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ECONOMIC COMMISSION FOR AFRICA

Eighth Meeting of the Intergovernmental
Negotiating Team on the Treaty for the
Establishment of Preferential Trade Area
for Eastern and Southern Africa

Kampala, Uganda, 1-5 December 1980

REPORT OF THE SPECIAL MISSION TO MAURITIUS IN CONNEXION WITH
THE PROTOCOL ON RULES OF ORIGIN PRODUCTS TO BE
TRADED WITHIN THE PREFERENTIAL TRADE AREA
FOR EASTERN AND SOUTHERN AFRICAN STATES

I. INTRODUCTION

1. In response to a request by Mauritius that it should, for a transitional period, be exempted from the full application of the provisions of sub-paragraph (a) of paragraph 1 of Rule 2 of the Rules of Origin contained in Annex III of the proposed Treaty, the Intergovernmental Negotiating Team (INT) on the Treaty for the Establishment of a Preferential Trade Area for Eastern and Southern African States at its 7th meeting held in Addis Ababa, Ethiopia, from 28 May - 7 June 1980, decided that a mission consisting of ECA Staff Members and three officials from Angola, Swaziland and Tanzania respectively should visit Mauritius with a view to determining whether the economic situation in Mauritius would justify the granting of a lower equity holding than 51 per cent by nationals of Mauritius, and/or Mauritian Government, or institutions, agencies, enterprises or corporations of Mauritius for a transitional period of about five years. The INT meeting further requested that the report and the recommendations of the mission should be submitted to the Second Extraordinary Conference of Ministers of Trade, Finance and Planning scheduled to be held in Kampala, Uganda, from 28 October - 1 November 1980 for consideration and final decision.

2. In compliance with the above request, a mission was mounted to Mauritius from 12-18 July 1980. It consisted of the following:

- (i) I.A. Gar El Nabi, Team Leader of the mission, (INTD/ECA)
- (ii) T.M.J. Zwane, Permanent Secretary, Ministry of Economic Planning (Swaziland)
- (iii) S. Luvumbu, Director of Foreign Trade (Angola)
- (iv) A.B. Mwakijungu, Head of Planning Division, Ministry of Commerce (Tanzania)
- (v) P.F. Mwak-Handa, (Lusaka MULPOC)
- (vi) S.A. Ochola, (ECO/ECA)

The team interpreted its terms of reference to include the following:

- (a) a brief survey of economic conditions;
- (b) an examination of the special economic problems which the proposed Treaty, Annex III, sub-paragraph (a) of paragraph 1 of Rule 2, relating to 51 per cent equity holding by nationals of the Member States, raised for Mauritius;

- (c) the drawing up of conclusions and recommendations on the basis of which the Second Extraordinary Conference of Ministers of Trade, Finance and Planning could make an appropriate decision.

4. The report is divided into four sections, namely:

- (i) Introduction;
- (ii) Survey of socio-economic conditions;
- (iii) Analysis of the problems; and
- (iv) Conclusions and recommendations.

II. SURVEY OF SOCIO ECONOMIC CONDITIONS

5. Mauritius is an island country (sea-locked) in the Indian Ocean off the East African coast, with a surface area of 2 045 Km² of which arable land constitutes about 50 per cent; forest, grass and scrub land constitute about 31 per cent; built up area 5 per cent; and the rest 14 per cent.

6. The estimated population of Mauritius was 900,000 in 1978, with a population growth rate of 1.3 per cent per annum between 1970-1977. However, the percentage population increase in 1978 and the previous year was 1.7 per cent. Out of the total population, the urban population was about 43.5 per cent in 1976, with the capital city having about 35 per cent of the urban population. In 1977 the population density was 444 persons per Km² or about 888 persons per Km² of arable land, thus making Mauritius one of the most densely populated countries in Africa. The economically active population is estimated at about 300,000 in 1980, out of which, 86 per cent are gainfully employed. The average annual growth rate of the labour force between 1972-1977 was put at 2.7 per cent. Table I gives the percentage employment by the major economic sectors.

Employment

7. Table I shows that agriculture etc. and the services in general are by far the greatest employing sectors, which provided about 79 per cent of employment in 1971, 66.6 per cent in 1975 and about 60 per cent in 1977. The table further reveals that the shares of both these sectors in total employment in Mauritius had been

declining from 1971-1977. On the other hand, it shows that more employment had been absorbed by manufacturing during the same period. This signifies the increasing importance of this sector in the economy of the country in recent years as its share in total employment rose from 6.9 in 1971 to 15.9 per cent in 1977. Furthermore, other sectors had also, to some extent, contributed to the expansion of employment. For example "other activities" had expanded its employment share from 2.3 percentage points in 1971 to 7.4 in 1977. Employment in the construction sector increased from 1.8 per cent in 1971 to 3.8 in 1977. In the wholesale etc. financing, insurance etc., electricity etc. and transport etc. sectors, the percentage of employment increased from 3.3 to 4.2, 1.2 to 1.8, 0.9 to 1.7 and from 4.6 to 5.3 in 1971 and 1977 respectively.

Table I: Percentage distribution of employment by sectors

	1971	1975	1977
Agriculture, hunting, forestry and fishing	42.1	37.2	31.6
Mining and quarrying	0.1	0.1	0.1
Manufacturing	6.9	13.0	15.9
Electricity, gas and water	0.9	1.7	1.7
Construction	1.8	3.5	3.8
Wholesale, retail trade, restaurants and hotels	3.3	4.1	4.2
Transport, storage and communications	4.6	5.4	5.3
Financing, insurance, real estate and business services	1.2	1.6	1.8
Community, social and personal services	36.9	29.4	28.1
Other activities not elsewhere specified	2.3	4.6	7.4

Source: Mauritius Economic Review, 1975-1977.

Gross national product

8. Table II below provides gross national product by industrial origin at current factor cost, for the period 1976-1979. On the basis of this Table the contribution of agriculture, forestry and fishing to the GNP in 1979 was 25.6 per cent as compared with 28 per cent in 1976 and that of manufacturing in 1979 was 16.7 per cent as compared with 18 per cent in 1976. For construction, the rates were 7.8 per cent and 7.7 per cent in 1976 and 1979 respectively. The services contribution was 12.5 per cent in 1976 and 15.2 per cent in 1979. It appears therefore that agriculture and services remained the major contributors to the GNP.

9. The over-all rates of growth in the economy at current factor cost were 15.5, 12.3 and 17.6 per cent in 1977, 1978 and 1979 respectively. These rates are comparatively higher than those prevailing in Eastern and Southern Africa for the same period.

10. The Table also shows that the per capita income had also increased by 45.5 per cent from 1976-1979, that is from Rs4 357 (1976) to Rs6 336 (1979). However, because of the aggregate nature of the per capita income, its limitations as indicator of the level of economic development are obvious in the absence of information on income distribution and prospects for economic restructuring. Hence the difficulty in ascertaining the effective market and absorptive capacity of the economy.

Table II: Gross national product by industrial origin (at current factor cost)
1976-1979

	Rs million			
	1976 ^{1/}	1977 ^{1/}	1978 ^{1/}	1979 ^{2/}
1. Agriculture, forestry, hunting and fishing	1 060	1 085	1 116	1 480
2. Mining and quarrying	7	9	11	12
3. Manufacturing	690	748	833	965
4. Construction	292	361	400	453
5. Electricity, gas, water and sanitary services	79	120	150	185
6. Transportation, storage and communication	369	508	625	720
7. Wholesale and retail trade	337	427	430	450
8. Banking, insurance and real estate	86	121	167	210
9. Ownership of dwellings	107	131	162	180
10. Public administration and defence	233	244	286	330
11. Services	474	617	760	880
Gross domestic product at factor cost	3 734	4 371	4 940	5 865
Net factor income from the rest of the world	47	-2	-30	-90
Gross national product at factor cost	3 781	4 369	4 910	5 775
Per capita gross national product (at factor cost) (based on mid-year population)	(Rs) 4 257	(Rs) 4 955	(Rs) 5 477	(Rs) 6 336

Source: Bi-annual Digest of Statistics, March 1980.

1/ Revised.

2/ Preliminary estimate.

Main economic sectors

(a) Agriculture

11. Despite the confirmed role of agriculture as the pre-dominant activity in the economy of Mauritius in terms of its contribution to the GDP employment and its share in foreign exchange earnings, it is beset with serious limitations namely:

- (i) unavailability of adequate land resources;
- (ii) its high concentration on sugar production at the expense of the possibility of diversification and food production, and
- (iii) institutional bottlenecks including land reforms, and unpredictability of climatic conditions, such as cyclones, droughts, etc.

12. The sugar production on which the economy largely depends has been characterized by a declining trend in production, having declined from 700 506 tons in 1972 -- 1974 to 665 200 tons in 1978 mainly because of the effects of droughts and cyclones. The performance of the agricultural sector in general and of sugar production, in particular, has a crucial bearing on the growth of the economy of Mauritius and on the generation of employment and income. The employment situation does not seem to be encouraging taking into account the prospects of mechanisation and inadequate retention of surplus proceeds created in the sugar industry. Furthermore, the outlook for Mauritian sugar in the world **market does not at present look bright and** this may, in turn, have adverse effects on the production of this commodity.

13. Another important agricultural commodity is tea, whose export value grew from 18.9 million Rs in 1973 to 43.5 million Rs in 1977. The decreasing trend in tea production has been attributed to high production costs **and growing** labour shortages. The explanation given for the latter phenomenon was that school leavers who are mostly academically-oriented are averse to manual labour taking into account the fact that the literacy rate in relation to total population is at present higher than 90 per cent. However, this situation is expected to be rectified with the introduction of vocational training in the near future.

14. Other agricultural activities include the production of tobacco. The production of tobacco decreased between 1976 and 1978. The decline in production of tobacco was attributed to shortage and high cost of labour, unfavourable weather conditions and plant diseases arising from repeated land use.

15. A similarly declining trend was also observable in the overall production of food crops such as rice, potatoes, maize and onions. This is not unusual, because as in many African countries, there is an overemphasis on the production of cash crops at the expense of food production, thus aggravating the deficit in food supply and balance of payments in that a substantial part of the income generated is spent on food imports. The food import bill grew from Rs 500 million in 1974 to Rs 696.7 million in 1978. In other words, the food import bill accounted for 28.4% of the value of imports in 1974 and for 22.6 per cent in 1978. Indeed, when sugar production had decreased only slightly during the period 1974 and 1978, food production, especially of rice which is a staple food item, declined from 496 thousand tons in 1974 to 197 thousand tons in 1978.

(b) Industry

16. The manufacturing industry is the third largest sector of the Mauritian economy after agriculture and services, in terms of its contribution to the GDP. In 1968 its value added to the GDP at factor cost was Rs 124 million and this increased to Rs 890 million in 1979, thus contributing about 17 per cent of the GNP in 1979. In the last ten years, the manufacturing industry has been marked by rapid growth both in terms of value added and of its contribution to the GNP, as shown in Table III below as compared with the agricultural sector. While the index of the manufacturing industry had increased from 100 to 717 during 1968-1979, that of agriculture rose from 100 to 590 during the same period.

Table III: Growth rate of the manufacturing industry compared with that of agriculture

	1968	1973	1978	1979
Agriculture	100	225	565	590
Manufacturing	100	221	661	717

Source: Report of Bank of Mauritius, Vol. XI, 1979.

17. The rapid growth in the manufacturing sector has mainly been stimulated by the launching of the Development Certificate Scheme in 1964 which sought to promote the establishment of import substitution industries. However, the establishment of such industries was slowed down because of the limited capacity of the domestic market to absorb a substantial increase in production.

18. The process of growth in manufacturing was however enhanced by the introduction of the Export Processing Zone (EPZ) Scheme through Act No. 51 of 1970. The EPZ Scheme is aimed at stimulating the production of export industries, and as a result it has attracted foreign capital into the country. The establishment of EPZ has thus marked a new phase in the development of the economy of Mauritius.

19. The industrial sector is therefore divided into two types of manufacturing units, namely, import substitution industries geared to the domestic market and export-oriented industries. The import substitution industries are dominated by consumer manufacturing units producing consumer goods such as: beer, matches, plastic products, perfumes and cosmetics, aluminium products etc. There are about 130^{1/} operating manufacturing units in this sub-sector, in March 1980 which employ about 6 251 workers. The Government holds the majority of shares in the import-substitution industries. Since Mauritius has no minerals and other resources, the raw materials used in the import-substitution industries are mainly imported.

^{1/} Three of them temporarily closed down.

20. The export-oriented industries engage mainly in the production of textile garments, electronics, toys, furniture, gumboots and diamond polishing. There are about 85 units currently operating within this sub-sector and it employs a work force of about 21 000, with the textile and garment industries employing the largest labour force estimated at about 53 per cent of the total labour force employed in the manufacturing sector. Table IV shows the structure of export-oriented industries under the EPZ Scheme in 1979.

Table IV: Structure of export-oriented industries under EPZ Scheme in 1979

Textile, garments, fibre industries	32
Electronic and electrical components	3
Precious stones cutting and jewellery	7
Assembly of watches, bracelets, spectacles and frames	7
Plastic products	3
Fishing accessories	3
Leather products	4
Others	26
Total	85

Source: Ministry of Commerce and Industry.

21. The industries mentioned above operate only on the basis of imported raw materials and semi-processed products like their counterparts within the import - substitution sub-sector. However, within the export-oriented sub-sector, it should be noted that out of the 85 established manufacturing units, under the EPZ Scheme the Government holds the majority of share capital with respect to 20 enterprises, and in 65 others, foreign investment enterprises own 70 per cent of share capital.

22. The companies which are subject to the provisions of Act No. 51 of 1970 (EPZ Scheme) enjoy very generous benefits and advantages including:

- (a) Exemption from customs duties and excise taxes and import duties on machinery, equipment, spare parts, raw materials and components except for tobacco and petroleum products;
- (b) Exemption from all other taxes, including tax on profits. At least ten years or maximum twenty years of tax holidays for corporate income and five years for dividends;
- (c) Priority in obtaining loans from the Development Bank of Mauritius;
- (d) Credits and discounting export bills at preferential rates by local commercial banks;
- (e) Concessional freight and electric power rates;
- (f) Exemptions from crane and labour handling charges, and from registration fees on land and buildings;
- (g) Issuance of permanent residence permits to promoters and partial income tax relief to foreign technical personnels;
- (h) Favourable labour legislation;
- (i) Guarantee against nationalization, and subjection of disputes to the convention on the settlement of investment disputes between States and Nationals of other States, 18th March 1965, and sponsored by the International Bank for Reconstruction and Development.
- (j) Depreciation allowance of 40 per cent for the first year and a carry over losses to future years; and
- (k) Free repatriation of capital.

23. It appears that the main pre-occupation of the Government of Mauritius in the industrial field is the creation of jobs. Hence, the fact that Government policy, in this respect, is based mainly on employment expansion and, as such, industrial structural changes take secondary priority. It is against this background that the industrial set-up within Mauritius should be examined.

(c) External trade and payments balance of trade

24. Tabel V shows that sugar remains the main export commodity of Mauritius, thus accounting for 86.8 per cent of total exports in 1974 and 66.8 per cent in 1978, as compared with an average of 78 per cent during 1975-1977. Nevertheless, the share of sugar in total exports seems to be declining due to increased export of manufactured goods produced within the EPZ. The second important export is clothing which contributed 16 per cent of total exports in 1978. These are followed by tea, electronic components, processed diamonds, textile yarn etc. which contributed about 2.8, 2.8, 2.5 and 2 per cent of total exports respectively in 1978. However, the table also shows that total exports in value terms rose from about Rs 1.8 billion in 1974 to about Rs 2.0 billion in 1977 and declined slightly to about Rs 1.95 billion in 1978. During the period 1974-1978 the export earnings grew at an average annual rate of 2.55 per cent in value terms.

25. Table VI shows that the main import items are: manufactured goods, food, machinery and transport equipment, mineral fuels etc.. miscellaneous manufactured articles and chemicals, the shares of which were 27.9, 22.6, 18.6, 9, 7.6 and 6.5 per cent respectively in the over-all imports of the country in 1978.

26. Table VI further indicates that import of manufactured goods and food items constituted more than 50 per cent of total imports in 1978, although the former item more than doubled during 1974-1978. Machinery and transport equipment were the third important import item as it increased by about 82 per cent during 1974-1978.

27. The value of total imports rose from Rs1.76 billion in 1974 to Rs 3.0 billion in 1978, giving an average annual percentage increase of 18.7 during 1974-1978. This rate exceeds that of exports for the same period, that is 2.55 per cent. This indicates that Mauritian terms of trade deteriorated during 1974-1978. Based on 1972, the terms of trade were 137 and 160 for 1974 and 1975 respectively; and on 1975, 1976 and 1977, the terms of trade were 73, 90 and 92 for 1976, 1977 and 1978 respectively, i.e. against Mauritius in recent years.

28. From Table VII below it can be seen that the balance of trade of Mauritius, which was in surplus in 1974, had registered increasingly sharp deficits in 1976, 1977 and 1978. The deficits were mainly due to increases in import bills in 1974-1978, which by far exceeded export earnings acquired during the period.

Table V: Exports of some of Mauritius commodities, 1974-1978

Period	Value: Rs million (f.o.b.)										
	Total value	Sugar	Molasses	TEA	Fish and fish preparations	Textile yarn fabrics and made-up articles	Processed diamonds and synthetic stones	Electronic components for machines	Clothing	Other manufactured goods	Other domestic exports
1974	1 772.1	1 537.4	46.2	15.7	14.5	1.8	22.6	48.6	60.8	11.1	9.4
1975	1 818.0	1 548.8	23.6	16.0	14.3	1.7	9.3	62.1	118.2	13.2	10.8
1976	1 736.0	1 321.5	31.7	29.2	18.8	17.2	8.5	61.7	204.8	19.7	22.9
1977	2 009.3	1 428.5	41.0	43.5	31.8	55.9	21.2	59.1	273.2	28.4	26.7
1978	1 953.3	1 304.0	34.3	55.2	32.1	38.7	49.1	54.3	312.7	36.9	35.2

Source: Bi-annual Digest of Statistics, Ministry of Economic Planning and Development, Vol. 14 No. 1, June 1979.

Table VI: Imports: values by SITC-1/ (revised) sections, 1974-1979

Period	All sections	Food	Beverages and tobacco	Crude materials, inedible, except fuels	Mineral fuels, lubricants, etc.	Animal and vegetable oils and fats	Chemicals	Manufactured goods classified chiefly by material	Machinery and transport equipment	Miscellaneous manufactured articles	Miscellaneous transactions and commodities, n.e.s.
1974	1 759.8	500.0	13.4	35.3	61.5	70.7	154.7	417.0	313.8	84.6	4.9
1975	1 995.3	459.8	16.5	48.6	194.6	51.8	180.3	468.1	441.4	126.7	7.6
1976	2 408.5	486.5	18.9	63.9	209.0	81.0	167.8	632.1	580.2	160.3	8.7
1977	2 950.8	582.0	32.0	95.8	275.3	79.1	212.3	790.3	679.1	191.9	13.1
1978	3 076.4	696.7	23.0	105.4	280.7	86.4	201.7	858.1	572.4	233.4	18.5

1/ Standard International Trade Classification.

Table VII: The Balance of Trade, 1974-1978

Rs million

Period	Imports (c.i.f. value)	Exports (f.o.b. value)	Bunkers and ships' stores (f.o.b. value)	Balance of visible trade	
				Surplus	Deficit
1974	1 759.8	1 787.5	65.3	93.0	--
1975	1 995.3	1 838.9	73.2	-	83.2
1976	2 408.5	1 769.8	64.9	-	573.8
1977	2 950.8	2 041.2	93.2	-	816.4
1978	3 076.4	1 987.1	85.8	-	1 003.5

Source: Bi-annual Digest of Statistics, June 1979.

Foreign exchange reserves of Mauritius 1974-1978

29. Table VIII reflects the developments in foreign exchange reserves during 1974-1978. The reserves were comparatively high in 1974, but highest in 1975 (Rs 1.14 billion). Thereafter, they increasingly decreased until they reached the level of Rs 285.6 million in 1978. This was due to higher rates of imports in relation to a decreasing ratio in value of exports as indicated earlier and to worsening terms of trade, particularly in respect of the years 1976-1978. As a result, the reserves in 1978 were 36 per cent of their level in 1974 as they were heavily drawn down to finance imports during the period.

Table VIII: Mauritian foreign exchange reserves, 1974-1978

End of period	IMF position	Bank of Mauritius	Government	Statutory bodies	Commercial banks (net)	Total
1974	-	739.8	26.0	1.1	26.2	793.1
1975	42.4	1 045.6	18.7	-	42.5	1 143.3
1976	42.4	551.9	11.9	-	25.8	629.6
1977	-	431.1	4.4	1.4	- 56.5	380.4
1978	-	305.5	6.7	1.8	- 28.4	285.6

Source: Bank of Mauritius.

1/ International Monetary Fund

III. ANALYSIS OF THE PROBLEMS

30. The main problems facing the Mauritian economy and which were raised during the discussions with the Mauritian authorities included:

- (a) Size of the market;
- (b) Overpopulation;
- (c) Unemployment;
- (d) Mono-cultural economic dependence on sugar;
- (e) Limited land and absence of mineral and other resources; and
- (f) Heavy dependence on the EEC market.

It may be observed right from the start that these problems have to a large extent influenced the Mauritian economic philosophy and its development strategy.

Size of the market

31. It has already been indicated under Part II of this report that Mauritius has a population of 900 000 people in 1978 and a very limited size in terms of area. These problems put a limitation on the size of the market. The size of the market is further limited by the purchasing power of the population. The per capita income and GNP are high as compared with those prevailing within the subregion, and when one looks at the total capacity of the economy in terms of GNP one finds that Mauritius had a total GNP of US\$760 million at factor cost in 1979, and a per capita gross national product which amounted to US\$833.7 at the end of the same year, 1979. Even so, due to the small population of the island the size of the market may be considered to be relatively limited.

32. The effective market size is limited by the fact that the income distribution seems to favour more those who work within the manufacturing sector than those who work in the agricultural sector; although agriculture accounts for a much larger proportion of employment. The market size is also limited by the prevailing comparatively large number of unemployed persons estimated to be almost 9.7 per cent of the labour force in 1979.

33. The smallness of the domestic market is not unique to Mauritius, but is a problem which relates to a number of countries within the subregion. This actually supports the need for Mauritius to participate effectively in the Preferential Trade Area, as the enlargement of this market through the establishment of the Preferential Trade Area would enable the creation of the necessary conditions for the viability of industrial production in Mauritius, which now operates below installed capacities.

Overpopulation

34. It has been pointed out in Part II of this report that Mauritius is one of the most highly densely populated countries in the subregion, indeed in the world. The problem is further aggravated by the fact that the population density for arable land is 888 persons per Km². In addition, in the absence of mineral and other resources, the pressure on land has reached a point where there is no possibility of expanding other productive activities beyond that of sugar production and the other been agricultural products produced in the country. This has therefore created the need to look for alternative sources of development in order to generate other economic activities; hence, the policy of attracting foreign investment in Mauritius.

Unemployment

35. It has also been mentioned earlier that the creation of employment is the main objective of the economic policy of the country. With unemployment running at about 9.7 per cent of the labour force, and in view of the fact that the overall unemployment is estimated to rise by 4.7 per cent per annum between 1975 and 1980, the Government has sought to create more employment through the establishment of manufacturing productive units. It however, appears that a limit is also being reached within this sector, because of the capital intensive nature of the industrial units. The employment figures in the manufacturing sector show substantial percentage increases, from 6.9 in 1976 to 15.9 in relation to total employment in 1977 as indicated in Table I above, yet it is expected that a decline would take place in future years unless and until measures are taken to halt this development or trend.

36. The problem of unemployment has further been aggravated by the structural unemployment created by secondary school leavers, the existing wage differential between the agricultural and industrial sectors, the mechanisation of the sugar plantation industry, the historical problem of work in the sugar plantation being associated with slave labour and the general educational system that has tended to minimize the role of agriculture and vocational work. These factors have particularly led to a decline in production within the agricultural sector.

37. In addition to this because of population pressure in relation to land and other resources, and in view of the fact that sugar plantation alone claims 93 per cent of the arable land, the need to alleviate the problem of unemployment still remains the major preoccupation of the Government.

Monocultural economic dependence on sugar

38. The adverse effects of economic dependence on one crop are well known and recognized. Since sugar's contribution to the Mauritian economy was 87 per cent of its total export earnings in 1974 and 77 per cent in 1978, and employs about 30 per cent of the total labour force, it consequently occupies a very important place in the economic development of Mauritius. The country's economy therefore becomes very sensitive to interruptions in the production and international prices of sugar. For example, the contribution of manufactured sugar declined during 1974-1978 both in quantity (about 697 000 tons in 1974 to 665 000 tons in 1978 due to unfavourable climatic conditions) and value (because of low international prices). These factors had unfavourable effects not only on the balance of payments and foreign exchange reserves, but also on, **investment activities**. **The need to diversify** the economy becomes, therefore, of paramount importance

Limited land and absence of mineral and other resources

39. The land surface area of Mauritius is only 2 045 Km² as indicated earlier. Out of this area, arable land constitutes about 1 022.5 Km². Thus, cultivable land is too limited to sustain a substantial expansion in agriculture, as most of it is already under sugarcane production and very much less land is utilized for that of tea and tobacco and a few other food crops. Furthermore, that part of the surface area covered by forests, grass and scrubland is only about 634 Km². It is thus very small and, as a result, forestry products are quite limited in both number and variety.

Similarly and for the same reasons mineral resources are inadequate. Table II shows that the share of mining and quarrying was 7, 9, 11 and 12 per cent of GNP at current factor cost in 1976, 1977, 1978 and 1979 respectively, thus indicating that expansion in this sector is almost at a halt. This is supported by the fact that the contribution of the mining and quarrying sector to employment was only 0.1 per cent of total employment during 1971-1977. The fishing resources, on the other hand, though still limited in amount, are adequate for sustaining a fish canning industry in the country.

40. It thus appears that except for sugar canes mainly, tea and tobacco, Mauritius has almost no domestic raw materials and intermediate goods, which could be used as inputs in manufacturing. Consequently, industrial development, both within the EPZ and for the domestic market, is based, to a large extent, on imported raw materials and intermediate goods.

Heavy dependence on the EEC Market

41. The heavy dependence of Mauritius on the European Economic Community market can be recognized, due to the fact that the export of Mauritian sugar and a substantial proportion of its manufactures are directed mainly to EEC countries under the Yaounde and Lomé Convention I and Lomé Convention II. The production of the manufacturing sector, especially that relating to the EPZ, is also geared to EEC countries, to which Mauritius exports almost all its manufactures. The excessive dependence on the EEC market can further be recognized when one looks at the Mauritian export figures. In 1978, Mauritian exports to EEC countries accounted for 83 per cent of its total value of exports, while its imports from the EEC accounted for 36.2 per cent of its total imports during the same year. It can, therefore, be seen clearly that any adverse economic effects within the EEC countries, such as recessions, will have unfavourable impact on the Mauritian economy. Furthermore, owing to the opening up of the EEC market to more member countries of the APC under Lomé Convention (II), Mauritius is likely to lose part of its market as a result of quantitative restrictions which the EEC is likely to impose in this respect; this would create difficulties to the Mauritian economy.

The industrial development strategy

42. In an effort to overcome the above problems, Mauritius has resorted to the establishment of the EPE which is based mainly on the Government's policy of promoting private free enterprise. In pursuance of this policy objective, the Government has provided a number of generous incentives as mentioned earlier. While the policy has been successful in attracting foreign investment, there is, nevertheless, a limit as to what the 'Hong-Kong' type of model of economic development can do in this connexion.

43. It has further already been indicated that since the export-oriented industries are based on imported raw materials and on capital intensive technology, they are unlikely to generate further employment, unless new investment are attracted in future years.

44. The present industrial strategy has made the country more dependent on foreign capital, and on ever shrinking foreign markets. Therefore, given the very generous incentives currently being made to attract foreign investment, the only tangible benefit the country may be able to obtain is the creation of employment. This also underlines the fact that should any enterprise find it unprofitable to manufacture because of rising labour costs, that enterprise is likely to close down. In fact, a number of such enterprises were already been closed down, i.e. garment electronic industries etc.

Summary of findings

45. In view of the excessive extra-Mauritius nature of industrialization, it is very unlikely that such industrialization would have substantial effects on the country's economic development, in the long run as the raw material inputs used by industries are all imported. There is therefore no linkage of this kind of industrialization with the rest of the economy.

46. Indeed, in the absence of broad-based development of the agricultural sector, an effective demand **would not be built** and, as a result, this problem would constitute a major bottleneck on the development of the manufacturing and service sectors, which otherwise hold considerable potential for increasing employment activities.

47. The Mauritian economy like any other African economy that depends, to a very large extent, on one raw material commodity, suffers from unforeseen natural disasters. The situation for Mauritius is further exacerbated by the fact that the consumption of sugar on which the country depends, is also faced with the inelasticity of demand.

48. The problems analysed above are more or less common with respect to most of the countries of the subregion, and are the main reasons underlying the development of the Preferential Trade Area for Eastern and Southern Africa States. However, the degree of their impact varies in relation to the economic situation of each individual country in the subregion. In respect of Mauritius they become rather exaggerated because of the various limitations and difficulties enumerated above.

49. Another problem which has been hindering the promotion of Mauritian trade with other African countries is the historical link of Mauritius with countries outside the continent. To this difficulty could be added the lack of viable payments arrangements. The mission was informed that it was very difficult to have meaningful contractual trade arrangements with some of the African countries, as they had been faced with payments difficulties caused by shortage of foreign exchange.

50. It is therefore clear from the foregoing analysis of the problems facing Mauritius that the participation of Mauritius in the Preferential Trade Area is both necessary and imperative, as this is likely to provide the country with an opportunity to restructure and develop its economy still further, in addition to providing alternative export outlet for its goods. Participation in the Preferential Trade Area would enable the existing industries which are currently being plagued with underutilization of capacities to achieve full capacity utilization in this respect. It will also provide the country with the possibility of establishing new industries that could be geared towards the Preferential Trade Area market.

51. The analysis of the export products of Mauritius which appears in the Preferential Trade Area common list, show that these products are mostly produced within the EPZ and consist of twenty-one commodity groups which are summarized in Table IX below.

52. Table IX shows that out of the twenty one commodity groups submitted by Mauritius, eleven of them appear under exports which do not qualify for intra-Preferential Trade Area trade on the basis of 51 per cent. These products are: fertilizers, plastic pipes, textile fabrics, pull-overs, trousers, blouses, shirts, cotton drill gloves, terrytowels and bed sheets, gumboots, spectacles frames and sunglasses. Another group of exports which do not qualify on the basis of value-added criterion comprises four items, namely: paints, perfumery and cosmetics, razor blades and watches. A third category of products consisting of tea, sugar confectionery, biscuits, and stockings does not qualify for export to Preferential Trade Area market because of high costs of production. The fourth group include products such as tea, canned ~~tuna~~, rum and gumboots which do not qualify because of market limitations within the Preferential Trade Area.

53. The items which qualify under 51 per cent equity share holding criterion are: tea, stockings, gumboots, biscuits, razor blades, tuna fish, paints, rum, sugar confectionery, and cosmetics and perfumery, i.e. a total of ten commodity groups. Yet, all of these products are excluded from the Preferential Trade Area market on the basis either of value-added criterion or high costs of production or market limitations within the Preferential Trade Area.

54. It appears that on the basis of the problems enumerated above with respect to the common list of commodities to be traded within the Preferential Trade Area Mauritian prospects for effective participation are severely limited.

54. It is in the light of these problems that serious consideration should be given to the request put forward by Mauritius.

Table IX: Exports of Mauritius as appear in the Preferential Trade Area Common List

Mauritian exports to PTA	DESCRIPTION
Exports for which importers exist	09.02: Tea; 16.04; canned tuna 1/; 17.04: sugar confectionery; 19.08: biscuits 2/; 22.09: rum 3/; 31.05: fertilizers; 32.09: paints 4/; 33.04: perfumery and cosmetics; 39.02 plastic pipes 5/; 42.05; watch straps 6/; 55.09: textile fabrics; 60.03-05; stockings, pull-overs 7/; 61.01: trousers; 61.02: blouses 7/; 61.03: shirts 7/; 61.10: cotton drill gloves 7/; 62.02: terry towels, bed sheets 7/; 64.01: gumboots 8/; 82.11 razor blades 9/; 90.03/04: spectacle frames and sunglasses; 91.01 watches, 91.02 clocks and 91.11 watches and clocks parts.
Exports which do not qualify on basis of 51 per cent	Fertilizers; plastic pipes; textile fabrics; pull-overs; trousers; blouses; shirts; cotton drill gloves, terry towels, bed sheets; gumboots; spectacles, frames and sunglasses.
Exports which do not qualify on basis of value added	Paints, perfumery and cosmetics, razor blades; watches.
Exports which do not qualify due to high costs of production	Tea; sugar confectionery; biscuits; stockings.
Exports facing serious market limitations in the PTA market	Tea; canned tuna; rum; gumboots
Footnote:	<p>1/ Grouped under the broad heading - "Meat and fish extracts and preparations".</p> <p>2/ " " " " " " - "Breads, biscuits, infants food preparations".</p> <p>3/ " " " " " " - "Alcoholic beverages".</p> <p>4/ " " " " " " - "Distempers, lacquers, varnishes".</p> <p>5/ " " " " " " - "Plastic materials".</p> <p>6/ " " " " " " - "Leather and articles thereof". Note that Mauritius is an importer of leather and an exporter of watch straps.</p> <p>7/ " " " " " " - "Articles of apparel and clothing accessories of textile fabric other than knitted or crocheted goods.</p> <p>8/ " " " " " " - "Footwear".</p> <p>9/ " " " " " " - "Articles of cutlery".</p>

IV. CONCLUSIONS AND RECOMMENDATIONS

56. The members of the mission recognize the problems of Mauritius as imposed by its insular nature; smallness of its market; its large population in relation to land; unavailability of mineral and other resources; growing unemployment; heavy dependence on sugar production; and heavy dependence on the EEC market.

57. Furthermore, the member of the mission took note of the commendable efforts the Government of Mauritius was making in the field of industrial development. Notwithstanding these efforts, they also recognized that the concessions provided under the EPZ Scheme are very generous and as such tend to reduce the benefits the country can obtain from the arrangement, which encourages the outflow of capital through capital repatriation, profit transfers and non-payment of taxes etc. Even more important is the fact that the industrial strategy being pursued at present, based as it is, on imported raw materials for its manufacturing operations, does not induce enough development and generate adequate employment as it does not involve either backward or forward linkages with the rest of the economy - hence very limited multiplier effects.

58. The situation indicated above further shows that all the Mauritian products included in the Preferential Trade Area Common List of commodities cannot at present be traded within Eastern and Southern Africa due either to high costs of production, inapplication of the value-added and 51 per cent equity holding criteria or else marketing difficulties. As a result, this may prevent Mauritius from participating effectively in the Preferential Trade Area arrangements at least at the present time, although this difficulty may be overcome in the near future as the full participation of Mauritius in the Preferential Trade Area activities is obviously a pre-requisite for its economic development in the years to come.

59. Since also the main objectives towards the creation of the Preferential Trade Area for Eastern and Southern Africa States are to:

- (i) enhance socio-economic development through individual and collective self-reliance;
- (ii) accelerate the pace of economic growth and development; and
- (iii) assist member countries restructure their economies by undertaking programmes and projects that will help them reduce their external dependence;

every effort should, nevertheless, be made to accommodate Mauritius within the Preferential Trade Area.

60. Recognizing further the need for political solidarity and implications of leaving Mauritius out of the Preferential Trade Area the mission believes that this factor should also be taken into account in considering granting Mauritius the required exemption or otherwise.

61. Furthermore, the conclusion of the mission has to a very large extent been influenced by the fact that it is the aim of the economic policy of the countries to begin to exercise control over their economies in order to bring about economic independence. In this regard, the mission feels that the Preferential Trade Area benefits arising from the Preferential Trade Area arrangements should accrue to the member countries themselves.

62. In the light of the foregoing the members of the mission recommend:

- (i) That Mauritius be exempted from the full application of the 51 per cent of equity holding provision as contained in Rule 2.1 (a) of the Protocol on the Rules Origin (Annex III of the Treaty)
- (ii) That exemption may be granted for a period of six years starting from the date on which the Preferential Trade Area begins operations, provided that under no circumstances should this period exceed six years; and
- (iii) That Mauritius should, as from the beginning of the first two years of the Preferential Trade Area operations, acquire 30 per cent of the equity holding, where this does not apply; as from the beginning of the next two years, increase the 30 per cent equity holding to 40 per cent; and at the end of the last two years increase this proportion to 51 per cent of equity holding in enterprises engaged in the production of goods for export to other member States of the Preferential Trade Area.

63. The members of the mission are also convinced that the progressive acquisition of equity holding in productive and other enterprises by the Government and/or nationals of Mauritius will reflect the country's commitment to full and effective participation in the Preferential Trade Area arrangements.