0.43
1	Beverages and tobacco	-	39	0.00	9	289	3.11
2	Crude materials except fuels	-	284	0.00	12	853	1.41
3	Mineral fuels, lubricants and related materials	-	3	0.00	-	72	0.00
4	Animal/vegetable oil/fat/wax	-	13	0.00	-	72	0.00
5	Chemical and related products	-	361	0.00	-	867	0.00
6	Manufactured goods classified chiefly by material	25	3555	0.70	48	5332	0.90
7	Machinery and transport equipment	3	503	0.60	8	12077	0.07
8	Miscellaneous manufactured articles	3	27104	0.01	3	28973	0.01
9	Commodities not elsewhere classified	-	9	0.00	-	88	0.00
	Total exports	***31***	***39,072***	***0.08***	***166***	***68808***	***0.24***

Source: Author's computation using CSO data

Table 3: Mauritius-China Trade, 1996-2006 (Rs. Million)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Imports	1,005	1,741	2,006	2,601	3,231	4,152	4,142	5,434	5,539	7,068	9,166	9,987
Of which:												
Textiles	*532*	*939*	*1,175*	*1,673*	*1,924*	*2,563*	*2,488*	*2,963*	*2,600*	*2,521*	*2,219*	*2,433*
Wearing apparel	*11*	*9*	*11*	*20*	*36*	*42*	*87*	*138*	*207*	*282*	*374*	*391*
Exports	7	12	23	20	22	31	45	281	211	174	187	166
Of which:												
Textiles and clothing	*1*	*2*	*5*	*5*	*16*	*19*	*34*	*45*	*43*	*15*	*25*	*47*
Trade deficit	-998	-1,729	-1,983	-2,581	-3,209	-4,121	-4,097	-5,153	-5,328	-6,894	-8,979	-9,821

Source: Author's computation using CSO data

Figure 2: Main Sources of Imports, 2006

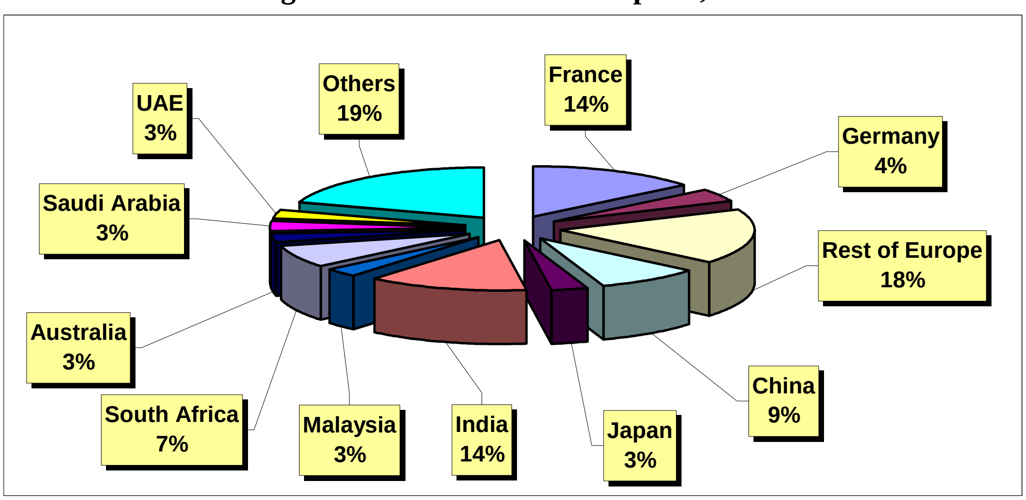


Table 4 shows China's share of imports by commodity groups for the years 2000 and 2006. Imports of textiles (SITC 6), of machinery and transport equipment (SITC 7) and of miscellaneous manufactured goods (SITC 8) have made up over 90 percent of total imports from China since 2000. Altogether, China is at the present the biggest supplier of manufactured products (SITC 6 + 8) to Mauritius.

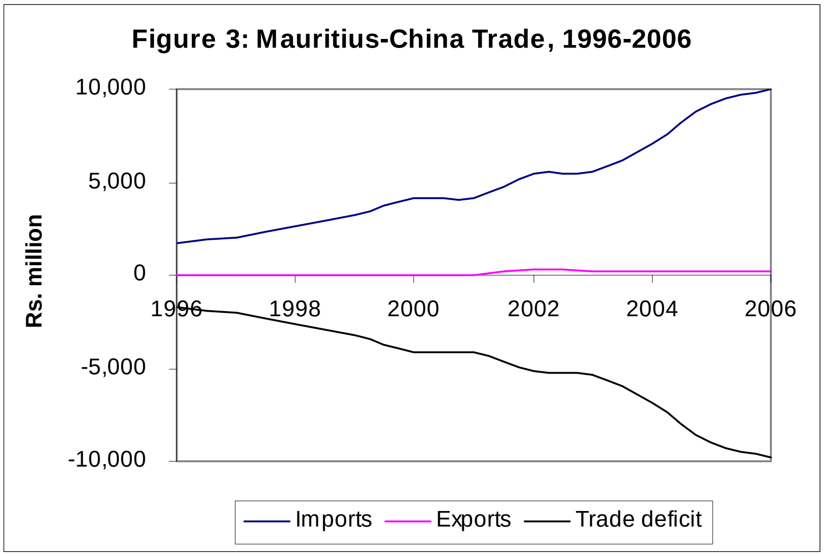
Table 4: China's share of imports by commodity groups, 2000 and 2006

Section	Description	2000			2006		
		China (Rs. Mn)	**Total (Rs. Mn)**	**China's share of total imports (%)**	**China (Rs. Mn)**	**Total (Rs. Mn)**	**China's share of total imports (%)**
0	Food and live animals	322	6948	4.63	243	17276	1.41
1	Beverages and tobacco	2	369	0.54	58	952	6.09
2	Crude materials except fuels	46	1654	2.78	93	2769	3.36
3	Mineral fuels, lubricants and related materials	6	6450	0.09	4	19321	0.02
4	Animal/vegetable oil/fat/wax	1	455	0.22	1	711	0.14
5	Chemical and related products	123	4260	2.89	438	8157	5.37
6	Manufactured goods classified chiefly by material	2794	17570	15.90	4357	21811	19.98
7	Machinery and transport equipment	417	12427	3.36	2832	35931	7.88
8	Miscellaneous manufactured articles	441	4710	9.36	1962	8208	23.90
9	Commodities not elsewhere classified	-	85	0.00	-	366	0.00
	Total imports	***4,152***	***54928***	***7.56***	***9988***	***115502***	***8.65***

Source: Author's computation using CSO data

Wearing apparel represents less than 5 percent of imports from China; yet this product category has posted the highest growth in percentage terms, rising 48 percent per year between 2001 and 2006 (Table 3). Thus, Mauritius has been no exception to the global invasion of Chinese clothing. In the textiles sector, however, Mauritius has reduced its dependence on Chinese yarn and textiles as it undertook massive investments in local spinning capacity. Consequently, textiles imports from China have fallen from a peak of Rs. 2,963 m (representing 54.5 percent of Mauritius' imports from China) in 2002 to Rs. 2,433 m (equivalent to 24.4 percent of total imports) in 2006. In 2005, imports of machinery and transport equipment displaced textile imports as the singular most important import category from China.

As a result of low and falling exports, on the one hand, and mounting imports, on the other, the trade deficit relative to China has widened sharply over the years (Figure 3), reaching nearly Rs. 10 billion in 2006. In 2005, China alone *directly* accounted for 30 percent of the overall trade deficit of Mauritius.

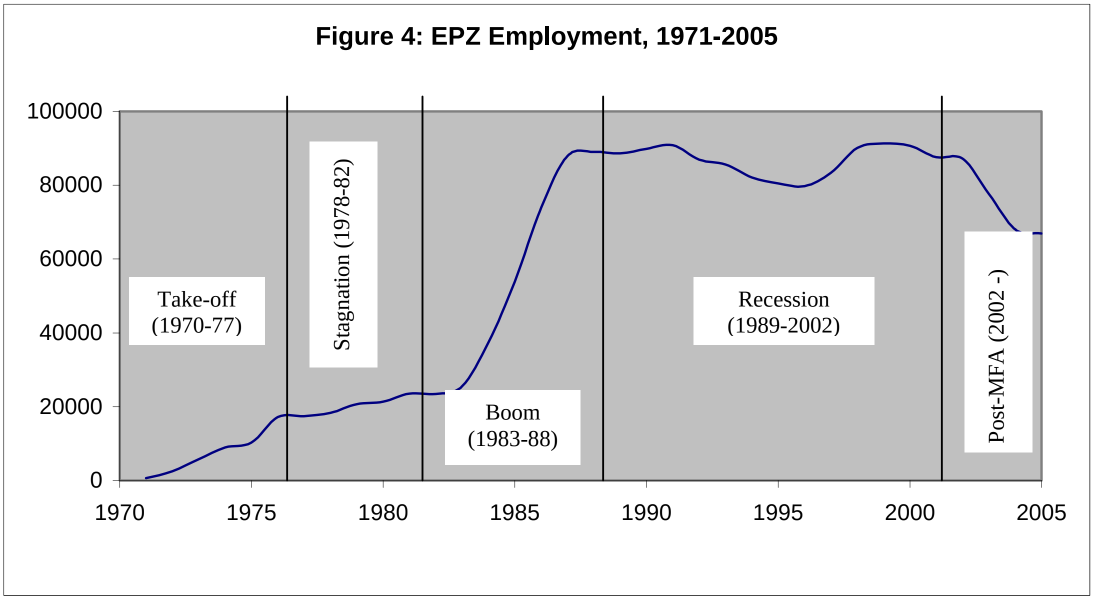


2.2 Indirect Impacts

The main indirect impact of China has arguably been on Mauritius' exports of competing manufactured products into third markets. Nowhere has competition from China been more acute and disrupting than in the clothing sub-sector. Wearing apparel, which represents nearly 90 percent of Mauritius' total manufactured exports, is primarily destined for the EU and the US markets.[3] Clothing exports have benefited from the MFA quota system, which, by limiting Asian exports into the US market, allowed Mauritian garment exports to flourish. On the EU market, Mauritius has taken good advantage of the Lomé market access privileges, which granted duty-free access for manufactured goods from ACP countries while subjecting competing imports from other countries to an *average* 12 percent tariff.

The MFA and the Lomé preferences, along with AGOA during 2000-05, combined with domestic conditions and fiscal incentives to attract a wave of foreign investment into the Mauritian EPZ in the early 1970s. The EPZ has been credited for ushering in a period of sustained export-led growth lasting nearly two decades. Ancharaz (2007a) has analyzed the evolution of the EPZ in terms of five distinct phases as shown in Figure 4. The current phase – dubbed 'post-MFA' – started off in 2002 when, in the face of the impending expiry of the MFA, a number of enterprises, mostly foreign, had begun to pull out of Mauritius. Between 2001 and 2005, more than 25,000 jobs were lost in the EPZ as 112 factories closed (and this even as new factories started operations). Over the same period, EPZ output contracted by 12.4 percent. The share of EPZ value-added in GDP stood at 7.4 percent in 2005, down from a peak of 12.5 percent in 1999.

[3] Given the predominant share of textile and clothing in EPZ exports, the latter will henceforth be associated with apparel exports.



2.2.1 Impact on employment

The EPZ can be hailed as a catalyst of women's emancipation in Mauritius. It permitted women with few alternative employment opportunities to enter the formal labour market, to contribute to the country's economic development and to achieve their own economic independence.[4] The contribution of the EPZ to female employment is compelling: the number of women employed in the EPZ increased steadily from 18,400 in 1983 to 61,000 in 2001. Female dominance of EPZ employment is well illustrated by the fact that there were twice as many women as men in the EPZ during the period 1990-2003 but four times as many men in the non-EPZ manufacturing sector.

While the expansion of the EPZ – especially after 1983 – had been particularly beneficial to women, its contraction – and the resulting mass redundancies – since 2001 has particularly hit female workers, leading to the 'feminization' of poverty in Mauritius (Bunwaree, 2004). A recent survey of redundancies in the Mauritian EPZ by Ancharaz (2007b) reveals that:

1. Many of the unemployed suffered psychological trauma, stress and ill health as a result of losing their job, in addition to financial difficulties. Some respondents reported that they had to discontinue the education of their children of working age, and ask them to look for a job to support the family.
2. The economic plight of the redundant was compounded when both husband and wife lost their job, or when one spouse's (usually the husband's) job was irregular or precarious.

[4] Prior to the setting up of the EPZ, female labor force participation was low and employment was male-dominated. For instance, in 1982, on the eve of the EPZ boom years, female employment was barely one-third of male employment. Of those who were formally employed, a significant proportion was working in sugarcane fields, and a smaller number in relatively low-level administrative/clerical jobs in the government (Ancharaz, 2007a).

3. About 64% of the 400 workers surveyed were able to find another job (typically after several attempts), 6% went into self-employment while the remaining 30% were still unemployed. The age factor and lack of experience/skills were critical barriers to getting another job. Significantly, 85% of those who remained unemployed were women.

2.2.2 Impact on exports

The expiry of the MFA is directly responsible for the current socioeconomic plight of EPZ workers, mainly female, in Mauritius. China contributed indirectly to this situation since the end of the apparel quotas signaled the invasion of industrial country (mainly US) markets by cheap Chinese clothing, which left little hope for small, less efficient producers to maintain their foothold. A number of studies had predicted this ominous outcome. A USITC (2004) study of global competitiveness in the textiles and clothing industry concluded that China is "expected to become the 'supplier of choice' for most U.S. importers (the large apparel companies and retailers) because of its ability to make almost any type of textile and apparel product at any quality level at a competitive price". Mattoo, Roy and Subramanian (2002) predicted that Africa's apparel exports would fall by over 30 percent following the dismantling of the MFA. Naumann (2006) argued that even the tariff preference that AGOA beneficiaries enjoyed for clothing exports into the US would offer them little protection against the onslaught of Chinese exports. Some studies (for example, Kaplinsky and Morris, 2006) have been extremely negative about the impact of China on the clothing industry in Africa, going as far as to say, "the industry would be decimated in a very short period of time".[5]

Most studies have compared the value of exports to the US market between 2004 and 2005 to determine the severity of the impact of the end of quotas and the rise of China on the apparel industry in individual countries. This analysis is objectionable on several grounds. First, it ignores the dynamic effects on the clothing industry by discounting altogether the impact in earlier years: as the Mauritian experience illustrates, the effects of the impending expiry of the MFA could be felt as early as in 2002. Moreover, because the lifting of quotas caused a global decline in apparel prices, focus on export values, without adjusting for prices, will tend to overestimate the competitive effects of China. Finally, the period of analysis post-MFA is probably too short to allow a meaningful assessment of the long-term impact of China.

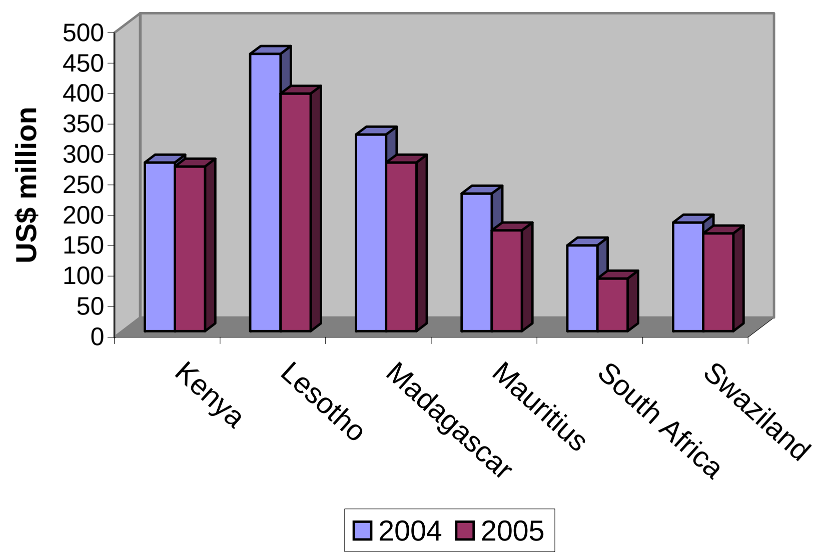
Nevertheless, comparing export values between 2004 and 2005, we note that the steepest declines in clothing exports to the US market have occurred in South Africa (39%), Mauritius (27%), Lesotho (14%) and Madagascar (14%) (Figure 5). Kenya and Swaziland have witnessed a modest waning of their exports on the U.S. market. Kaplinsky and Morris (2006) estimate that, for the AGOA beneficiaries as a whole, apparel exports declined by 17 percent between 2004 and 2005.

Thus, in practice, the impact on apparel exports has been milder than was actually feared. The prophecy of doom – that SSA's apparel trade will be swept away by the Chinese tidal wave of cheap exports – was mitigated by a confluence of factors. First, there have been remarkable changes in exports by product category. For example,

[5] Kaplinsky and Morris (2006), p.6.

while Kenya's exports of T-shirts to the US declined, exports of men's and boys' cotton shirts have increased strongly (Brenton and Hoppe, 2006). Secondly, the safeguards imposed by the US (and EU) on Chinese T&C imports have given some breathing space to a number of developing country exporters, including some from SSA, thus helping them avert a further deterioration of their exports to those destinations.[6]

Fig. 5: Apparel exports to the U.S. market, 2004 & 2005



Mauritius started to experience the effects of the MFA phase-out well before the fateful January 1, 2005 and continued to suffer from its sequels till the end of 2005. Total EPZ exports, which peaked at Rs. 33,695 million in 2001, declined steadily – except for a small upturn in 2004 – to bottom out at Rs. 28,954 million in 2005 (Fig. 5). Since exports to the EU generally increased over this period, the decline in total exports in 2005 can be attributed primarily to changes on the US market. Table 5 shows the share of AGOA in Mauritius' textile and clothing exports to the US. A number of observations can be made from this table. First, contrary to many SSA countries that built their clothing industry on the provisions of the Africa Growth and Opportunity Act (AGOA, 2000), Mauritius was already exporting to the U.S. under the GSP regime and, additionally, as a beneficiary of the MFA quota system. Significantly, clothing exports in 1995 were higher than in 2005.

Second, while a major proportion of exports shifted to AGOA after 2000, this shift has been gradual and the overall percentage of exports to the US under AGOA has remained small – 52 percent over the period 2001-2005 compared to over 95 percent for most of the SSA exporters (except South Africa). This means that about half of Mauritius' exports did not enjoy duty-free access to the US market, which exposed

[6] However, the safeguard measures taken against Chinese exports are set to expire by the end of 2007. There is currently increasing pressure being exercised by European textile and clothing manufacturers on the European Commission to have the safeguards extended.

them particularly to the threat of China sweeping over the US market upon the expiry of the MFA.

Finally, many apparel exporters had pinned their hopes on Mauritius obtaining an extension of the third-country fabric derogation beyond September 2005 (Darga, 2007). Since this did not happen, a number of Asian companies that exported exclusively to the US exited the Mauritian EPZ *en masse* during 2003-2005. Thus, while the end of the apparel quotas and the phenomenal rise of China on the global scale have generally been blamed for the plight of the Mauritian clothing industry, the real culprit has been the failure of Mauritius to qualify for the AGOA yarn forward rule.

Table 5: Mauritius' Total Textile and Clothing Exports and US Share

Year	Exports $ '000	Exports to US	US Share (%)	AGOA as Share of Exports to US (%)
1990	643,900	121,050	18.8	NA
1995	763,600	190,140	24.9	NA
2000	1,652,000	269,280	16.3	NA
2001	1,561,000	259,130	16.6	16.3
2002	1,524,000	278,900	18.3	41.8
2003	1,629,000	291,590	17.9	50.2
2004	1,638,000	245,700	15.0	65.2
2005	1,384,000	171,620	12.4	85.8

Kaplinsky and Morris (2007), and author's calculations

However, a significant reversal of the downward trend is noted for 2006, with world exports increasing 16 percent. Data on exports up to the second quarter of 2007 confirm this trend. For example, while exports for the first semester of 2006 were 8.7 percent higher than the corresponding period of 2005, exports for the first semester of 2007 have increased by a significant 19.5 percent compared to exports as at the second quarter of the previous year. At this rate, it is estimated that exports for 2007 would surpass the record level of 2001.

Closer analysis of the evolution of clothing exports by major destination throws light on the reasons for the increase in exports since 2005.[7] Fig. 6 shows that, as the US market waned, Mauritian apparel manufacturers have diversified their markets by exporting more to the EU. Between 2000 and 2006, EPZ exports to the EU increased by 31 percent; more significantly, exports rose 22 percent in 2006 over the previous year. Even South Africa is gaining importance as a developing country market close to Mauritius, with EPZ exports increasing seven-fold over the six-year period ending

[7] Kaplinsky and Morris (2006) argue that SSA's overall export performance was not as bad as expected because of the degree of effective subsidy implicit in the AGOA, which, according to their calculations, ranges between 27 and 84 percent for representative exported products, substantially higher than the nominal 16-32 percent nominal tariffs. However, this argument is not applicable to Mauritius since it did not qualify for the same more flexible rules of origin as other SSA countries after 2005.

2006. Exports to South Africa have benefited from duty-free treatment under the SADC trade protocol, which is a welcome development for the local clothing industry, more so since it represents considerable potential to export to other African markets.

A key feature of the EU market is the duty-free status accorded to exports originating from ACP countries under the prevailing Cotonou Agreement, which have continued to provide some degree of protection against cheaper Asian exports. In the absence of such tariff preferences, it is unlikely that Mauritius could have measured up to China.

Fig. 6: Mauritius' EPZ Exports by Major Destination, 1996-2006

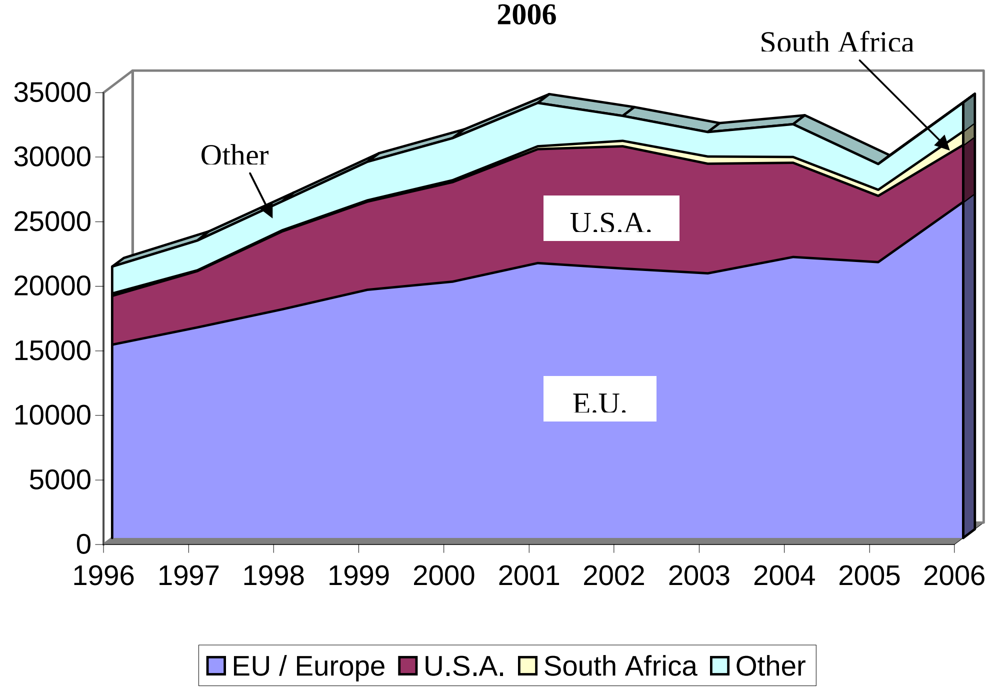


Table 6 shows the estimated labour costs in the clothing industry in Mauritius relative to some of the major apparel exporters. It is clear that Mauritius ranks low in terms of cost competitiveness. Only South Africa and Mexico have higher labour costs per hour than Mauritius. Tagg (2002) has estimated labour productivity in the apparel sector in terms of pieces per operator per day and noted the following results: 18 in Mauritius, 18.2 in Taiwan, 19.8 in Thailand and 20 in China. The combination of low productivity and high labour costs means that the unit labour cost of producing a garment is among the highest in Mauritius. This leaves very little chance for Mauritius to compete against China.

Or does it? Calculations of unit labour cost in the clothing industry generally do not make an allowance for quality differences even within the same product category. The price-quality relation implies that the cost of producing a higher-end product will be higher than that of basic garments. Clothing is a differentiated product and, so, firms need not compete on price. A number of non-price factors, including lead times, service and quality, reliability and flexibility, knowledge of specific markets and cultures, social compliance and environmental standards also determine the competitive advantage of firms.

Table 6: Labour costs (hourly compensation) in the clothing industry in selected countries (US$/hour, 2002)

Country	Clothing Industry
Bangladesh	0.39
China	0.68-0.88
Egypt	0.77
India	0.38
Kenya	0.38
Madagascar	0.33
Mauritius	1.25
Mexico	2.45
South Africa	1.38
Sri Lanka	0.48

Source: Economist Intelligence Unit (2004)

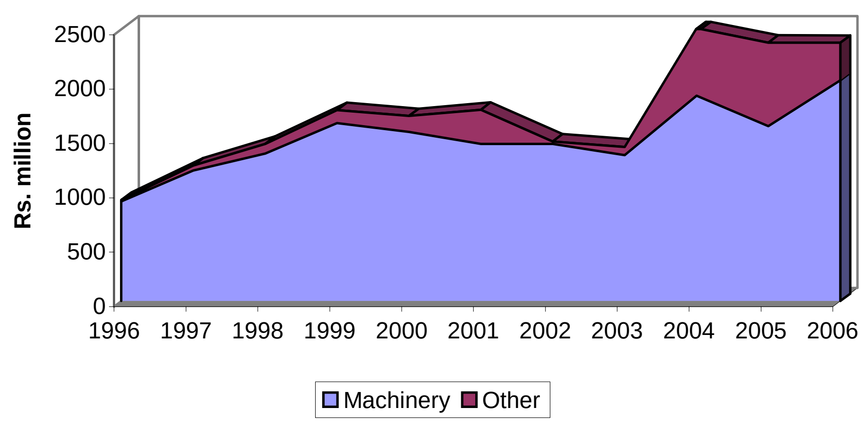
The Mauritian EPZ has used its 35 years of experience to strategically position itself as a reliable supplier of quality clothing. Over the years, Mauritian apparel companies have moved up-market where the competition is less ruthless. Those that failed to make this transition, including the many Asian firms that produced basic articles of apparel, clinging to the tariff preferences offered by AGOA or to the market access opportunities available under the MFA, have closed down in the run up to January 1, 2005. However, the more than 200 textile and clothing companies, the majority of which locally owned, have (so far) survived the end of quotas and the rise of China. Several of these companies have moved their low-end production to Madagascar to take advantage of its cheap labour – as much as one-third of wage levels in Mauritius (see Table 6) – while they concentrated the more sophisticated and higher value-added activities locally.

Clothing retailers prefer sourcing from countries that can supply a critical mass and a wide range of products in a timely manner. This view is supported by the USITC (2004) study, which estimates that the number of countries from which US buyers will source major items will fall to 25 percent of current levels by 2010. Mauritius, despite its physical smallness, boasts a large, vertically integrated textile and clothing industry that spans all the stages of the value chain – from product design through to the final product, including additional services such as design assistance and logistical solutions (Darga, 2007). Thus, Mauritian exporters are well placed to benefit from the changing configuration of buyer behaviour.

However, a few threats hang over the future of the clothing industry in Mauritius. First, the tariff preference that Mauritian exporters enjoy in the EU market will be eroded by the NAMA proposals, which call for a reduction to 6 percent (from the current 12-14 percent) of the tariff applied to articles of wearing apparel. It is not clear whether the ongoing EPA negotiations will further enhance market access for textile and clothing products from ACP countries, even if they are successfully concluded on time. However, ACP clothing exporters would certainly benefit from a softening of the EU rules of origin, which, by virtue of their restrictiveness, have so far severely limited the value of the Lomé (now Cotonou) preferences. Herein lies the challenge of Mauritian commercial diplomacy (since Mauritius is the leader of the ACP group).

Moreover, the observation that exports in the EPZ have picked up in 2006 even though employment has continued to decline suggests that the textile and clothing sector in Mauritius is consolidating itself through investment in capital-intensive spinning (and weaving) activities aimed at better integration of the supply chain, this with a view to improving response to clients. Figure 7 shows the remarkable increase in investment, mainly machinery, in recent years. The challenge for the clothing industry is to keep such investments flowing so that Mauritius could quickly bridge the fabric gap.

Fig. 7: EPZ Investment, 1996-2006



Finally, the continuous rise in the price of oil, a large part of which is induced by Chinese growth (see below), might impede the expansion of the local clothing industry. Even though no study as of yet has discerned the precise effects of the oil crisis on this industry, it is conceivable that shortages of oil could affect reliable energy supply to the apparel industry while an exorbitant price of oil would erode its cost competitiveness.

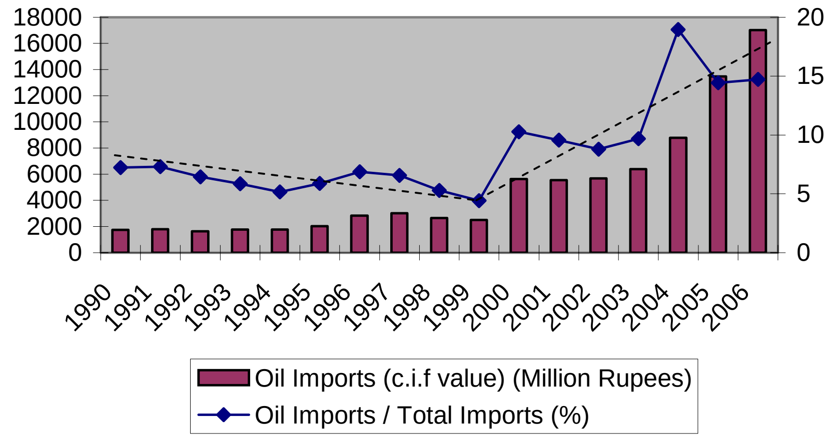
2.2.3 Impact on Oil Import Bill

Oil constitutes a significant share of Mauritius' import bill. In Figure 8, the bar chart shows the evolution of oil imports since 1990 while the line graph shows the share of oil in total imports. The dashed line demonstrates the trend in the latter: it points to a distinctive break in 1999. The increase in oil imports in the years after 2000 is dramatic: between 2000 and 2006, oil imports have tripled. In the 1990s, oil made up 6.1 percent of total imports; this share has doubled (12.3 percent) during the period 2000-06. Data for the first two quarters of 2007 confirm the general upward trend in oil imports, if only sharper. It is estimated that oil will account for 17 percent of total imports in 2007.

China's contribution to the global oil crisis is well documented. China's quest for oil has drastically altered the demand and supply balance in the world oil market.

Between 2003 and 2004, China's oil imports increased more than 40 percent, propelling China as the world's second largest consumer of petroleum products behind the United States (Zafar, 2007). While this has benefited several of Africa's oil producers – in particular, Angola and Sudan – net oil-importing countries have been hurt by the higher oil prices that Chinese growth has entailed. In Mauritius, the China-induced oil price hike in recent years has led to soaring trade deficits, which reached a historical high of $1.4 billion in 2006. Its incidence on domestic inflation, which is expected to settle into double digits by the end of 2007 for the first time since 1993 is significant as also is its impact on the cost competitiveness of Mauritian firms, which is yet to be determined.

Fig. 8: Oil Imports, 1990-2006



2.2.4 Impact on Services Exports: The Case of Chinese Tourism in Mauritius

Mauritius boasts no natural resources; however, the tropical island is naturally gifted with beautiful beaches, a warm weather and friendly people. Consequently, tourism has been an important pillar of the economy, employing 26,000 people and generating over $ 1 billion in earnings (representing 13 percent of GDP) in 2006. These figures would be more significant if the tourism multiplier – estimated to lie between 2 and 3 – were factored in.

France and its territories (in particular, Reunion) are the leading sources of tourists, accounting for 34.4 percent of total tourist arrivals in 2006. The United Kingdom, South Africa and India follow far behind with shares of 13, 9 and 4.8 percent, respectively. Tourists from China represented a mere 0.6 percent of total arrivals in 2006. Nevertheless, this proportion is set to increase in the future, driven on the one hand by rising incomes and the emergence of a class of *nouveau riche* in China and, on the other hand, by the generally high income elasticity of demand for tourism. And current evidence seems to bear these trends out: while total arrivals rose 19.4 percent between 2001 and 2006, arrivals from China increased 34.8 percent over the same period.

In conclusion, China's economic prosperity augurs well for the Mauritian tourism industry. However, attracting larger numbers of Chinese tourists requires a re-orientation of Mauritius' tourism marketing strategy, which has hitherto focused – almost exclusively – on Europe and North America.

3. Impact on (Foreign Direct) Investment

The export-led growth of the Mauritian economy that started in the mid-1980s and continued over more than a decade, and which earned the country the envious label of an "economic miracle", was largely driven by EPZ exports. The EPZ boom years, 1983-88 (see Figure 4) coincided with a significant increase in both domestic and foreign investment in the zone (Figure A.1 in the appendix). Nath and Madhoo (2004) have dubbed this period "FDI-led growth" on the basis of their finding that FDI played a key role in steering the growth process during 1983-88. Subramanian and Roy (2001) have tried to explain the Mauritian growth miracle through various hypotheses, each of which, they claim, tells only part of the story. They argue that Paul Romer's emphasis on technology and ideas as drivers of endogenous growth is well corroborated by the Mauritian growth experience high rates of growth have been associated with spurts of FDI (in and out of the EPZ).

There is a wide empirical literature that examines the causal links between FDI and growth. The accumulated evidence seems to suggest that FDI, if properly harnessed, can be an important portent of growth. Against this background, it is pertinent to ask what has been the magnitude of Chinese FDI in Mauritius and how the emergence of China as a global player has affected FDI flows to Mauritius.

Table 7 presents data on FDI in Mauritius by country of origin for selected countries during 1990-2006. The figures clearly illustrate the volatility of FDI flows during the period under consideration. Excluding France in 2000 when France Telecom acquired a 40 percent equity stake – amounting to Rs. 7,204 million (see Table 8) – in its local counterpart, Mauritius Telecom, it appears that the biggest foreign investor in Mauritius has historically been the UK, followed far behind by South Africa, France and India. The banking sector and the tourism industry have been the main beneficiaries of FDI.

Chinese FDI in Mauritius has, to date, remained very small, although there are clear signs of an increase in inflows in recent years. For example, from 2002 to 2006, China invested some $ 3.4 million in Mauritius, which is more than twice the amount invested over the preceding decade. Significantly, no Chinese FDI was recorded during 7 years in a row (1995-2001).

Much of the Chinese FDI since 2002 has flowed into the textile industry, more precisely into spinning operations. In 2004, for example, a major investment project by the Chinese aimed at producing 18,000 tons of yarn a year, thus contributing to building a vertically integrated supply chain in the textile and clothing industry.

In recent years, both the government and the private sector have solicited Chinese investors to invest in emerging industries such as light processing, pharmaceuticals, and the seafood hub. It seems that these efforts have finally paid off. During an official visit to China in March 2007, the Mauritian Prime Minister signed an investment agreement with the Tianli Group for the setting up of an economic and trade zone in Mauritius later during the year. The Chinese conglomerate would inject investments of $500 million over 5 years into such sectors as light engineering, ICT, electronics, pharmaceuticals, food processing, textile and clothing, and handicrafts. It is estimated that the zone would create some 5000 jobs directly and generate export revenues of Rs. 200 million annually.

The Tianli case is likely to have positive spin offs since China's strategy is to use Mauritius as a platform to penetrate the African market. Mauritius offers the right set of conditions, including fiscal incentives, a pool of semi-skilled labor, good infrastructure, and above all duty-free access to the African market through regional trading agreements, especially SADC and COMESA. Thus, while China has kept a low profile up till now, it is likely to emerge as a major investor in Mauritius in the near future.

Table 7: FDI Inflows in Mauritius by selected country of origin, 1990-2006 (Rs. Million)

	1990	1995	2000	2001	2002	2003	2004	2005	2006
Total	*609*	*325*	*7,265*	*936*	*979*	*1,966*	*1,796*	*2,807*	*7,222*
Of which:									
China	17	-	-	-	18	33	-	6	-
France	75	17	7,214	25	232	157	492	427	523
Hong Kong	55	19	-	-	9	-	4	7	30
India	78	157	-	-	2	143	150	670	160
South Africa	2	-	1	600	333	1,022	19	26	38
Switzerland	45	12	5	274	-	2	42	148	584
UK	8	29	-	-	157	172	143	578	3,821
USA	114	-	3	3	29	37	518	75	163
Memo item: China as % of total	2.8%	-	-	-	1.8%	1.7%	-	0.2%	-

Source: Bank of Mauritius (2006)

Table 8: FDI Inflows in Mauritius by Sector, 1990-2006 (Rs. million)

	1990	1995	2000	2001	2002	2003	2004	2005	2006
EZP	270	245	8	3	41	77	248	106	90
Tourism	152	70	10	-	100	103	121	536	2,610
Banking	-	-	-	600	316	1,301	310	454	3,511
Telecomm.	-	-	7,204	-	-	-	38	175	43
Other	187	10	43	333	522	485	1,079	1,538	968
Total	*609*	*325*	*7,265*	*936*	*979*	*1,966*	*1,796*	*2,807*	*7,222*

Source: Bank of Mauritius (2006)

4. Impact on Aid

An interesting development that has occurred as a result of China's emergence as a global economic power is the change in the direction and configuration of aid flows. Traditionally, the OECD has been the main donor; part of this aid was given bilaterally (e.g., the European Development Fund) on a constituency basis while part was channeled through international financial institutions. However, over the past decade or so, China has joined the very select club of aid donors.

China has considerably scaled up its aid to Africa. Much of this aid has been in the form of technical assistance – with emphasis on advanced training in Chinese institutions –, grants, interest-free loans, preferential loans and debt relief. It is estimated that China's financial assistance to Africa amounted to some $19 billion at the end of 2006. Most of this assistance has been for major projects in energy, telecommunications and transportation. Aid has also been channeled for infrastructure development and for the social sector: China has helped build roads, houses, and hospitals.

Invariably, the biggest beneficiaries have been the oil-rich countries of Sub-Saharan Africa, namely Angola, Equatorial Guinea, Gabon, Republic of Congo, and Nigeria. Although the Chinese have shown their generosity by canceling debt for some of the poorest African countries – including DRC, Ethiopia, Mali, Senegal, Togo, Rwanda, Guinea and Uganda – the general perception is that the Chinese mean business when it comes to aid-giving. This belief is supported by the fact that most infrastructure projects use Chinese inputs (including labor) and are often accompanied by deals to develop mining and energy resources (Jacoby, 2007).

China's aid policy with respect to SSA is evident in the pledge by the Chinese President at the Beijing Summit to double assistance to Africa by 2009. China also announced the creation of a $5 billion development fund to encourage investment by Chinese companies in Africa and to cancel government loans owed by African LDCs with diplomatic relations with China.

Chinese aid to Mauritius is not new. By virtue of its historical and cultural ties with China, Mauritius has been receiving aid from China since 1972 when the two countries established diplomatic relations. Table A.3 provides a list of projects that have been financed by Chinese assistance.[8] On the whole, Chinese aid has been small relative to total ODA.

Chinese aid has been largely project-based and, as such, irregular; the amount given in aid has varied considerably over the years and across projects. Most of the projects financed have been in the areas of construction and social services, including extension to the airport terminal, building of a football stadium, a marketplace, and a recreational center, upgrading of a hospital, and various low-cost housing projects. Significantly, China loaned RMB Yuan 95 million to finance the acquisition of a passenger-cum-cargo vessel – the second of its kind – in 1999. The Chinese government is currently financing the construction of the new headquarters of the Mauritius Broadcasting Corporation, the national radio/TV station.

Mauritius has also benefited from Chinese technical assistance for agricultural projects, customs upgrading and human resource development. China has, since 1981,

[8] Data on aid is not available by recipient sector, and it has proved tricky to assign the available aid data to specific sectors.

regularly provided a quota of scholarships for advanced training in a Chinese institution.

A key feature of Chinese aid to Mauritius is that most of the loans provided have been on concessional terms, with generous grace periods and repayment schedules. Grants have been few, generally limited to capacity building – both human and technical – and much smaller in amounts. Casual evidence suggests that many of the construction and infrastructure projects have been on a turnkey basis; they have extensively used Chinese materials and labor inputs. More significantly, virtually no conditions have been attached to Chinese aid to Mauritius (as elsewhere). This lack of conditionality has often been criticized on the grounds that it could delay reforms in the recipient countries (Zafar, 2007). Such concerns, however, have little relevance for Mauritius given the country's long-standing tradition of democracy and the current government's commitment to macroeconomic reforms.

While Chinese assistance to Mauritius has so far been sketchy, it is likely to increase significantly in the future, as China emerges as an important development partner of Mauritius.

5. Impact on Migration

Chinese migrant labor has been identified as one of the vectors through which China can impact the domestic economy; yet this channel of interaction has been scantily researched in most studies that have purported to assess the economic impact of China. This could be partly due to the fact that Chinese migration has not risen to significant proportions in most SSA countries. The Mauritian case, however, is radically different.

Expatriate employment in Mauritius has received impetus from the expansion of the EPZ. As the country's labor reserved dried up through years of labor-intensive growth, EPZ firms – especially those with foreign equity participation – started to source out labor from other low-cost locations, in particular from Asia, to maintain the growth momentum and to keep factories running and orders filled in time. Table 7 shows the scale and evolution of expatriate employment in the economy as a whole and in the EPZ, in particular, since 1994.

As at December 2006, 16,700 expatriates were in employment in Mauritius, of which 15,069 alone in the EPZ. Within the EPZ, the textile and clothing industry accounted for the bulk of expatriate employment. The figures confirm that the EPZ has been the catalyst of expatriate employment in Mauritius. Before 1994, foreign staff was sparingly employed in the clothing industry and was limited to key managerial and technical positions. However, ever since EPZ enterprises started turning to foreign labor in the face of the emerging labor shortages of the early 1990s, expatriate employment has increased exponentially. In 1994, just about one-half of foreign workers were employed in the EPZ; by 2006, the EPZ absorbed 90 percent of expatriates.

Table 9 shows the country of origin of foreign workers. It is clear that virtually all the expatriates come from Asia. China has been the largest supplier of foreign labor to the

EPZ, followed closely by India.[9] However, since 2002, the number of Chinese has declined sharply, reflecting the mass closures of EPZ firms, most of which of Hong Kong/Chinese origin. As a result, since 2003, India has overtaken China as the single largest provider of foreign labor to Mauritius. Mauritius also hosts a significant number of foreign workers from Bangladesh and Sri Lanka. Outside Asia, Madagascar figures as the single largest source of foreign labor.

There is some controversy about the motives surrounding the need for imported labor in the EPZ. Officially, employers blame it on local labor shortages. However, the true reasons could be the high levels of absenteeism among Mauritian EPZ workers, their refusal to do overtime, rising wages and dwindling productivity (Bunwaree, 2004). If the employers' argument were valid, expatriates should not be competing for jobs with Mauritians. However, recent evidence (e.g., CASR, 2001) indicates that Chinese workers have displaced their local counterparts. Some Mauritian EPZ workers blame their recent layoff on foreign workers, who, they claim, are preferred by employers at their expense since the expatriates are prepared to work odd hours and under harsher conditions. Our analysis gives a different reading of the situation. Table 10 confirms that between 2002 and 2006, Chinese expatriate employment shrunk by some 44 percent. It thus appears that the Chinese workers have themselves been victims of the rise of China!

Thus, while the expiry of the MFA and the rise of China have threatened Mauritian exports to its traditional markets, there is no evidence that Chinese expatriates have been competing away jobs from local workers.

[9] The link between FDI and migration merits further analysis. It is tempting to argue that a non-negligible link exists between the origin of investment – especially in the Mauritian clothing industry – and the country of origin of migrant workers. For example, Chinese investors might prefer to use Chinese migrant workers. However, casual evidence does not bear this out. On the other hand, it is more likely that recourse to Chinese expatriates was motivated by two factors: locally, by the existence of a Chinese community in Mauritius and, externally, by the relative cheapness of Chinese labor.

Table 9: Expatriate Employment in Mauritius by Major Sector, 1994-2006

	1994	1998	2000	2001	2002	2003	2004	2005	2006
EPZ	4270	9125	15052	15668	16918	15392	13792	14419	15069
Textile and Clothing	3884	8248	14505	15058	16382	14871	13287	13389	13949
All sectors	8275	10042	14600	16500	17000	18200	17500	16600	16700

Source: CSO

Table 10: Expatriates in Mauritius by Country of Origin, 1997-2007

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007*
Bangladesh	272	338	347	623	974	591	539	409	1508	3228	4449
Chinese	6771	7855	9127	9824	12375	13397	10788	10127	7100	7523	5696
France	500	536	546	321	571	644	601	581	573	587	221
India	2387	3152	3465	3360	3910	4967	6945	9332	7327	7827	6589
Madagascar	514	505	474	450	530	561	660	376	430	423	644
South Africa	160	194	285	121	240	273	194	200	174	180	108
Sri Lanka	352	485	411	418	366	388	500	788	1591	1930	1882
UK	219	184	198	90	187	208	171	169	169	143	58
Other	637	513	588	324	4823	584	565	642	625	704	483
Total	*11812*	*13762*	*15441*	*15531*	*20066*	*21613*	*20963*	*22624*	*19497*	*22545*	*20130*
Memo item:											
Percentage Chinese	57.3	57.1	59.11	63.21	61.7	62.0	51.5	44.8	36.4	33.4	28.3

* Figures for January to August 2007.
Source: CSO

6. Policy Response to the China Phenomenon

The Mauritian government's response to the end of apparel quotas and the dramatic rise of China has been critical to the survival of the textile and clothing industry. Although the government has always urged the clothing industry to consider its strategy in the face of the changing global realities well before the demise of the MFA, local producers have postponed restructuring until it had become absolutely necessary. This delay made the process more painful: a number of firms – mostly foreign-owned – could not eventually make it and had to shut down, leading to mass redundancies over a very short period.

Government has been usually very sympathetic to the clothing industry given that it employed a large number of women. In 2005, the government set up a Textile Emergency Support Team to advise struggling firms on the structural measures that they should take to survive the erosion of trade preferences. A Clothing Technology Center had been established earlier to provide EPZ firms up-to-date knowledge on technology choices with a view to upgrading technology in the textile and clothing industry.

In February 2006, government and key stakeholders gathered to reflect on the challenges facing the textile and clothing industry and to chart out a survival strategy for the sector. The strategy rested on restructuring to address factory and ex-factory competitiveness factors. Enterprise Mauritius, set up in 2005 as a collaborative partnership between industry and government to help local enterprises develop competitive capacity and evolve into regional or global exporters, was given added impetus through greater budgetary support. It would develop value chain models and undertake market analysis and diagnostic tests using benchmarking tools to identify structural weaknesses at the firm level and propose appropriate remedial measures.

To deal with Chinese competition specifically, Mauritian enterprises had to do as the Chinese firms did: offer value for money by providing the buyer an integrated range of products and services in a hassle-free manner. For this, the Mauritian clothing industry needed to achieve 'full-package' supply capacity – including a more diversified portfolio of products – and focus on quality at the higher end of the market (Darga, 2007). Further investment was needed in spinning to fill the country's fabric gap.

In the 2006/07 Budget, the government proposed several measures to encourage vertical integration in the textile sector. In particular, the special 60-percent tax credit on equity investment in spinning introduced in 2003, and extended to weaving and dyeing companies in 2005 was further extended to companies engaged in knitting of fabrics. Moreover, far-reaching measures were announced to overhaul investment facilitation and promotion. An Empowerment Fund was set up to support entrepreneurship by SMEs, and unemployed women, in particular. This helped a number of women made redundant by closures in the EPZ sector to start businesses of their own or re-skill themselves so that they could find an alternative job in the emerging sectors of the economy. The Empowerment Fund boasts many achievements to date: more importantly, it has helped cushion the socioeconomic impact of the EPZ layoffs.

The government has laid special emphasis on opening up the economy and on embracing globalization.[10] The underlying philosophy, neatly summarized by the sub-title of the 2006/07 program – “From Trade Preferences to Global Competition” – is that Mauritius can no longer rely on preferential market access to sell its products. Local firms needed to be more competitive to survive and prosper in the globalized world. In this spirit, the government abolished the differential incentive scheme for non-EPZ firms by abrogating the Industrial Expansion Act. Henceforth, the EPZ concept would no longer be relevant since all export-oriented firms, including SMEs, as well as enterprises producing for the local market but with some potential to export to the region, would be treated at par. [11]

These measures have enhanced the economic resilience of the country against external shocks. They have enabled the clothing industry to restructure and re-orient itself to meet the challenges posed by globalization generally, and by China, in particular. Moreover, by opening up new options for unemployed workers, they have helped avert a large-scale socioeconomic crisis.

In conclusion, it is worth pointing out that the economic policies adopted by the government to address the challenges of globalization, which encompass those posed by the rise of China as well, have been the product of concerted thinking by policymakers and key stakeholders, with technical advice from development partners (specifically, the IMF and the World Bank).

Policymaking in Mauritius is a well-structured and consultative process, underscoring the country’s long-standing tradition of democracy and socialism. Stakeholders – the private sector, labor organizations, and civil society – are encouraged to convey their views on policy questions through established communication channels, including institutionalized processes such as the pre-budget consultations and tripartite wage negotiations as well as ad hoc instances, such as the February 2006 forum referred to above, motivated by the exigency of the situation. The government has been sensitive to the plight of workers and industries adversely hit by globalization, as is evidenced by the series of policy measures it has recently adopted to assist struggling firms and laid off workers.

7. Summary and Conclusion

The Asian drivers, especially China, have altered the dynamics of development in sub-Saharan Africa in important and irreversible ways. The empirical literature has focused on three key channels through which China could have impacted African economies – trade, FDI and aid. Most of the studies have concluded that while the resource-rich countries stand to gain from China’s demand for oil and minerals, economies like Mauritius, with no commodity base and which compete with China in

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[10] An interesting anti-globalization policy move by the government occurred in 2005 shortly after it had come to power. The outgoing government had presented a program to make Mauritius a duty-free island, and to that end, a number of imported items, including clothing, were substantially liberalized. This measure attracted the indignation of local SMEs competing against cheap Chinese products. The new government re-introduced customs duties on various apparel products to protect the local import-competing sector.

[11] This change has prompted the rebaptizing of the Mauritius Export-Processing Zones Association (MEPZA) into the Mauritius Export Association (MEXA) earlier in 2007.

export markets, are likely to lose. However, this paper argues that the economic impact of China in Mauritius has not been as negative. This is due to a number of factors: the Mauritian economy's resilience to globalization, structural upgrading in the clothing industry, which has shielded it from Chinese competition in third markets, and export market diversification, which has partly made up for the loss of share in the US market, where Chinese competition has been most acute.

On the other hand, Mauritius stands to gain from Chinese FDI as China uses the country's strategic geographical location as a platform to penetrate the expanding African market. Moreover, aid flows to Mauritius are likely to rise as China's presence in the local economy grows, backed by over three decades of friendly, diplomatic and cultural ties with China. A key aspect of the Mauritian economy that has distinguished it from other countries in the assessment of China's impact has been the growing presence of Chinese migrant workers in Mauritius. While foreign labor has helped counteract domestic labor shortages, it has been perceived as displacing local workers, especially in the textile and clothing industry. The paper, however, shows that this is not true: Chinese expatriate labor has declined sharply following the phasing out of the MFA.

Table 11 summarizes the main impacts of China on the Mauritian economy using the framework of Kaplinsky and Morris (2006a, b), and Jenkins and Edwards (2005).

Table 11: Summary of China's impact on Mauritius

		Direct	**Indirect**
Trade	**Complementary**	Cheaper inputs and consumption goods	▪ Increase in number of Chinese tourists in Mauritius
	Competitive	▪ Injury to local industry caused by cheap imports ▪ Growing bilateral trade deficits	▪ Competition in Mauritius' traditional export markets. Evidence of loss of market share in the U.S. ▪ Higher degree of imported inflation due to China's impact of global energy prices
FDI	**Complementary**	▪ Significant increase in Chinese FDI expected as China uses Mauritius as an export platform to penetrate SSA. ▪ Job creation	
	Competitive	Displacement of actual and potential local producers	Flying geese pattern of FDI can be detrimental to local economy (as the case in the EPZ illustrates)
Aid	**Complementary**	Greater aid, technical assistance and more grants are expected as China increases its aid to SSA	
	Competitive		Large inflows of aid could result in Dutch disease (unlikely)
Migration	**Complementary**	Cheap Chinese labor supported the export drive in Mauritius	
	Competitive	Chinese labor displaced local workers in the EPZ	The exit of Asian firms has reduced the availability of Chinese labor

The Mauritian government's response to globalization and the parallel rise of China has been critical to sustaining industry, especially the EPZ. Macroeconomic reforms and trade liberalization are the right policy mix to build economic resilience, integrate the global market and benefit from it. Regional integration has opened up new markets and allowed Mauritian manufacturers to diversify their exports and, thus, cushion the loss of market share in traditional markets, especially the U.S., where China has been most disruptive. Ironical as it may sound, the best way to meet the challenges of globalization is by embracing globalization.

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Appendix

Table A.1: Agreements on Cooperation between Mauritius and China, 1969-2007

Date	Area of Cooperation	Agreement
25.07.1969	Technical	Agreement on Technical Cooperation between Mauritius and the Republic of China.
09.08.1972	Diplomatic	Protocol to Agreement – Exchange of Letters.
09.08.1972	Economic/ Technical	Agreement on Economic and Technical Cooperation.
10.09.1975	Technical (Agriculture)	Exchange of Letters relating to the implementation of the Agricultural Research Project – Mauritius / China.
17.12.75	Technical (Agriculture)	Exchange of letters regarding extension of Agreement i.c.w. Agricultural Technical cooperation between Mauritius and the People's Republic of China for a period of 2 years and 9months.
04.09.1980	Cultural	Cultural Agreement between the Government of Mauritius and the Government of the People's Republic of China – Port Louis.
28.07.1982	Diplomatic	Agreement regarding the period of utilization of the interest free ban of £13,540,961 provided under the Sino-Mauritian Economic and Technical Cooperation Agreement (09.08.1972) to be extended for another five years up to 30.06.1987. Repayment of the loan postponed from 01.07.1997 to 30.06.2007. Repayable amount per annum to be one tenth of the used amount of the loan.
07.01.1983	Technical (Agriculture)	Note of confirmation from Mr Chen Feng, Ambassador of the People's Republic of China to Mauritius, laying out the Terms of the Agreement regarding the Chinese Agricultural Technical personnel in the field of agricultural cooperation.
23.05.1983	Economic/ Technical	Agreement between the Government of Mauritius and the Government of the People's Republic of China on the Establishment of the Joint Commission for Economic, Technical and Trade Cooperation.
	Cultural	Executive Programme on the cultural agreement between the Government of Mauritius and the Government of the People's Republic of China for the years 1983 & 1984.
03.04.1984	Cultural/ Sports	Protocol on sports exchange and cooperation between the Ministry of Youth and Sports of Mauritius and the Commission for Physical Culture and Sports of the People's Republic of China for years 1984 and 1985.
03.09.1984	Cultural	Cultural Agreement between the Government of the People's Republic of China and the Government of Mauritius signed between Hon. A. Parsuramen and Mr Zhu Muzhi

01.07.1985	Diplomatic	Sino–Mauritian Joint Commission between Government of People's Republic of China and Government of Mauritius.
04.09.1986	Cultural	Mauritius/ China Executive Programme on the cultural agreement for the year 1987/1988.
21.10.1986	Technical	Agreement between Mauritius and China on Training of the Personnel of the Ministry of Health in Acupuncture and Supply of Acupuncture Equipment.
17.12.1987	Technical (Construction)	Mauritius / China Construction of a stadium at Belle Vue Mauricia.
24.03.1989	Cultural	Cultural Agreement between Mauritius / China for the years 1989 – 1990 – Executive Programme on the Cultural Agreement.
29.09.1989	Technical (Agriculture)	Agreement between China / Mauritius Extension of the Agreement on the Agricultural Technical Cooperation.
01.09.1990	Cultural	Executive Programme on the Cultural Agreement between Mauritius and China for years 1991 & 1992
20.07.1991	Economic/ Technical	Agreement between the Government of Mauritius and the Government of the People's Republic of China – Economic and Technical Cooperation.
17.11.1992	Technical/ Scientific	Agreement on Education between the Ministry of Education and Science of the Government of the Republic of Mauritius and the State Education Commission of the Government of the People's Republic of China
17.11.1992	Diplomatic (Education)	Agreement between the People's Republic of China and the Republic of Mauritius on Mutual Recognitions of Diplomas, Degrees and Academic Titles.
13.04.1993	Technical (Construction)	The Construction Contract for Beau Vallon Housing Project between the China National Complete Plant Export Corporation and the Ministry of Housing, Lands, Town and Country Planning
27.7.1993	Cultural	Executive Programme on the Cultural Agreement between the Government of the Republic of Mauritius and the Government of the Republic of China for the years 1993 and 1994.
12.04.1994	Cultural	Agreement on the Development of Chinese Language Teaching between the Government of the People's Republic of China and the Government of the Republic of Mauritius.
01.08.1994	Economic	Agreement between the Government of Mauritius and China – Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to taxes on income.
04.05.1996	Economic	Agreement between the Republic of Mauritius and China – Investment Promotion and Protection Agreement (IPPA)
14.04.1997	Diplomatic	Agreement between the Government of the Republic of Mauritius and the Government of the People's Republic of China on mutual exemption of visa requirements between the Republic of Mauritius and the Hong Kong SAR.

	Diplomatic	Agreement between the Government of the Republic of Mauritius and the Government of the People's Republic of China concerning the maintenance by the Republic of Mauritius and the Consular post headed by an honorary consul in Hong Kong SAR.
04.05.1998	Cultural	Executive Programme on the Cultural Agreement between the Government of the Republic of Mauritius and the Government of the People's Republic of China for the years 1998, 1999 and 2000.
09.07.2004	Technical (Education)	Agreement on Education Cooperation between the Government of the Republic of Mauritius and the Government of the People's Republic of China.
12.01.2005	Diplomatic	Agreement between the Ministry of Foreign Affairs, International Trade and Regional Cooperation of the Republic of Mauritius and the Ministry of Foreign Affairs of the People's Republic of China on Establishing a Political Consultation Mechanism
24.01.2005	Economic/ Technical	Agreement on Economic and Technical Cooperation between the Government of the Republic of Mauritius and the Government of the People's Republic of China.
	Technical	The Agreement between the Government of the Republic of Mauritius and the Government of the People' Republic of China on Bilateral Labour Service Cooperation.
11.01.2006	Diplomatic	Acte de remise relative au don fait par l'Ambassade de la République populaire de Chine a Maurice au Ministère des Affaires Étrangères, du Commerce International et de la Coopération de Maurice.
19.01.2006	Economic/ Technical	Agreement on Economic and Technical Cooperation between the Government of the Republic of Mauritius and the Government of the People's Republic of China
21.03.2006	Technical	Memorandum of Understanding on Air Services between China and Mauritius.
05.09.2006	Economic	Protocol to the Agreement between the Government of the Republic and the Government of the People's Republic of China for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income.
25.05.2007	Cultural	Charter of Twinning between the Grand Port Savanne District Council of the Republic of Mauritius and the City of Qingdao of the People's Republic of China on the Establishment of Friendship City Relationship.
25.05.2007	Economic	Agreement of Cooperation between the Mauritius Chamber of Commerce and Industry and China Council for the Promotion of International Trade.
25.05.2007	Scientific/ Technical	Agreement for the Scientific and Educational Cooperation between Mauritius Oceanography Institute and Institute of Oceanology, Chinese Academy of Sciences.

Source: Compiled by author using information provided by the Ministry of Foreign Affairs, International Trade and Cooperation

Table A.2: Official Rupee-Dollar Exchange Rates, 1990-2006

Year	*Exchange rate (rupees per dollar)*
1990	14.86
1991	15.65
1992	15.56
1993	17.65
1994	17.96
1995	17.39
1996	17.95
1997	21.06
1998	23.99
1999	25.19
2000	26.25
2001	29.13
2002	29.96
2003	27.90
2004	27.50
2005	29.50
2006	31.71

Source: International Financial Statistics, 2007

Figure A.1: Domestic and Foreign Direct Investment in the EPZ, 1976-2006

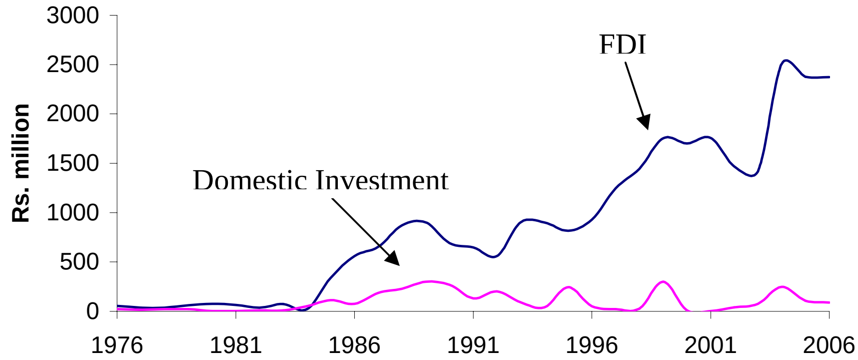

Table A.3: Aid from the Government of the People's Republic of China, 1972-2006

Year	Type of assistance	Loan amount	Terms of Assistance	Project Details
09/08/1972	Loan	GBP 13,540,961	Interest Free with repayment in 10 years within 25 years grace period	▪ Terminal Building at Plaisance Airport. ▪ Technical assistance for agricultural projects.
01/07/1985	Loan	RMB 35,000,000	Interest free with repayment in 10 years and 10 years grace period	▪ Sports complex – Anjalay Stadium. ▪ Barkly Bridge (Moka) ▪ Pointe Monier Bridge (Rodrigues) ▪ Police Workshop
15/12/1990	Loan	RMB 20,000,00 Plus: Commodity Loan of RMB 5m dated 01/07/85	Interest free with repayment in 10 years and 10 years grace period	▪ Upgrading of Flacq Hospital
	Converted into Project Loan	Total RMB 25m		
20/07/1991	Loan	RMB 33,000,000	Interest Free with repayment in 10 years and 10 years grace period	Beau-Vallon Housing Project
13/04/1993	Change in Repayment Terms		Interest Free with repayment in 20 years and 10 years grace period	On-Lent to NHDC
14/06/1993	Loan	RMB 20,000,000	Interest Free with Repayment in 10 years and 10 years grace period	Atlee Housing Project

	RMB 4.7m under loan of RMB 33m will be used to supplement the RMB 20m loan			▪ Chinese Site Investigating Team. ▪ Chinese Design Contract National Friendship & Development Design and Consultation Corporation. ▪ Recreation Centre for Senior Citizens.
03/05/1997	Loan	RMB Yuan 50m	Interest Rate 4%.Duration of credit12 years with grace period to be determined by banks on both sides	Efficient Productive Joint Ventures Projects.
03/05/1997	Loan	RMB Yuan 60m	Interest rate 4% with repayment of 9 years and grace period of 3 years	Ship for Mauritius Shipping Corporation – Mauritius Trochetia – 3500 tonnes Passenger-Cum –Cargo Vessel
25/02/1999	Loan	RMB Yuan 35m		
30/11/2000	Loan	RMB 20M	10G + 10P	New Market at Quatre-Bornes.

05/07/2001	Loan	RMB Yuan 20m	Interest Free in 10 years with a moratorium of 10 years	Construction Project
01/07/2002	Loan	RMB Yuan 20m	Interest Free. Repayment in 10 years with a moratorium of 10 years	Economic Assistance Loan
06/2002	Loan	RMB Yuan 100 m	Interest Rate of 4% with repayment of 8 years and grace period of 4 years	Low-Cost Housing
		Total 40m Yuan	Equipment for the Customs at the Port and Airport Project completed and handed over to the Customs in February 2006	X-Ray Scanning Equipment and Pallet-Sized X-Ray Machine
07/2002		20m Yuan		
01/2003		20m Yuan		

16/01/2003	Loan	RMB Yuan 20m	Interest Free Repayment in 10 years with a moratorium of 10 years	Economic Assistance Loan
10/06/2003		RMB 260M Yuan (150m signed on 30 Nov 2000 and 110m signed on 10 June 2003	The framework agreements for the two loans have been extended until December 2007.	Plaines-Wilhems Sewerage Project - lot 2of P-Wilhems Reticulations Network and House Connections.
01/2005	Grant	RMB 3m Yuan	Part of this has been used to finance TA in Mauritius and a seminar on Textiles in China (private sector participants)	Human Resource Training and Office Equipment
12/07/2006	Grant	RMB 5m Yuan	To be utilised for project relating to human resource development cooperation and for other projects to be mutually agreed upon	Human Resources Development
08/2006	Loans	RMB 100m Yuan	Interest-free loans Chinese side responsible for design, provision of construction, equipment and materials, dispatch of engineering and technical personnel.	Construction of new MBC headquarters
07/2001		Loan of 20m		
07/2004		Loan of 20m		
01/2005		Loan of 40m		
01/2006		Loan of 20m		

		Surplus of RMB 16m to be used for partially fund procurement of radio and TV broadcast equipment.		

Source: Compiled by author using information provided by the Ministry of Finance and Economic Development