MAINSTREAMING TRADE INTO NATIONAL DEVELOPMENT STRATEGIES IN AFRICA: THE CASE OF MAURITIUS

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OVERVIEW

Mauritius is often acclaimed as a rare success story in sub-Saharan Africa. Much of this success was export-led. What did Mauritius do right? How was trade integrated into the national development strategy? What lessons of good practice in trade policy formulation and in trade liberalization can the Mauritian experience offer? These are some of the pertinent questions that this study seeks to answer. The major findings are summarized below.

Trade policy formulation

Mauritius has a long history of trade policy-making and commercial diplomacy that goes back to the negotiations for access to the Lomé Convention in 1975. However, the policy-making framework was neither formal nor well organized – until the setting up of the Trade Policy Unit (TPU) in 1996. The TPU is a division within the Ministry of Foreign Affairs and International Trade specializing in trade policy issues. It has led the process of trade policy formulation, including trade negotiations, since 1996.

The process of trade policy formulation is well structured and consultative. The national-level committee, subcommittees and working groups comprise a balanced representation of the government and of the private sector. This collaborative approach to trade policy-making underscores the country's long-standing tradition of democracy and mercantilism.

Although all private sector actors are treated at par, and have an equal say in the policy-making process, in practice, some representatives are more influential than others. This is true of the sugar sector and of the manufacturing industry; the services sector, however, has not been as effective as the other pillars of the economy. Moreover, the institutional process lacks transparency. But this is only because of the complex nature of the subject, which makes communication difficult.

Strictly speaking, the process has not been cost-effective. There is a general feeling that Mauritius' trade diplomacy has not benefited the country in a significant manner. But this is not a reason for Mauritius to shy away from participating in trade negotiations. The cost of doing so would be worse still. By being present in international trade forums, Mauritius ensures that its policy space is preserved.

Mauritius is a key player in a number of regional trade agreements. Trade policy-making in this context is an ongoing process. The future establishment of a customs union in the Common Market for Eastern and Southern Africa (COMESA) and of a free trade area in the Southern African Development Community (SADC) will have important repercussions on Mauritian industries. This has called for a constant monitoring of the situation by both the Government and concerned private sector operators.

The trade policy-making process functions well. Nevertheless, there is room for improvement. The services sector could be better organized to benefit more fully from the global liberalization of trade in services. Moreover, trade policy analysts and private-sector stakeholders need timely and efficient information to react effectively to the rapidly evolving international trade arena. To that end, the government should consider posting a qualified trade adviser in all the major embassies and overseas missions of Mauritius.

The role of multilateral trade negotiations in trade policy formulation

In the process of negotiating its World Trade Organization (WTO) accession, Mauritius bound tariffs on industrial products on 10 per cent of tariff lines, and on the totality of agricultural goods. In practice, however, the applied rates for both industrial products and agricultural goods are well below the bound rates. Mauritius is thus under no obligation to reduce its tariffs; yet tariffs have fallen over time as part of the country's trade reform strategy.

Trade liberalization has been motivated by domestic needs rather than by multilateral trade negotiations. However, globalization has prompted Mauritius to rethink its trade diplomacy to defend the country's market access privileges against the proposed reform of the EU sugar regime and the phasing out of the Multi-fibre Agreement (MFA).

Mainstreaming trade into the national development strategy

Trade policy is an integral part of the national development policy of Mauritius. The mainstreaming of trade into the development strategy has been effected through commissioned studies, National Development Plans and annual Budgets.

However, the process has not been without policy conflicts. For example, the implicit policy of allowing the local currency to depreciate is welcome by exporters but hurts consumers. Similarly, trade liberalization is exposing domestic firms to foreign competition as well as eroding government revenue. These conflicts have been effectively dealt with: the government has diversified its revenue base and accommodated lobby pressure to maintain protection by targeting a select list of sensitive products.

Linkages between trade strategy and national development

Mauritius has shifted from an industrial strategy based on import substitution in the 1960s to export promotion in 1970 with the establishment of an export processing zone (EPZ). The policy of import substitution led to high effective rates of protection, which entailed a heavy anti-export bias. Trade liberalization started in the 1980s and continues to-date. The process has been gradual and cautious. It has, on the whole, proved sustainable due to the proper timing and sequencing of the trade reform measures.

The EPZ, and the export-oriented trade strategy that it inaugurated, has been hailed as an "engine of growth" in Mauritius, accounting for more than two decades of sustained high growth that steered the country into the club of the upper middle-income economies. It also changed the socio-economic configuration of the country in dramatic ways. The EPZ, for instance, was a catalyst in the process of women's emancipation, permitting women with few alternative employment opportunities to enter the formal labour market and thereby contribute to the economic development of Mauritius.

Poverty alleviation was not an explicit objective of the national trade strategy. It seems that the main task facing policy makers was to foster export-oriented industrialization, with the hope that such a strategy will lead to economic growth, the benefits of which will trickle down to the poor. The evidence suggests that this strategy has worked.

Both the government and the private sector understand that import-competing firms cannot expect to receive protection in the long run, and that the economy's future lies in services. The government is trying to induce this structural shift by providing an appropriate set of incentives.

Capacity-building in trade policy formulation

The government attaches great importance to capacity-building in trade policy formulation, and in trade negotiations. Trade analysts of the parent ministry and officials of relevant ministries participate in training programmes, seminars and workshops, locally as well as abroad. International organizations, like the WTO, the United Nations Conference on Trade and Development (UNCTAD) and the World Intellectual Property Organization (WIPO), regional organizations, such as SADC and COMESA, and multilateral blocs, such as the European Union (EU) and the African Caribbean and Pacific (ACP) Group, have funded the capacity-building programme in Mauritius. The academic community is also involved.

Mauritius believes that the term "trade-related capacity-building" should be interpreted more broadly as "building capacity to produce and trade", and so should not be limited to training and information dissemination only. Government is currently emphasizing this wider interpretation in the context of the "Aid for Trade" initiative of the Doha Development Agenda.

The role of the international community

The international community has not directly influenced trade policy formulation in Mauritius. Moreover, much of the aid that Mauritius has received so far has not been conditional on trade liberalization. However, international donor agencies, such as the World Bank and the International Monetary Fund (IMF), have indirectly influenced trade policy-making by emphasizing the benefits of trade liberalization, which has helped change the mindset of policy makers.

I. INTRODUCTION

Mauritius provides an interesting case study of trade policy formulation – at both the regional and international levels – and of trade liberalization. The country started out, in the 1960s, with a heavily protected import-substitution trade regime, but declared its firm intention to break away from the inefficiency of such a system by setting up an export-processing zone in 1970. The sugar industry, which has played an important role in the economic history of the country, has suffered a major setback as a result of the proposed reform of the EU sugar regime.[1] The tourism industry is another important pillar of the Mauritian economy. It is well-anchored, efficient and competitive; yet it is likely to be affected by the international liberalization of trade in services. This phenomenon will also shape the future of the information and communication industry, which Mauritius is trying so hard to build.

Mauritius has deployed its diplomatic arsenal to minimize the damage to the local economy following the dismantling of the MFA, and the announced cut in the EU-guaranteed sugar price. It has passionately defended its commercial interests in international trade forums, vying for the preservation of the trade preferences that have so critically determined its economic fate, so much so that it has often been branded as an "anti-liberalizer". This image of Mauritius is misleading, however, because, on the domestic front, Mauritius has unilaterally embarked on a long and gradual process of trade liberalization since the 1980s. This process has been driven by the belief – indeed, the conviction – that Mauritius has no future with import substitution, and that an efficient export-oriented manufacturing industry and services are the only viable options for the economy in the medium to long-term.

This report is organized in eight sections. Apart from the introductory section (above), section 2 explains the process of trade policy formulation in Mauritius, pointing out its strengths and weaknesses, and suggesting possible improvements. Section 3 examines the role of multilateral trade negotiation in trade policy-making, and, in particular, trade liberalization, in Mauritius. Section 4 looks at the process of mainstreaming trade into the national development strategy. Section 5 investigates the linkages between trade strategy and national development. It explains the dynamics of trade strategies in Mauritius since the 1960s and analyses the process of trade liberalization that started in the 1980s. Section 6 considers the role of international and regional organizations in capacity-building in trade policy formulation while Section 7 assesses the role of the international community in the process. Section 8 offers some concluding remarks.

II. TRADE POLICY FORMULATION IN MAURITIUS

2.1 The Process

Mauritius has a long history of trade policy formulation and commercial diplomacy, dating back to 1975 when the country embarked on negotiations for accession to the Lomé Convention. This bilateral arrangement between ACP countries, on the one hand, and the EEC, on the other, granted preferential access for Mauritian manufactured exports to the

[1] This regime governed Mauritius' sugar exports to the EU under the Lome Convention signed in 1975.

European market. Moreover, the Sugar Protocol annexed to the Third Lomé Convention offered a generous quota for Mauritian sugar exports to the EEC at a guaranteed price.

Mauritius' entry to the Lomé Convention marked an important milestone for the country's nascent trade diplomacy, which proved successful on two fronts. First, the sheer size of the sugar quota – 507,000 metric tons, equivalent to 38 per cent of the entire ACP quota – bears testimony to the negotiating skills of Mauritian diplomats. Moreover, by joining the Sugar Protocol, Mauritius implicitly accepted the EEC guaranteed price, which at the time, was well below the world market price of sugar. In this endeavour, Mauritius was more concerned about market security and predictability, rather than temporary financial gains. This strategy paid off over the long-term as the (then) EEC guaranteed price increases over time while the world market price declined, yielding a significant "EEC dividend" to Mauritius.

Having secured access to the European market for sugar and manufactured products, Mauritian commercial diplomacy remained dormant until the birth of the WTO in 1995. It is doubtful whether Mauritius would have got a better deal out of the Uruguay Round of trade talks if it had participated more fully in the negotiations. Nevertheless, with hindsight, some trade negotiators believe that Mauritius could have pushed for a more gradual dismantling of preferential trade regimes by forming coalitions with like-interested countries of the ACP.

The setting up of the WTO prompted a reworking of the process of trade policy formulation in Mauritius. There was a pressing need to monitor the country's implementation of commitments undertaken vis-à-vis the WTO, and of WTO agreements in a number of areas. This, in 1996 led to the establishment of the Trade Policy Unit (TPU), a division within the Ministry of Foreign Affairs and International Trade specializing in trade policy issues. Although the setting up of the TPU coincided with the WTO, the latter only indirectly fashioned the TPU. In fact, credit for the TPU goes to the Commonwealth Secretariat, which had noted a number of shortcomings in the process of trade policy-making and had recommended that such a Unit be set up to rationalize the process.

An important change in the administrative structure of government in 2004 contributed to making the TPU more efficient. Until then, the Ministry of Foreign Affairs and the Ministry of International Trade were maintained as separate arms of the government, with the former commanding a higher position in the hierarchy. In 2004 – at a time when the country invested heavily in trade negotiations to defend its commercial interests – it was recognized that the diplomacy that mattered most for Mauritius was unmistakably trade diplomacy. The merger of the two parent ministries was thus motivated by considerations of efficiency stemming from synergies, streamlining of administrative procedures, and rationalization of resources (even though political factors cannot be ruled out altogether).

The TPU has led the process of trade policy formulation, including trade negotiations, since 1996. The process is well structured and consultative. The WTO Standing Coordination Committee, under the chairmanship of the Minister of Foreign Affairs and International Trade, is mandated to look into all issues pertaining to WTO Agreements. The Core Group consists of 12 subcommittees, each dealing with a particular WTO issue or agreement: Agriculture, Non-Agriculture Market Access (NAMA) Services, Textiles and Clothing, Dispute Settlement, Trade and Environment, Technical Barriers to

Trade (TBT), Singapore Issues, Special and Differential Treatment, TRIPS, WTO Rules and Trade Remedies, Small Economies and so on. The Subcommittee on Services is further split into five working groups (see organizational chart in the appendix – Figure 1). The subcommittees and working groups report to the parent subcommittee or to the Core Group, as the case may be. The meetings are held more on an ad hoc than on a regular basis; they are issue-driven and are linked to relevant international meetings. Usually, when the Geneva Mission apprises Government of an upcoming meeting on a particular issue, the Core Group will initiate a first meeting of the appropriate subcommittee. Further meetings may be convened before a consensus is reached and a policy position is adopted.

The Core Group and all the subcommittees and working groups comprise a balanced representation of the government and of the private sector. NGOs and consumer groups are typically not represented unless the subject under discussion so warrants. For instance, consumer associations figure prominently in the current discussions on competition policy. This collaborative approach to trade policy-making reflects the country's long standing tradition of democracy and mercantilism. In fact, the government's consultations with the private sector (as well as with the civil society) are routinely conducted in a number of policy areas (e.g., pre-budget consultations, tripartite wage negotiations, promulgation of bills) and on specific issues bearing on the population at large (e.g., education reforms, electoral reforms, public transportation problems, etc.). It is in this spirit of sharing and cooperation that the private sector is fully represented in the trade policy forums, and its contributions are duly acknowledged.

The mercantilist tradition in Mauritius dates back to the colonial days. Trade has historically been the primary vocation of the island by virtue of its strategic geographical location and its topography, which favoured agricultural production (in particular, sugar) and exports. Consequently, key institutions of the private sector emerged at a very early stage of the economic development of the country to coordinate and represent the policy position of the private sector as a whole vis-à-vis the government. The Mauritius Chamber of Commerce and Industry was established in 1850, and the Mauritius Chamber of Agriculture in 1853. These organizations have maintained a permanent and structured dialogue with the government; they participate actively in the elaboration of the country's strategies for negotiations and are represented in conferences and high-level meetings as full-fledged members of the Mauritian delegation.

Although all private sector actors are treated at par, and have an equal say in the policy-making process, in practice, some representatives are more influential than others. This is true, for example, of the sugar sector, which has traditionally been bullish and has influenced trade policy formulation more than any other sector. The manufacturing industry is also well organized and well represented, but the services sector – except perhaps for the tourism subsector – lacks structure, and has not been as aggressive as the other pillars of the Mauritian economy. This is ironical since a number of Mauritian firms have a significant presence abroad (especially in Africa and Europe), in such areas as accountancy, banking and financial services. The organizational weaknesses of the services sector do not befit a country that aspires to become a services-based economy.

Moreover, while the process of trade policy formulation is consultative, it is arguable whether it is equally transparent. To the extent that all stakeholders are allowed to express their views, and decisions are taken by consensus, the process may be described as 'transparent'. On the other hand, it appears that trade policy-making in Mauritius is shrouded in secrecy, leaving the curious observer wanting for information. This state of affairs, however, is not due to a deliberate manoeuvre by the government to hold back information; rather, the complexity of the subject makes communication inherently difficult. Nevertheless, the government has effectively communicated its official position on trade issues around the time of WTO Ministerial meetings. Moreover, a significant amount of information does flow to the public through press conferences and parliamentary questions, both of which bear testimony to the well functioning Mauritian democracy.

2.2 Sustainability of the trade policy formulation process

There is a general presumption that the trade diplomacy of Mauritius has not yielded significant dividends ever since the Lomé Agreement in 1975 – except perhaps for the small 'victory' that Government claimed when the European Union, under constant pressure from ACP sugar producers in a coalition led by Mauritius, agreed in November 2005 to revise the proposed cut in the guaranteed price of sugar from the 39 per cent as initially announced to 36 per cent, along with a longer adjustment period and the promise of a better financial package to help ACP countries restructure their sugar industry. While the private sector partners have occasionally expressed frustration at the lacklustre performance of Mauritian diplomacy, they acknowledge that Mauritius is too small to influence the policy position of the European Union, or the WTO for that matter, and so nobody can be blamed if its voice is not heard.

Strictly speaking, therefore, the process of trade policy formulation in Mauritius has not proved cost-effective: the cost of participating in international or bilateral trade negotiations, supported by the bureaucracy and all the high-level meetings at home, far exceeds the benefits, which, if any, are not that tangible and are spread out into the future. However, a pertinent question to ask is: what if Mauritius did not participate in the trade negotiations? It is feared that the cost of such a stance would be even higher. Mauritian policy makers believe that the country should participate in as many trade forums as possible so as to preserve the policy space. The phasing out of trade preferences, of which Mauritius has been a privileged beneficiary, provides a good illustration. Both the government and the private sector in Mauritius understand the inevitability of the erosion of preferential market access under the impacts of globalization; but, by being present in the G33, the G10, the African group, the ACP group and the least developed countries (LDC) group (as an observer), Mauritius ensures that the policy space to defend preferences is maintained. This would allow the country to vehicle its views and concerns, and hope to 'soften' the positions of its main protagonists by joining effective lobby groups. In any case, Mauritius would benefit from the first-hand information flowing from trade meetings since such information allows appropriate economic strategies to be developed over the long term. For instance, Mauritius could do little to change the 1993 Marrakech decision to phase out the MFA, but, knowing that the MFA would be dismantled over a ten-year period, the government promptly took several measures to prepare the Mauritian textile and clothing industry to face up to the competition that would emerge in 2005.

2.3 Trade policy-making at the regional/bilateral level

Mauritius is a key player in a number of regional trade arrangements (RTAs) in Africa, notably the SADC, COMESA and the Indian Ocean Commission (IOC). In addition to promoting trade and cooperation, the RTAs are expected to facilitate integration into the multilateral trading system by sustaining trade liberalization efforts. Moreover, Mauritius views its membership in regional groupings as a means to leverage its negotiating position in international trade forums.

However, multiple RTA membership raises complex issues relating to applicable customs duties, administrative procedures, and rules of origin. Accordingly, a Regional Cooperation Council has been set up under the chairmanship of the Minister of Foreign Affairs and International Trade to foster a coherent regional strategy for Mauritius.

Trade policy-making in the context of the regional initiatives is an ongoing process, with frequent meetings of the stakeholders locally, and periodic meetings at the level of the regional blocs. A Working Group on COMESA and SADC, which operates along the same lines as the WTO Standing Coordinating Committee, with similar structure and representation, is responsible for developing, implementing and monitoring regional trade liberalization commitments. The SADC Trade Protocol, which came into force in 2000, aims at the establishment of a free trade area by 2008. Tariffs on about 85 per cent of intra-SADC trade will be liberalized over an eight-year period; the remaining 15 per cent will be phased out by 2012. The government, in consultation with the private sector, has drawn up a list of 'sensitive products' that will be subject to more cautious tariff liberalization, with a view to protecting the interests of domestic firms that require a longer period to adjust to free trade in the region. Sugar, a particularly sensitive product for Mauritius, is covered by a special agreement annexed to the Trade Protocol.

A free trade area operates in the COMESA since October 2000. The common market, which was slated to become a customs union by 2004, submitted proposals for a common external tariff (CET) policy in 2004, with tariff rates of 0 per cent, 5 per cent, 15 per cent and 30 per cent on capital goods, raw materials, intermediates, and final goods, respectively. The government, under pressure from the private sector has 'rejected' the CET, forcing COMESA to reconsider its options.

Mauritius was a key actor in the African Growth and Opportunity Act (AGOA) negotiations, and was among the first countries to qualify for AGOA privileges in January 2001. According to AGOA rules of origin, garments made from yarn produced in AGOA eligible African countries or in the U.S. qualify for duty-free access to the U.S. market. However, a Special Rule for "less developed countries" allows these countries to utilize third country fabrics. Mauritian trade diplomacy was hailed a success when Mauritius, despite not enjoying the LDC status, successfully negotiated the Third Country Fabric derogation, allowing the country the flexibility to use yarn originating in other countries.[2]

The Cotonou Agreement, under which the EU grants non-reciprocal trade preferences to ACP countries, is due to expire in December 2007. Thereafter, a set of WTO compatible Economic Partnership Agreements (EPAs) will come into effect. Mauritius is participating fully in the current EPA negotiations, which, at the national level, are coordinated by the National Trade Development and Policy Forum of the Trade Policy Unit. Mauritius attaches significant importance to the EPA, given its implications for the country's exports access to the EU market, as well as the potential adverse impact on tariff revenue and on domestic firms, which will be exposed to greater competition. In the current EPA negotiations, Mauritius has chosen – strategically – to associate itself with the Eastern and Southern Africa bloc, which groups together most of the COMESA member countries.

[2] This derogation expired in September 2004 and was not renewed.

2.4 Improving the process of trade policy formulation

The trade policy-making process is, on the whole, democratic, collaborative, well structured and organizationally efficient. It is led by a team of negotiators with considerable knowledge and experience in the field. Nevertheless, room for improvement exists.

Some critics argue that Mauritian trade diplomacy has been reactive rather than pro-active. Recent events seem to support this view at least partially: in the face of vanishing trade preferences, Mauritius mustered all its diplomatic prowess to defend its commercial interests. However, the critics fail to understand that Mauritius could not have changed the course of globalization, even if it invested more heavily in its trade diplomacy, and that preferential markets were bound to disappear.

One area where Mauritius would clearly gain from an improvement in the policy formulation process is trade in services. As mentioned above, this sector is poorly represented in national trade forums, despite the growing significance of services in the economy. The country could obtain better results if the services sector were more efficiently organized. There is, therefore, an urgent need to address this deficiency if the economy is to benefit more fully from the global liberalization of trade in services.

Another weakness relates to the speed and efficiency of information flows from overseas missions to local policy makers. The international trade landscape evolves rapidly, so it is crucial to keep pace with the developments and feed timely market intelligence to the stakeholders to allow effective strategy formulation. The government should consider posting a qualified trade adviser (rather than a political nominee) in all the major embassies and/or overseas missions of Mauritius.

III. THE ROLE OF MULTILATERAL TRADE NEGOTIATION IN TRADE POLICY FORMULATION IN MAURITIUS

At the conclusion of the Uruguay Round in 1994, WTO members made tariff reduction commitments as follows: 40 per cent reduction on industrial products, to be effected in five equal phases until January 2000; 36 per cent reduction on agricultural products over six years for developed countries and 24 per cent reduction over 10 years for developing countries.

Mauritius is not concerned by these reduction commitments because, in the process of negotiating its WTO accession, it bound tariffs on industrial products at the maximum rate of 65 per cent on 10 per cent of tariff lines, and at ceiling rates of either 37 per cent, 82 per cent or 122 per cent on the totality of agricultural goods. In practice, however, the applied rates for both industrial products and agricultural goods are well below the bound rates, leaving substantial "tariff waters".

Mauritius is thus under no obligation to reduce its tariffs; in fact, it can *raise* tariffs up to the bound rates without violating any WTO rules or commitments. Instead, tariffs have been gradually reduced over time as part of the country's trade reform strategy, which rests on the shared conviction that only an offensive approach to trade liberalization can promote global competitiveness of local firms. It would be utterly misleading, therefore, to attribute the ongoing process of trade liberalization in Mauritius to multilateral trade negotiations.

If multilateral trade negotiations have influenced trade policy formulation, then it is on the *external* front. For instance, Mauritius had to rethink its trade diplomacy to defend the country's market access privileges against the proposed EU sugar reform and the phasing out of the MFA. Mauritius sent a clear signal to the international community that it is not against global trade liberalization but that such liberalization presented formidable challenges to a small, vulnerable, island state, that demanded a more development-focused approach. Consequently, Mauritius has strategically exploited the development dimension of the Doha Round, calling for special and differential treatment for economies like Mauritius – both at the level of the WTO and the United Nations.

IV. MAINSTREAMING TRADE INTO THE NATIONAL DEVELOPMENT STRATEGY

4.1 Objectives

"Trade policy is an integral part of the national development policy of Mauritius" (WTO, 1995). The key objective of mainstreaming trade into the country's national development strategy is summarized by WTO as follows (2001, p.11):

> "Trade policies in Mauritius, as an integral part of economic policies, are aimed at improving the standard of living of the population through the establishment of a thriving, competitive, and modern economy growing at high rates. This objective is to be achieved, to a large extent, by the practice of a liberal economic policy, including liberalization of foreign trade."

4.2 The process

The practice of integrating trade or trade policy into the national development strategy has a long history, dating back to the Meade Report of 1961, which recommended that the government should explore export-oriented industrialization as a long-term development strategy. Such an industrial strategy did not come around until 1970, with the setting up of an export processing zone (EPZ). The EPZ concept was presented in the national development plan (1971-1975) as a vehicle for massive job creation and economic development through industrial diversification. A team comprising industrialists, high-level government officials and academics studied the EPZs in operation in Hong Kong and Taiwan, and made recommendations to the government on the setting up, in Mauritius, of a duty-free zone producing for export markets.

The EPZ story is an interesting illustration of how a simple idea came to fruition through the joint efforts of the Government, the private sector, the academic community, and economists, who floated the idea in the 1971-1975 development plan. The EPZ was also a clever instrument to break away from the heavy anti-export bias of the prevailing import-substitution regime, and take a bold first step in the direction of export promotion. Successive development plans over the period 1975-1994, and "Vision 2020" (1997) which was the final product of the National Long-Term Perspective Study--continued to fashion the industrial and development strategy of Mauritius, and trade policy figured prominently in most of them.

In addition to commissioned studies (such as the Meade Report) and national development plans, the mainstreaming of trade in the development strategy of Mauritius has been achieved – in an important way – through the annual budget process. Indeed, most trade policy measures in Mauritius have been announced in the Budget, which has proved a useful instrument in communicating government policies to the population. The Budget has the added advantages of a greater degree of flexibility, implementation and monitoring than the development plans.

Table 1 presents some of the trade policy measures announced in recent budget presentations.

4.3 Policy conflicts

Trade policy formulation is fraught with policy conflicts – apparent as well as real – and Mauritius offers an interesting case study. The implicit policy to allow the rupee to depreciate against the major currencies has induced some degree of "imported inflation", and so it does not help consumers. However, the policy does serve the interest of exporters, who insist that the depreciation should be more pronounced. By maintaining export competitiveness, the rupee's "slide" has helped protect jobs, real incomes, and, ultimately, the very interest of the same consumers, who saw the short-term inflationary impact of the depreciation as a threat to their purchasing power.

A clear-cut illustration of the conflict between trade policy and national development strategy is the global erosion of trade preferences. Mauritius understands that it cannot swim against the current of globalization. Therefore, it has embarked on a long and ongoing process of trade liberalization that has exposed local industries to fiercer import competition. The government has responded to the emerging concerns in two ways. First, it has moved to phase tariff reductions, delaying liberalization on a select list of sensitive products. Second, the government is encouraging local firms to improve their international competitiveness by cutting costs and enhancing their productivity through several initiatives. Customs duties have been abolished on virtually all imported inputs and capital equipment. The National Productivity and Competitiveness Council (NPCC), established in 1999 to instil a culture of productivity and quality in Mauritius, provides benchmarking tools for enterprise capacity assessment, diagnosis and support. Enterprise Mauritius, a joint public-private sector initiative to promote enterprise development and export diversification, became operational in 2005. Special emphasis is currently being placed on SMEs, especially outward-oriented ones, and a number of incentive schemes, including entrepreneurial training programmes, credit facilities, technology upgrading and other logistical support, have been placed at their disposal.

Tariff liberalization can compromise fiscal stability, especially in a country that has traditionally depended on trade taxes as a source of revenue. Customs duties made up 44 per cent of government revenue in 1990. This share had fallen to 22 per cent by 2004 as a result of progressive trade liberalization (see Figure 2). The government is conscious that further tariff cuts will inevitably weaken its financial position unless alternative sources of revenue are better exploited or expenditures streamlined.[3]

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[3] On the expenditure side, the government is implementing the Medium-Term Expenditure Framework (MTEF), a plan to restructure budgetary expenditures, reduce wastage and promote greater efficiency in government service delivery.

The timing and sequencing of trade liberalization in Mauritius so far has sought to minimize the impact on the government budget. This has been achieved by focusing on non-tariff liberalization initially. When tariffs were removed on a wide range of products in 1994, the tariff structure was simultaneously rationalized to boost tax buoyancy. These tariff reforms also came in anticipation of a major domestic tax policy reform, the centrepiece of which was the introduction of a value-added tax at 10 per cent in replacement of the existing 8 per cent sales tax that was expected to increase government revenue. The VAT rate was subsequently raised to 12 per cent in 2001 and to 15 per cent in 2002.

With tariff cuts, Government took care to protect its revenue base by postponing liberalization of tariffs on major revenue-generating items. The SADC Trade Protocol provides a good example of this type of sequencing. In view of setting up an SADC free trade area, products have been grouped under three categories. Category A products – mostly capital goods and equipment subject to already low tariff rates – have been fully liberalized. Category B products – goods that constitute important sources of customs revenue – are to be liberalized by 2008. Category C, comprising sensitive products, will be liberalized over the period 2008–2012. A similar logic of sequencing has underpinned the process of unilateral tariff liberalization that started in 1994.

Hence, the government has effectively dealt with the policy conflicts raised by trade liberalization. It has reduced dependence on customs revenue by diversifying its revenue base and has dodged or accommodated lobby pressure to maintain protection by targeting a very narrow list of sensitive products.

IV. LINKAGES BETWEEN TRADE STRATEGY AND NATIONAL DEVELOPMENT

5.1 The dynamics of trade strategies since the 1960s

Being a small island economy, with limited endogenous natural resources, Mauritius has consistently sought to maintain an outward-oriented trade strategy – centered on the EPZ concept – since independence in 1969. This strategy permeates the local industrial landscape. It has guided trade policy in Mauritius and motivated the ongoing process of trade reform that started in the 1980s.

5.1.1 The genesis of protectionism

The origins of industrialization in Mauritius can be traced back to the Meade Report of 1961, which recommended that Mauritius – essentially a mono-crop economy at the time – should promote alternative industries since the sugar industry alone could not absorb the rapidly growing labour force. Although the Report advocated export-oriented industrialization, the government favoured import-substitution industries as a feasible avenue for industrialization in the short term.[4] Consequently, in 1964, the government introduced the Development Certificate (DC) scheme to foster the establishment of import-substitution industries. DC enterprises were offered an attractive package of incentives, including tax relief on profits and dividends, preferential rates on investment finance,

[4] Perhaps this strategy was motivated by the belief that a resource-constrained, technologically backward island economy, with a significant transport disadvantage, could not afford to be internationally competitive.

investment allowances, duty exemption on imports of capital equipment and inputs, and tariff and quota protection from foreign competition. On average, quotas restricted imports to 20 per cent of total domestic sales. Moreover, firms had the possibility to apply for – and usually received – additional protection from increased import competition.

The import-substitution strategy opened the gates to protectionism, which became a constant feature of the domestic economy for several years. After 1973, the general level of duties was raised repeatedly through the application of surcharges and import permit fees known as "stamp duties." The protectionist regime turned even more restrictive in the late 1970s, when a series of new measures were taken to deal with persistent trade deficits and dwindling government finances. These pre-reform trade policy measures are summarized in Table 2.

The import-substitution policy had limited success in terms of its contribution to employment and growth. Policy-makers soon realized that the very small domestic market offered little scope for import-competing firms to thrive. A natural alternative development paradigm was the export-led strategy recommended by the Meade report. The post-independence (1969) policy thrust thus began with the establishment of an export-processing zone (EPZ). The EPZ Act of 1970 created a special regime for firms catering exclusively to the export market. The original intent was to woo foreign direct investment into the zone by offering incentives such as duty-free imports of machinery, raw materials and other inputs, substantial tax holidays, subsidized power rates and factory space, free and unlimited repatriation of profits and dividends, and access to concessional credit.

The incentives contained in the EPZ Act combined with the availability of relatively cheap semi-skilled labour and very flexible labour laws to spur a steady wave of investment into the export sector. On the external front, the preferential access of Mauritius's clothing exports into the then-E.E.C. under the Lomé Convention and the yet unexploited potential to export to the United States were probably instrumental in attracting foreign investors from Hong Kong who had run up against MFA quota ceilings.[5] While the initial stimulus to EPZ activity came from foreign investors, local participation quickly caught up with and surpassed the degree of foreign equity in the zone.

The non-traditional export sector has been the engine of growth in Mauritius since 1984, when it recovered after a period of sluggish growth. The EPZ exists side by side with a protected import-competing sector whose economic role has been diminished by trade liberalization and successful industrial diversification. This duality raises questions about the effectiveness of export-promotion policies in the presence of strong incentives for domestic production, leading to the so-called "anti-export bias." The Mauritian experience suggests that the two sectors can be maintained as enclaves, each with its own set of specific incentives. The incentive to produce for the domestic market under the cover of protectionist barriers may be offset by effective export incentives. However, import liberalization would further enhance the relative attractiveness of export-oriented production by reducing the anti-export bias.

[5] The Lome Convention, signed in 1972, allows duty-free and quota-free access of Mauritian exports to the EU. Mauritius was not a member of the MFA. Nevertheless, exports of certain items of clothing were (and still are) subject to quotas in the United States and Canada. These quotas were underutilized in the early 1970s, thus allowing significant room for exports to North America.

5.1.2 The economic costs of the protectionist regime

In principle, infant-industry protection is given to a new venture for a *limited* period of time, with the expectation that it will grow into an efficient firm capable of standing up to foreign competition once protection is removed. However, tariff protection extended to new DC enterprises in Mauritius *did not* have a time limit. Thus, the high level of protection initially conferred became a permanent feature of the DC scheme. The import-substitution policy imposed considerable resource costs on the economy. No estimate of the economic costs of protection is available. However, a few studies have documented and quantified the restrictiveness of the pre-reform trade regime and its anti-export bias.

Greenaway and Milner (1986) have employed the concept of "true protection" to estimate the incidence of import protection on the export sector. The underlying idea is that, in a general equilibrium model with three sectors – namely exportables, importables and non-tradables – protection of one sector must "disprotect" at least one other sector. For example, if importables and non-tradables are close substitutes in consumption and production, an import duty will raise the prices of both goods relative to exportables. Hence, the import tariff is similar in its effect to a tax on exports. Greenaway and Milner find that, over the period 1969-1975, approximately 50 per cent of import protection was shifted in the form of export taxes on EPZ firms, the incidence rising to 66 per cent in 1976-1982. These findings suggest that (1) the trade regime became more restrictive over time, possibly reaching a peak in 1982-1983, before the first wave of trade reforms in 1984; (2) the heavy protection of the import-substitution sector entailed a significant anti-export bias, which was only partly offset by the impressive array of export incentives available to EPZ firms.

Milner and McKay (1996) have estimated and used alternative real exchange rate indices to date the beginning of the liberalization episode in Mauritius. They argue that the overall real exchange rate is not very useful for the purpose since it may rise or fall following trade liberalization. By contrast, the impact of trade liberalization on the real exchange rates for importables (RER_M) and exportables (RER_X) is unambiguous: RER_M falls and RER_X rises in response to trade reform. Figure 3 shows the evolution of RER_M and RER_X over the period 1976-1989. Also plotted is the anti-export bias index, defined as RER_M/RER_X.

According to the graph, the bias of the trade regime against exports increased steadily during the late 1970s, reached a peak in 1981 and declined sharply thereafter. This analysis would point to 1981 as the first year of significant trade reforms – a finding (slightly) at variance with the fact that reforms actually started in 1984. Since the impact of currency depreciation and trade liberalization on the real exchange rates is indistinguishable, this result could be due to the devaluations of 1979 and 1981 (with a time lag).

Table 3 presents estimates of effective rates of protection (ERP) in Mauritius for the years 1980 and 1990. The efficiency cost of the protectionist regime is reflected in the high rates of effective protection available to domestic firms in 1980. The average ERP in 1980 was 128 per cent. However, these summary data conceal wide variations in ERP at the sectoral level, which ranged from 23 per cent (transport equipment) to 269 per cent (leather products). In 12 out of the 22 sectors, the rates were in excess of 100 per cent. Such high rates of effective protection insulated domestic firms from foreign competition and fostered inefficiency across the board. Corroborative evidence is provided by Greenaway and Milner

(1989), who found that highly protected firms in 1980 had higher average production costs than less protected firms and yet were making abnormal profits.[6]

5.1.3 Policy turnaround: trade liberalization

The economic situation in the early 1980s was ripe for reform. In 1983, prior to the adoption of trade reform, the unemployment rate was at an all-time high (20.2 per cent), foreign exchange reserves were running low (barely covering one month's worth of imports), the budget deficit amounted to a record 6.4 per cent of GDP, and the economy was showing clear signs of stagnation with an average GDP growth of 0.3 per cent over the period 1979-1983. The economic crisis had its roots partly in a Dutch-type disease that infected the economy following the sugar boom of 1973-74. Windfall gains in government revenue from the sugar boom were squandered on public investment projects of dubious economic value and on pay increases for public-sector employees. The result was unsustainable fiscal deficits and rising inflation. The consequent appreciation of the real exchange rate had adverse effects on EPZ exports and employment. The oil crisis of 1979 dealt a further blow to an already ailing economy.

The policy response was a combination of stabilization and adjustment measures negotiated with the Bretton Woods institutions. Trade liberalization was not high on the agenda initially. This reflected both a focus on the more pressing macroeconomic issues and policy makers' reluctance to attack the protectionist regime. However, trade reforms took on some importance in the second structural adjustment lending (SAL2) agreement of December 1983 with the IMF. The government commissioned a private United States consulting firm to review the existing trade and industrial policies and advise on the best ways to meet its commitments to trade liberalization in the context of SAL2. Government officials immediately acted upon the recommendations of the study. Thus, 1984 marked the beginning of an ongoing process of piecemeal trade reforms. Table 4 summarizes the key elements of trade liberalization during the period 1979-2005.

Table 4 also offers useful insights into the timing and sequencing of trade reforms in Mauritius. The gradualist approach along with the sequencing of the reforms ensured the success and the sustainability of the entire reform programme. Thus, during the period 1979-1983, the emphasis was on stabilization and exchange- rate adjustment. Indeed, as Table 4 shows, *trade* policy actually became more restrictive during this period, with successive increases in the stamp duty and application of a surcharge on customs duties. The next phase of the reform process focused on removal of non-tariff barriers in a planned and gradual manner so as to minimize the impact on the balance of payments and opposition from import-competing interests. Consequently, when quantitative restrictions were lifted, import licensing was maintained until 1991. Serious tariff reform was undertaken only in 1994 – ten years after the first liberalization phase.

The government of Mauritius is heavily dependent on trade taxes as a source of revenue. The export tax on sugar had undergone progressive reductions until 1993, when it was finally eliminated. Accordingly, export taxes made up a mere 3.6 per cent of government current revenue (and 9 per cent of trade taxes) in 1992, down from 15.8 per cent in 1983. In contrast, import duties have historically been the single most important source of tax revenue, accounting for 40 per cent of government revenue in 1990. Hence, the fiscal

[6] However, it is not clear whether the abnormal profits were due primarily to protection or barriers to entry.

impact of trade reform was an important concern, as reflected in the design and sequencing of the reform programme. For instance, although the government failed to introduce tariff equivalents upon the removal of quantitative restrictions in 1984-1985, the substitution was in part achieved through increases in the stamp duty. The withdrawal of exemptions on duty payments for import-competing firms in 1984 was also a revenue-enhancing measure. The tariff liberalization of 1994 came in anticipation of the introduction of a value-added tax that promised to boost government revenue.[7]

The tariff reforms of 1994 resulted in a simplified tariff structure, a lower average nominal tariff of 29 per cent (compared to 86.2 per cent in 1980) and a narrower dispersion of rates, as indicated by the standard deviation of 26.3 per cent (compared to 66 per cent in 1980). The number of tariff rates was reduced from 60 to 8, with duties ranging from 0 to 80 per cent (i.e. 0, 5, 15, 20, 30, 40, 55, and 80 per cent). Some anomalies of negative effective protection – inputs being taxed at rates higher than finished goods – were corrected in 1998 by adding a new tariff rate of 10 per cent to the 1994 tariff structure and lowering customs duties on basic manufacturing inputs to this rate. This policy change resulted in a 2 percentage-point decline in the average tariff rate.

Figure 4 summarizes the tariff structure of Mauritius for the years 1994, 1998 and 2001. It shows that the frequency distribution of tariffs is very uneven. About 20 per cent of all tariffs in 1998 stood at zero; over 60 per cent were at 20 per cent or less. This means that, despite the major tariff reform of 1994, tariff dispersion remains significant, and exemptions and concessions pervasive. The highest nominal tariffs apply to the "viable" import-competing sectors (beverages and tobacco, furniture, and paper products) and to the EPZ (clothing, leather and consumer electronics) (see Table 5). These are the "sensitive products" mentioned above.

Two significant trade reform measures adopted in 2001 make Mauritius stand out as a serious liberalizer. First, until 2001, Mauritius did not practice a uniform and non-discriminatory tariff policy. For customs purposes, exporting countries were classified into "scheduled" and "non-scheduled" countries.[8] Imports from non-scheduled countries dutiable at 55 or 80 per cent attracted an extra 20 percentage-point duty.[9] An important step was taken in 2001 to abolish this discriminatory practice. The additional duty of 20 per cent applicable on goods from non-scheduled countries otherwise subject to an 80 per cent tariff was abolished while the customs duty on goods normally attracting a 55 per cent tariff was reduced from 20 to 10 per cent.

Second, excise duties have traditionally been collected on the local production of such goods as tobacco, cigarettes and wine. The tariff reforms of 1994 fixed the maximum tariff at 80 per cent and shifted to excise duties the difference between the new rate and the

[7] Because of the declining popularity of the party in power, the VAT did not actually come into operation in 1994. The ruling party was heavily defeated in the December 1995 elections. The new government introduced the VAT in 1998 amidst popular discontent.

[8] The "scheduled" list comprised all the major trading partners of Mauritius; notable exceptions were Japan, Korea and Switzerland, which were classified as "non-scheduled territories."

[9] Example: suppose a product is imported from both a scheduled and a non-scheduled country and normally attracts a customs duty of 55 per cent. Then, while the import from the scheduled country is taxed at 55 per cent, that from the non-scheduled country is dutiable at 75 (55+20) per cent.

old one where it used to be above 80 per cent.[10] However, the method by which excise duties were calculated was different for imported and locally produced goods: while the rates applied on imports are ad valorem, local production is taxed mainly on a per-unit basis. This practice has resulted in higher excise duties on imports – a contravention of WTO non-discrimination rules. The differential rates of excise duties were brought to parity in 2001.

Import liberalization continues to-date. In 2003, tariffs were either reduced or eliminated on some 100 additional items, and the government took an important step towards the equalization of excise tax rates applicable to local and imported products, especially cigarettes. In 2004, tariff liberalization continued, with tariffs reduced or removed altogether on 310 tariff lines including pharmaceutical products, food preparations, essential items for infants and industrial inputs. The differential in excise duty between locally produced and imported cigarettes was further reduced. The government signalled its firm commitment to free trade by announcing – in the 2005-2006 budget – an ambitious project to transform Mauritius into a "duty-free island". To that effect, and as a starting point, import duties were reduced or abolished on some 1,850 items, including basic foodstuffs, articles of toiletry and personal care, common household and non-household electrical appliances, office and telecommunications equipment, and industry inputs.

Trade liberalization in Mauritius has, on the whole, been a sustainable process, with the government typically locking in the tariff reductions and avoiding backtracking. However, an exceptional case of policy reversal was noted in 2005. The preceding government had slashed tariffs on a wide range of products of direct interest to consumers, such as powdered milk, cereals, cosmetics, articles of wearing apparel, and frozen vegetables. Although, the tariff cuts were presented as an inevitable first step in the government's pursuit of the "duty-free island" concept, the general feeling was that the government was trying to win votes in an election year. While consumers welcomed the tariff reductions, a number of local firms, especially SMEs producing garments for the domestic market, protested that the tariff reductions threatened their survival. The government was defeated in the July elections, and as soon as the new government assumed office, tariffs were re-introduced on imported clothing, on the argument that local SMEs in the clothing industry needed more time to adjust to trade liberalization.

5.1.4 Trade liberalization: An *ex-post facto* evaluation

How much more open is Mauritius's trade regime as a result of the reforms? No single measure can effectively capture all the dimensions of trade liberalization. The following analysis uses average tariffs (nominal and effective), import penetration ratios, changes in real exchange rates and a structural measure suggested by Nash (1993), as indicators of trade liberalization. For this purpose, and as far as the data permit, the liberalization period in Mauritius (1979-1998) is broken down into four sub-periods corresponding to the phases identified in Table 4.[11] The period of exchange rate reform (1979-1983) is treated as a separate phase to differentiate it from trade liberalization per se.

A closer look at the measures presented in Table 6 confirms that 1984-1990 and 1994-1998 were periods of substantial trade reform. As noted above, the first period

[10] For example, prior to the tariff restructuring, imported beer was taxed at 230 per cent. Since 1994, however, beer bears a customs duty of 80 per cent and an excise duty of 150 per cent. Such disguises are an additional reason why the tariff liberalization of 1994 accomplished so little (see section 5.1.4).
[11] Because of data limitations, a more recent period could not be covered.

concentrated on the liberalization of non-tariff barriers, the second on tariff reform. The intensity of the 1984 reform phase is clearly indicated by the sharp reduction in the effective protection rate and the upward trend recorded by all three openness indicators over the preceding period. Moreover, while the depreciation of the real exchange rate during 1979-1983 was primarily the result of the successive devaluations of 1979 and 1981, the real depreciation in 1984-1990 could be a manifestation of the trade reforms over that period. The structural measure of trade liberalization suggests that the restrictiveness of the trade regime over the period 1984-1990 *declined* by almost as much as it had increased during 1979-1983. The slight increase in the collection rate reflects the increase in import duties when quantitative restrictions were eliminated and need not be inconsistent with the favourable changes registered by the other indicators.

A second major wave of trade liberalization began in 1994. During this phase, the focus was on *tariff* reform. The average nominal tariff was reduced to about half its 1989 level. Despite this remarkable degree of tariff liberalization, however, there are signs that the trade regime in 1994-1998 was not substantially more open than during the period 1984-1990. For instance, the Nash measure shows that the intensity of the trade reform in 1994-98 was much less compared to that of 1984-1990. Also, the openness indicators record only slight increases relative to the averages for 1984-1990. A possible explanation for the small effect on openness of the apparently substantial tariff liberalization of 1994 is that the tariff cuts were limited to products with relatively inelastic demand – perhaps to minimize the impact on the balance of payments and on tariff revenue. This argument is partly supported by the observation that, notwithstanding the scale of the tariff reform, the collected tariff rate fell by a mere 3.5 percentage-points on average over the period 1984-1990.

On the whole, the alternative indicators of trade liberalization and openness reveal a fairly consistent picture of Mauritius' experience with trade reform. The analysis shows concretely that the first episode of trade liberalization in 1984 had a much larger impact on openness than the subsequent tariff reforms of 1994. This confirms an important lesson in trade reform: the liberalization of non-tariff barriers goes a long way toward achieving a neutral trade regime.

5.2 Trade strategy and national development outcomes

5.2.1 The EPZ and export diversification

Export diversification has been a key component of Mauritius' trade strategy, which has evolved from import substitution in the1960s to one that leans heavily on exports. This was achieved through the setting up of an export-processing zone (EPZ) as early as in 1970.

With a rather modest start, the EPZ evolved over the years into a dynamic export platform with considerable job creation potential. Figures 5 and 6 show the profile of EPZ employment and exports over the period 1983-2005. It is clear that the evolution of the EPZ was not smooth. The fate of the EPZ has been intimately linked to volatile FDI flows and to various developments in the external markets. The sharp drop in EPZ employment in recent years is due primarily to the erosion of market preferences – in particular, the phasing out of the MFA – that entailed an exodus of foreign operators from the EPZ. The future of this sector is uncertain since much depends on the capacity of existing firms to match the cost competitiveness of giant exporters like Bangladesh, China and India, or to carve a niche in the high-end segment of the clothing market.

5.2.2 The EPZ and women's emancipation

The EPZ has been hailed as a catalyst in the process of emancipation of women in the country since it permitted women with few alternative employment opportunities to enter the formal labour market and to contribute to the economic development of Mauritius.

Prior to the setting up of the EPZ, female labour force participation was low and employment was male-dominated. For instance, in 1982, on the eve of the EPZ boom years, total female employment was barely one-third of total male employment. Data for sex distribution of employment for earlier years are not available, but one can safely infer that women were marginalized in economic activity. Of those who were formally employed, a significant proportion were working in sugar cane fields, and a smaller number in relatively low-level administrative/clerical jobs in the government.

Thus, the Mauritian society before the establishment of the EPZ was one of abject gender inequality. While it is true that this situation was partly the result of prevailing social values that condemned women to the role of mother and housewife, casual evidence seems to suggest that the EPZ concept played a pivotal role in uncovering a latent demand for employment by women by providing them the right set of conditions to participate in economic activity. Garment making, which has come to dominate EPZ production, appeared as the ideal job for the typical Mauritian woman. It was relatively "light", required little specialized skills, and offered a new, hitherto unfamiliar, and exciting work environment – the factory. More importantly, the EPZ came around as a saviour, promising to free women from socio-economic marginalization and to give them fairer representation in the economic and political arena.

Female employment has witnessed phenomenal growth since the launching of the EPZ, but more so after 1983 when the EPZ was revived following a period of sluggish activity (Figure 3). The result is a steady increase in the ratio of male to female employment from 1:3 in the early 1980s to 1:2 in 2002. Obviously, this trend was driven by job creation in the EPZ, which has particularly benefited women. Female dominance of EPZ employment is well illustrated by the fact that there are twice as many women as men in the EPZ but four times as many men in the non-EPZ manufacturing sector, bringing the gender ratio for employment in the manufacturing sector as a whole to parity[12].

5.2.3 Trade strategy and economic development

The export-oriented trade strategy based on the EPZ is credited for ushering in a period of unprecedented economic development in Mauritius since the mid-1980s. There is general agreement that trade has been an "engine of growth" par excellence in Mauritius. However, little formal evidence on the trade-growth nexus is available.

Ancharaz (2003) investigates the impact of trade liberalization on EPZ activity using a theoretical model of FDI in a small economy with an EPZ. The model predicts that trade liberalization in the form of tariff reductions on imports will have a Rybczynski-type effect on EPZ output induced by shifts in domestic resource allocation and by increased FDI flows into the zone. The empirical tests generally support the theoretical predictions. The

[12] These ratios are averages over the period 1990-2003.

statistical evidence suggests that the most important phase of trade liberalization – that started in 1984 – had a marked impact on foreign investment in the EPZ, resulting in a significant increase in EPZ production, employment and exports.

Subramanian and Roy (2001) examine three competing hypotheses that purport to explain the so-called "Mauritian miracle" – the extraordinary growth experience of Mauritius since the 1980s. Although, they all agree that Mauritius' growth performance was due to the rapid growth of its trade, they offer different explanations as to what caused trade to expand so fast. Sachs and Warner (1995) argue that Mauritius had an open trade regime from the very beginning; Rodrik (1999) claims that Mauritius' trade policy was "heterodox", with imports being "closed" and exports relatively open; Romer (1993) emphasizes the importance of trade openness for FDI and its beneficial economic impact. Subramanian and Roy (2001) find that each of the above explanations is valid, but only partially, and they claim that the quality of Mauritian institutions provide the missing link.

5.2.4 Trade strategy and poverty alleviation

Poverty alleviation has not been an *explicit* objective of the national trade strategy. Perhaps the guiding philosophy was that trade would lead to economic growth and that growth would alleviate poverty. None the less, the government recently declared that "putting people first" was its overriding goal, and that any development strategy must place "man at the centre of development". These slogans could be interpreted as the government's overt concern about poverty, and its will to fight it.

Data on the incidence of poverty in Mauritius are not available because, by the current World Bank definition of poverty (i.e., living on less than US$ 1 per day), hardly a few will qualify as poor. On the other hand, social indicators reveal the impressive gains achieved over two decades (1985-2004) of rapid growth. Life expectancy increased steadily from 62.9 years in 1972 to 72.3 years in 2003. The infant mortality rate was brought down from 64 per thousand live births in 1970 to 16/1000 in 2003 while the literacy rate increased sharply from 67 per cent to 84.3 per cent over a similar period. Obviously, it would be inappropriate – in the absence of corroborating evidence – to attribute these achievements to trade strategy per se, but to the extent that growth was export-led, and that growth engendered socio-economic development, it would be only logical to conclude that the export-oriented trade strategy was responsible for steering Mauritius into the club of the upper middle-income countries. Rising per capita incomes were accompanied by improvements in income distribution. Thus, as real GDP per capita increased from US$ 1,564 in 1980 to US$4,161 in 2003, the Gini coefficient declined from 0.445 to 0.371 over a corresponding period.

The erosion of preferential market access for Mauritian sugar and clothing exports threaten the livelihood of workers in those sectors. Given that these sectors typically employ low-skill workers, who are particularly vulnerable to unemployment in an economy that is rapidly shifting toward high value-added, skilled labour-intensive activities, trade policy has an important social role to play in defending the interests of the poor. For this reason, trade liberalization has been cautious, with some protection maintained on sensitive products of the EPZ sector (such as garments). On the other hand, the government has emphasized the multifunctional role of the sugar industry in the country's economic and socio-cultural landscape. It has relied on this argument, among others, to try to carve out a bigger share of the proposed financial package. This shows clearly that poverty reduction and the overall betterment of living conditions of Mauritians are key objectives of the government, even if they are not explicitly stated.

5.3 Is there an optimal trade strategy for Mauritius?

The trade strategy of Mauritius shifted from import substitution (in the 1960s) to export promotion (in the mid-1980s). Government, and most private sector operators, now understand that the economy's future lies in services, and that import-competing firms cannot expect to receive protection over the long term. Government's policy is to offer minimal protection to a very narrow set of local industries while they build up capacity to compete – at least regionally. Accordingly, tariffs on a select list of competing import products will be reduced from the current high of either 65 per cent or 40 per cent to 25 per cent. For all other products, tariffs will be completely eliminated.

Furthermore, the government's medium-term strategy is to encourage, through appropriate incentives and support measures, the import-competing firms to evolve into efficient exporters. This strategy might appear ambitious or exaggerated, but it seems to have worked. Indeed, Mauritius provides concrete evidence in defiance of the infant-industry argument for protectionism: 'infants never grow!' A number of industries that started out as import-substitution producers, operating under a veil of protective tariffs, have emerged as successful exporters in the region or internationally. Examples include refined oil, wheat flour, beer, canned foods and juices, cosmetics, livestock feed, and yoghurt.

Public and private sector organizations, such as the Mauritius Chamber of Commerce and Industry, believe that Mauritian enterprises have substantial unexploited potential, and if provided with the right set of incentives and assistance, they could develop into dynamic exporters. Enterprise Mauritius works towards this common goal by providing such services as business development, market intelligence, technology adaptation and upgrading, strategic planning and facilitation of network opportunities to local firms.

VI. CAPACITY-BUILDING IN TRADE POLICY FORMULATION

The government attaches great importance to capacity-building in trade policy formulation and in trade negotiations. This is evidenced by the frequency of participation of trade policy analysts of the Ministry of Foreign Affairs and International Trade, and of officers in related areas, in training programmes abroad as well as by the periodic organization of national seminars with the help of foreign experts. In March 2005, the government, with assistance from the European Commission's Project Management Unit, organized a three-week long training programme for civil servants, academics, NGOs and journalists. More generally, it is estimated that more than 50 seminars have been held since the setting up of the TPU, on a wide range of topics, including non-tariff barriers, competition policy, trade facilitation, textiles and clothing, agriculture, sanitary and phytosanitary measures, tariff barriers to trade, and trade in services.

The WTO, UNCTAD and WIPO, among others, have been closely associated with the capacity-building programme in Mauritius. The WTO, as per common practice, reserves three training slots per year for Mauritius, which the country has fully exploited through national or regional seminars. Other organizations, such as the IOC, the Regional Integration Facilitation Forum (RIFF) and Agence Intergouvernmentale de la Francophonie, have occasionally organized regional seminars and training.

In addition, the University of Mauritius – at the government's request – has developed a postgraduate programme in International Trade and Economic Diplomacy, which was successfully launched in 2002. A first batch of 25 students graduated in 2004, and a second batch – smaller in size – is due to graduate this year. Thus, the academic community has brought in its contribution to trade policy-making and to trade negotiations by training a new generation of negotiators and trade policy experts.

Regional organizations, such as the SADC and COMESA, have also contributed to capacity-building in trade policy formulation. These organizations have a regional envelope to finance capacity-building programmes. They have helped a number of African countries implement complex rules of origin arising from spaghetti-bowl membership, customs procedures and trade facilitation. Mauritius has also benefited recently from a number of training sessions on the EPA, organized by the COMESA Secretariat at the regional level, and by the ACP Group at the ACP-EU bilateral level.

The European Commission, the World Bank, IMF, and the African Development Bank (ADB), have funded much of the capacity-building programmes.

The government is currently emphasizing the wider interpretation of trade-related capacity-building—as "building capacity to produce and trade", in the context of the "Aid for Trade" initiative of the Doha Development Agenda. As coordinator of the ACP group, Mauritius forms part of the Task Force on Aid for Trade and hopes to influence the contours of the "Aid for Trade" programme to the benefit of the ACP countries.

VII THE ROLE OF THE INTERNATIONAL COMMUNITY

The international community has not directly influenced trade policy formulation in Mauritius, nor has international assistance (aid) played any role in the articulation of trade strategies. Much of the aid that Mauritius has received so far has not been conditioned on trade reform. Trade liberalization was not a key component of the structural adjustment programme (SAP) that the country implemented during the period 1981-1985. The objective of the IMF Standby Loan Agreement, signed in February 1978, was to achieve macroeconomic stabilization, and thus to pave the way for the World Bank Structural Adjustment Loans I and II. The latter focused on four strategies: (1) restructuring of the sugar industry and agricultural diversification, (2) promotion of export-oriented industrialization, (3) tourism development, and (4) improvement in public resource management.

Thus, it is conceivable that the trade reforms that started in 1984 were motivated by the need to promote export-oriented industrialization. Quantitative restrictions were dismantled, price controls removed and the Development Certificate scheme abolished with a view to reducing the anti-export bias. While these measures marked the beginning of trade reform in Mauritius, they were in no way imposed on the country by the World Bank. Rather, the government – in pursuit of economic development and prosperity – voluntarily took those first steps in the direction of a more neutral trade regime.

Nevertheless, the international community, and the IMF/World Bank, in particular, has *indirectly* influenced trade policy-making by exposing the benefits of trade liberalization, which trickled down to policy makers and helped change their mindset in a positive way. For instance, the Bretton Woods institutions have constantly emphasized that the Mauritian economy cannot rely on a system of trade preferences forever, and that to survive in the global market in the long run, the country must become an efficient and competitive exporter. This philosophy underlies Mauritius' present-day trade strategy.

VIII CONCLUSION

Trade policy formulation in Mauritius acquired a novel dimension with the setting up of the Trade Policy Unit in 1996, and since 2005, with the erosion of trade preferences in clothing and sugar exports. Mauritius has been able to survive these shocks because it has successfully diversified its economy, which is now geared towards services. Consequently, the international liberalization of trade in services will have an important bearing on the economy. Mauritius, leaning on its long experience with trade policy-making, has already taken important steps to liberalize services and to scoop out a fair share of the global services trade.

Both public and private-sector stakeholders know that trade liberalization is the only viable option for the country's trade strategy. There is no future for import substitution; firms in this sector must either rise to the challenge of global competition and evolve into exporters or perish under the weight of globalization.

Table 1: Trade and related policy measures announced in the Budget, 2000-2006

Budget	Key policy measures announced
2000-2001	• External tariff reform further intensified. Customs duty on 1500 items, including raw materials, hand tools and lab equipment abolished; and reduced on some 300 more items. (This measure cost Rs 700 million annually in terms of revenues foregone.) • Discrimination between 'scheduled' and 'non-scheduled' territories based on differential tariffs reduced.
2001-2002	• Customs duties on various industrial inputs and on specialized spare parts for production equipment abolished. • Rate of duty on packing materials used in industry harmonized at 10 per cent. • Rationalization of rates of duty and further reduction in duty discrimination concerning cigarettes and motor vehicles.
2002-2003	• Increase in VAT to 15 per cent. • Rationalization of rates of duty on alcoholic drinks, both local and imported.
2003-2004	• Intensification of customs tariff reforms through reduction or elimination on some 100 additional items. • Goods originating from COMESA countries to be processed or assembled in the Mauritian EPZ or Freeport to be sold on the local market were exempted from duty. (Revenue foregone amounted to some Rs 70 million). • Gradual move towards the equalization of tax rates applicable to local and imported products, especially cigarettes.
2004-2005	• Customs tariff reform pursued with duty being either reduced or removed on 310 tariff lines including pharmaceutical products, food preparations, children's favourites, baby's essentials and many industrial inputs. • 40 per cent customs duty abolished on seafood products and replaced by VAT • Luxury goods now subject to 40 per cent customs duty • Differential in excise duty between locally produced and imported cigarettes further reduced.
2005-2006	• Duty-Free Island Project: duty reduced or abolished on some 1850 items including basic foodstuffs, articles of toiletry and personal care, common household and non-household electrical appliances, office and telecommunications equipment, and industry inputs. • Equalization of rates of duty imposed on locally produced and imported cigarettes under the new structure. (The project cost some Rs 1.4 billion in terms of revenue foregone).

Source: Compiled from Budget Speeches 2000-2001 to 2005-2006.

Table 2: Mauritius: Pre-reform trade policy measures, 1977-1983

1977	Import deposit scheme introduced. 35 per cent of import value to be deposited. Essential goods exempted.
1978	Import deposit scheme abolished. Existing quotas tightened on a select list of products.
1979	2 per cent "stamp duty" - paid on the value of imports at the time of import permit approval - introduced. Imports of EPZ and DC firms, and of basic necessities exempted.
1980	Stamp duty raised to 5 per cent.
1981	Import licensing extended to cover 65 per cent of imports.
1982	Stamp duty on imports increased to 12 per cent.
1983	Surcharge of 10 per cent on the sum of fiscal and customs duties. Stamp duty raised to 13.2 per cent.

Source: Compiled from information in Government of Mauritius (1984).

Table 3: Effective Rates of Protection in Mauritius, 1980 and 1990 (per cent)

Sector of activity	1980	1990
Beverages and tobacco	123	182
Textiles	77	11
Wearing apparel	99	4
Leather products	269	8
Footwear	158	88
Wood products	191	38
Furniture	130	241
Paper products	131	57
Printing/publishing	75	7
Chemical products	38	21
Rubber products	125	144
Plastic products	89	59
Non-metallic products	77	48
Iron/steel	154	73
Fabricated metal products	156	48
Machinery (excluding electrical)	62	3
Electrical machinery	179	181
Transport equipment	23	4
Optical goods, watches, etc.	266	9
Arithmetic mean	128	64.5
Standard deviation	67.7	69.7

Source: Milner and McKay (1996)

Table 4: Summary of trade liberalization measures and complementary reforms, 1979-2005

Phase	Policy Instruments	Reform
Phase I (1979-1983)	Exchange rate policy	• 30 per cent nominal devaluation in 1979 (as part of IMF stabilization package). Further devaluation (of 20 per cent) in 1981. • Rupee delinked from SDR and linked to a trade-weighted basket of currencies. Continued real depreciation of the rupee upon introduction of "managed float".
Phase II (1984-1990)	Export subsidies/duty concessions	• Policy of exempting domestic import-competing firms from payment of duties on imported inputs discontinued in 1984. Henceforth, only firms exporting part of their output will qualify for exemptions on a pro rata basis.
	Quantitative restrictions	• Quantitative restrictions removed on all imports between 1984 and 1985. Although tariffication of NTBs was intended, it did not materialize.
	Import duties	• Stamp duty (a tax paid on the value of imports at the time of import permit approval) raised to 13.2 per cent in 1984 and transformed to a 17 per cent import levy in 1985.
	Institutional and other reforms	• DC scheme phased out after 1984. • Mauritius Export Development and Investment Authority (MEDIA) set up in 1984 to facilitate foreign investment in the EPZ and to market EPZ products abroad. • Introduction of the Export Credit Guarantee Scheme in 1981.
Phase III (1991-1993)	Import licensing	• Import licensing eliminated for all but a limited range of products subject to health and sanitary requirements, and for reasons of national security.
	Industrial credit policy	• Credit policy, previously used to allocate preferential financing to priority sectors (mainly EPZ) liberalized in 1992 and 1993.
	Export taxes	• The (controversial) sugar export duty – the only export tax in existence – abolished in 1993.
	Payments policy	• Removal of all restrictions on transfers and payments for current account transactions. IMF Article VIII approved.
Phase IV (1994-2005)	Tariffs	• Consolidation of a three-column tariff (consisting of fiscal, customs and stamp duties) into one column in 1994. Import levy abolished. • Number of applicable tariff rates reduced from 60 to 8 in 1994. Raised to 9 in 1998 with the addition of a 10 per cent tariff rate. • Maximum customs duty lowered from 600 per cent to 100 per cent in 1994. Duties reduced on a wide range of import items in 1994 and between 1999 and 2005. • "Duty-free Island" concept launched in 2005.
	Other measures affecting imports	• Discriminatory tariff regime against "non-scheduled" countries abolished in 2001. • Excise duties, hitherto limited to locally manufactured goods, extended to select import products (tobacco, wine, petroleum and motor vehicles) in 1994. • Differential rates of excise duty on select locally produced and imported goods reduced in view of eventual equalization.
	Domestic tax policy	A VAT at 10 per cent introduced in 1998 (in replacement of the existing 8 per cent sales tax) on all goods and services except basic products and financial services. VAT raised to 12 per cent in 2001, and to 15 per cent in 2002.

Sources: Compiled from information in Government of Mauritius (1984, 1998, 2001), WTO (1995), and from various Budget Speeches.

Table 5: Nominal average (unweighted) tariffs by main SITC categories, 1989, 1994 and 2001 (per cent)

Product Category	1989	1994	2001
All product categories	*60.3*	*29.0*	*19.9*
Primary products	51.7	17.7	14.0
Manufactured products	63.4	30.1	20.6
Manufacture of food beverages and tobacco	...	25.4	24.7
Food	...	21.9	21.2
Beverages	...	59.1	63.7
Tobacco	...	80.0	80.0
Chemicals	44.7	25.3	12.2
Iron and steel	44.4	22.6	17.9
Machinery and equipment	65.0	31.9	17.5
Non-electrical machinery	53.4	21.0	20.5
Electrical machinery	91.9	48.9	26.4
Transport equipment	68.0	37.1	20.4
Other manufactured products	...	...	32.2
Leather products	64.3	34.7	33.0
Products of leather and leather substitutes	...	78.5	79.1
Rubber products	82.4	50.2	42.0
Wood products	76.4	41.1	33.0
Furniture and fixtures (except of metal)	...	74.6	75.4
Paper products	72.1	33.2	20.3
Textiles and clothing	65.1	48.8	33.0
Wearing apparel	...	71.8	70.9
Non-metallic mineral products	71.4	33.0	24.9

Sources: UNCTAD (1994) for 1989 rates; WTO (1995) for 1994 rates; WTO (2001) for 2001 rates. Averages tariffs for 1994 do not include the additional 20 per cent duty on imports from "non-scheduled" countries dutiable at 55 per cent or more.

Table 6: Indicators of trade liberalization and openness in Mauritius, 1979-1998 (per cent)[a]

Indicator	1979-83	1984-90	1991-93	1994-98
Average nominal tariffs (Year) [b] (Standard deviation)		60.3 (1989) (28.7)		29.0 (1994) (26.3)
Effective rate of protection (Year) [c] (Standard deviation)	128.2 (1980) (67.7)	64.5 (1990) (69.7)		
Collected tariff rate [d]	17.2	18.1	17.8	14.6
Trade/GDP	100.1	122.7	125.9	125.7
Total imports/GDP	53.6	62.5	65.2	64.7
Import penetration [e]	134.6	173.6	215.6	183.5
Change in real effective exchange rate [f]	3.1	2.5	-1.8	3.1
Nash's index of trade liberalization [g]	14.9	-13.9	4.0	-3.9

Notes:
[a] Percentages are period averages, unless otherwise stated. Where the data refer to a single year, the year in question is given in brackets.
[b] Estimates for 1989 and 1994 are from UNCTAD (1994) and WTO (1995), respectively. The average for 1994 does not include the additional 20 per cent duty on imports from "non-scheduled territories" dutiable at 55 per cent or more. It is estimated that this would add about 5 percentage-points to the average reported above.
[c] Estimates from Milner and MacKay (1996).
[d] Defined as total import taxes as a percentage of imports.
[e] Defined as manufactures imports as a percentage of domestic value-added in the manufacturing sector.
[f] Increase (decrease) in the rate means a real depreciation (appreciation).
[g] The Nash index is a catch-all measure of trade liberalization, including tariff as well as non-tariff liberalization. A negative number indicates a decline in the restricitveness of the trade regime due to trade liberalization. For more on the computation of this measure, see Ancharaz (2003).

Figure 1: STRUCTURE OF CONSULTATIONS AND POLICY-MAKING ON WTO ISSUES (POST-DOHA)

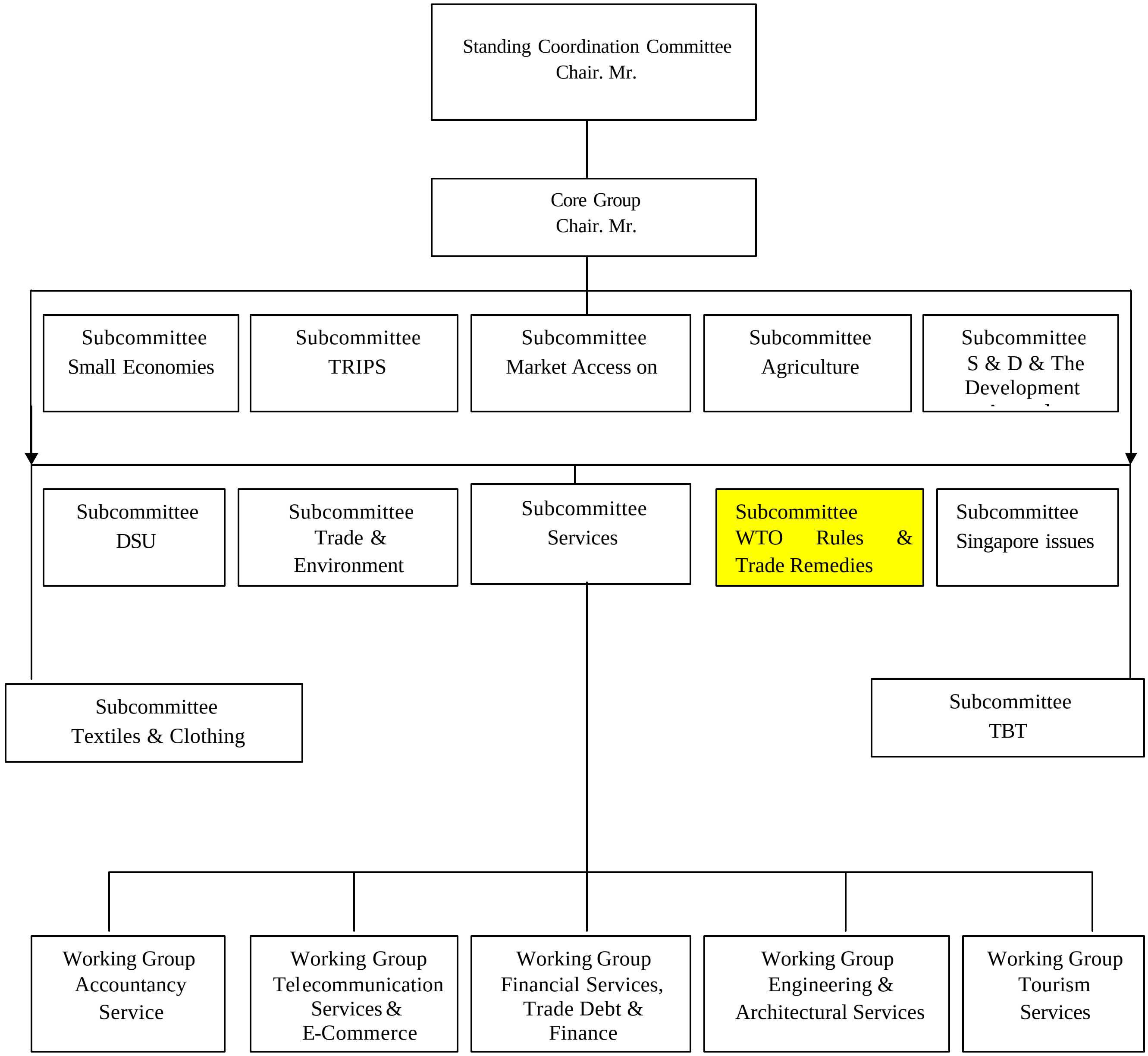


Figure 2: Share of customs duties in government revenue, 1990-2004

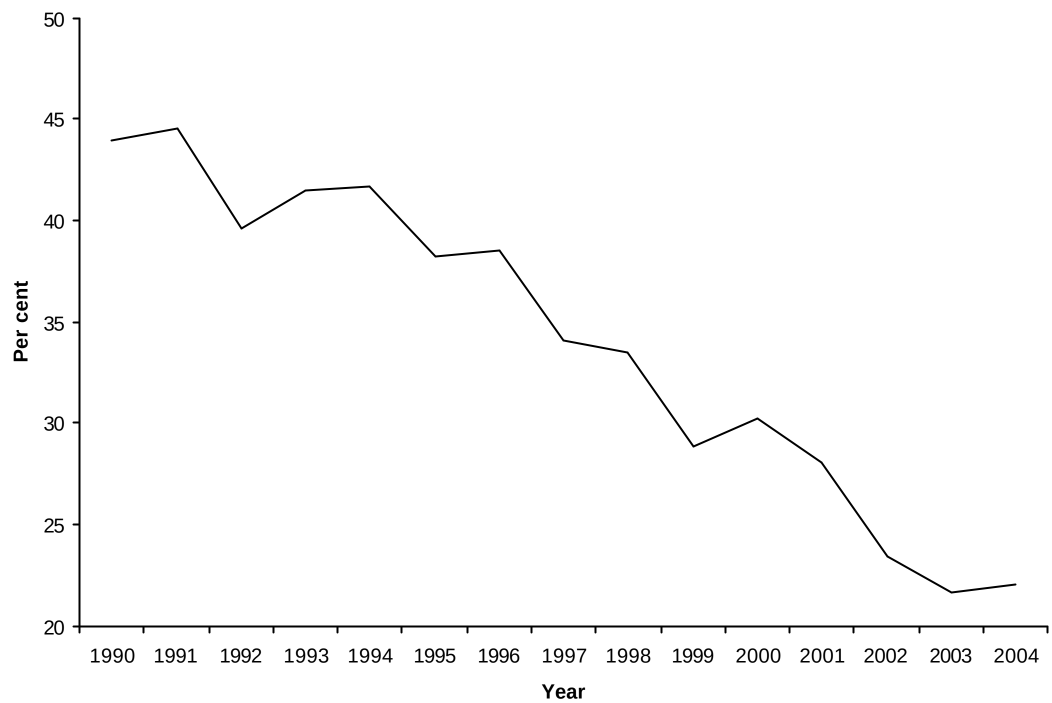
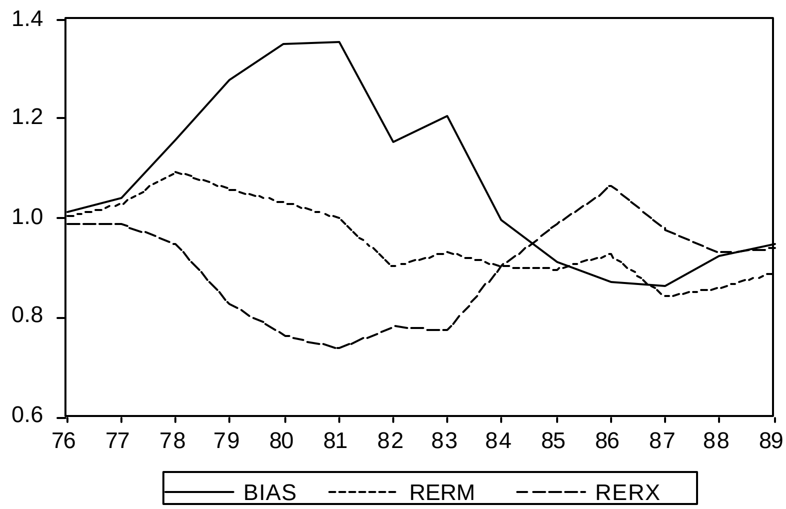
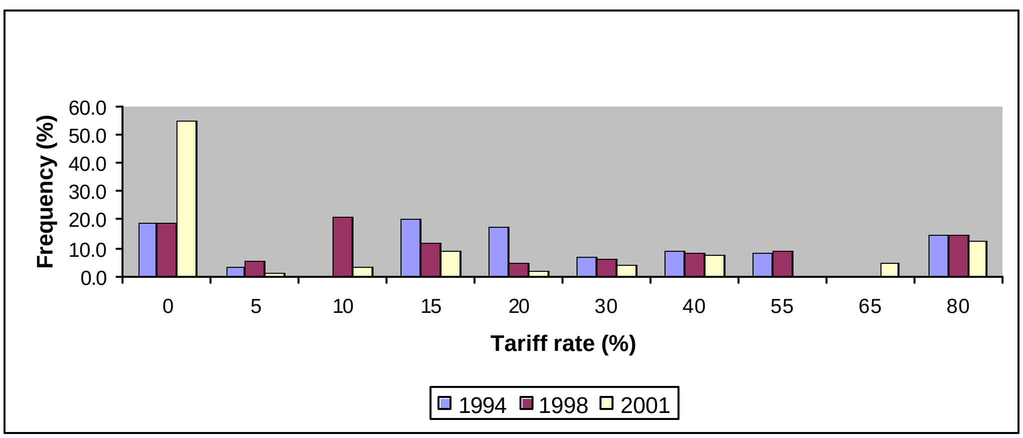


Figure 3: Real exchange rates and bias index, 1976 -1989



Source: Bias index calculated, and all series graphed, using data from Milner and McKay (1996)

Figure 4: Freque ncy distribution of tariffs: 1994, 1998 and 2001



Sources: Data for 1994 from WTO (1995); data for 1998 from Government of Mauritius (1998). Note: Tariff rates do not include the 20 per cent supplementary duty on imports from "non-scheduled" countries dutiable at 55 per cent or more.

Figure 5: EPZ Employment by sex, 1983-2005

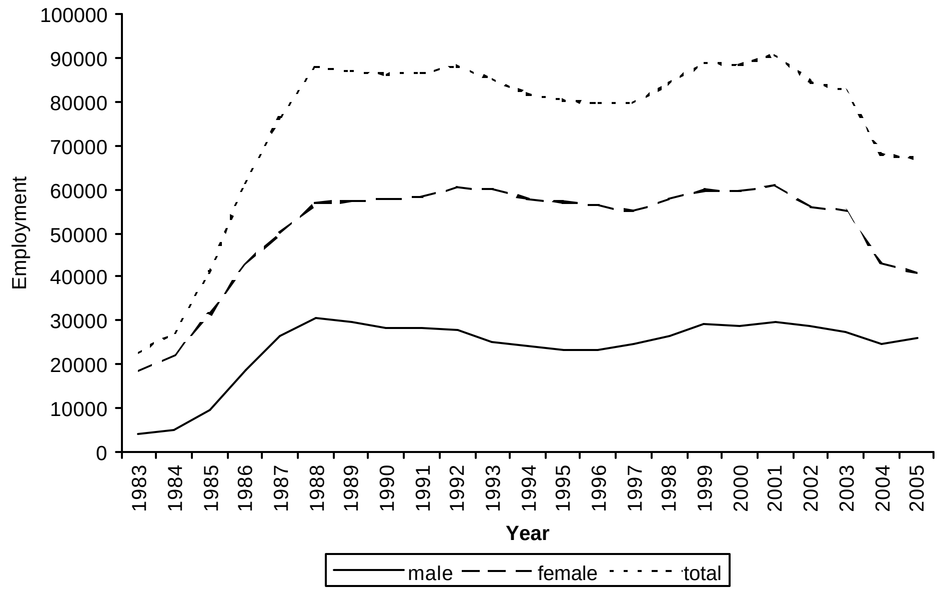
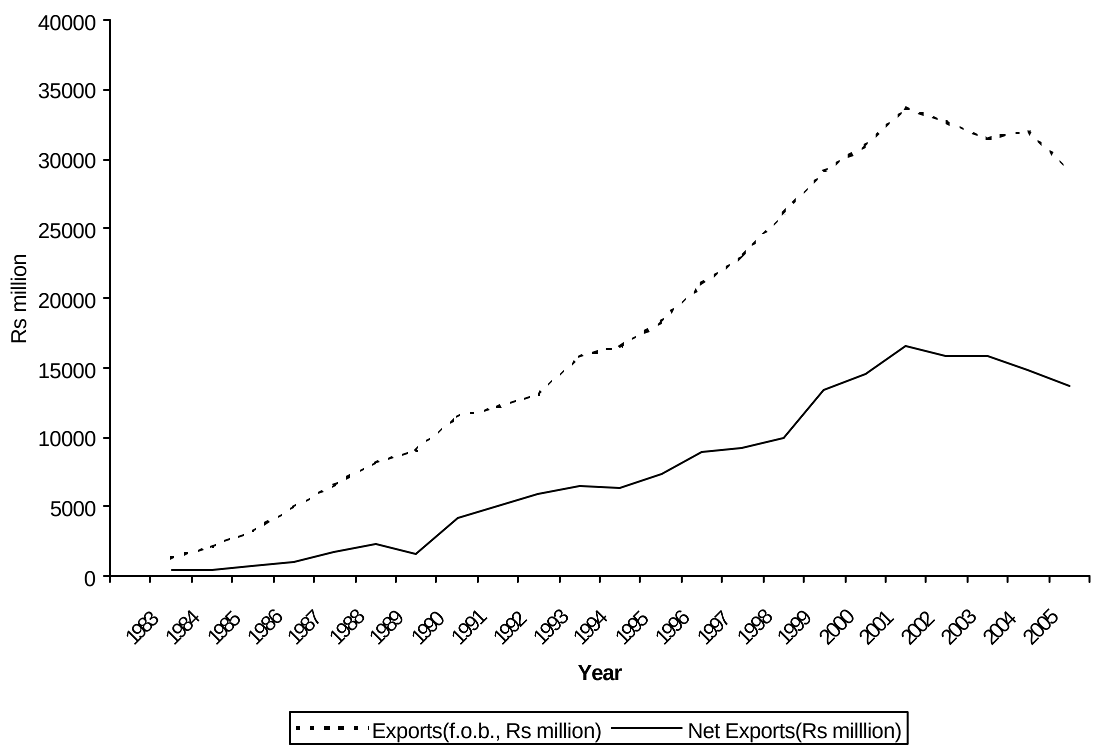


Figure 6: EPZ Exports and Net Exports, 1983-2005



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