The Economic Development of Mauritius Since Independence

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Abstract

This paper traces the economic development of Mauritius since independence in 1968 and stresses the important role played by such institutions as the European Economic Community (now the European Union), the World Bank and the International Monetary Fund in the development process of this small island state in the Indian Ocean. However, with important changes occurring on a global scale, particularly in connection with the GATT and the Multi-Fibre Agreement, new policy challenges will have to be faced by Mauritius and are discussed in the paper.

1. INTRODUCTION

Independence day in Mauritius was 12 March 1968, almost thirty years ago. Why the 12 March and not another date? One possible explanation could lie in the fact that it was the date in 1960 on which all the members bar one of the Royal Commission, appointed in November 1959 by the Governor of the colony, first touched ground in Mauritius and arrived in the country. The main task of this Commission was “to survey the present economic and social structure of Mauritius and to make recommendations concerning the action to be taken in order to render the country capable of maintaining and improving the standard of living of its people, having regard to current and foreseeable demographic trends;” (Meade Report, 1961,p.xv). It would prove to be the most important economic mission that was ever carried out for the country and whose report recommendations had influenced to a large extent the development path of Mauritius since the early 1960’s and until today. And, I believe, the late Prime Minister of that time, Sir Seewoosagur Ramgoolam, in his wisdom and gratefulness, wanted to honour these gentlemen for their invaluable work on the economy and for the country. Indeed, no student of the economy of Mauritius can afford to bypass reading and studying the Meade Report on the economic and social structure of Mauritius if a firm grasp and understanding of the Mauritian economy is to be achieved.

The main objective of this paper is to describe and analyse the main causes of the development of the economy of Mauritius since that fateful date of 12 March 1968. As Mauritius is a not so well-known country around the world, the next section deals with a brief historical account of how it came into being. Section 3 describes some important economic facts about Mauritius prior to independence. The following two sections constitute the main thrust of the paper about the economic development of Mauritius during the 1970’s, the 1980’s and the early 1990’s. Section 6 poses some soul-searching questions about development policy and strategy and highlights a few important issues that will need to be addressed in the not so distant future. The last section concludes about what could be done for the future direction of the economy.

2. A VERY BRIEF HISTORY OF MAURITIUS

The small island state of Mauritius is located in the south west region of the Indian Ocean about two-thirds of the way to South Africa from Perth in Western Australia. It consists of the main island of Mauritius and its dependencies,Rodriguez, Agalega, St Brandon, the Chagos Archipelago and Tromelin, all interspersed in the vast expanse of the ocean. Tromelin used to be, and perhaps still is, a subject of controversy between Mauritius and France. The Chagos Archipelago was “excised” from Mauritius by the British Government at the time of independence for “security and strategic reasons” and will be returned eventually to Mauritius when it will be no longer required by the British Government. In the meantime, it has been leased to the U.S.A. by the British.

Geographically, the main island of Mauritius is situated at a latitude of about 20 degrees south of the Equator and a longitude of about 60 degrees east of Greenwich. It also lies at about 300 kms north of the Tropic of Capricorn and about 800 kms off the east coast of Madagascar. Rodriguez island lies at about 560 kms east north east of Mautitius;the Agalega islands and St Brandon are at about 930 kms and 400 kms respectively north of Mauritius;the Chagos Archipelago are 1920 kms to the north-east and Tromelin is found at about 480 kms to the north-west.

Just over a million people live on the island of Mauritius, about 35,000 live on Rodriguez island and a few others on the other islands. The total area of Mauritius is around 1900 square kms, thus making it one of the most densely populated countries of the world together with Bangla Desh, Hong-Kong and Singapore.

The history books(1) say that Mauritius used to be known to the Arabs since or before the tenth century, albeit under a different name. But it was “re-discovered” by the Portuguese during the 16^{th} century on their way to the Indian sub-continent and the East Indies. It was however first colonised in 1658 by the Dutch (WELLISZ and LAM SHIN SAW,1993), who gave it the name of Mauritius, after their ruling prince, Maurice Van Nassau.

However, Dutch colonisation was not successful and they must have left in disgust in 1710, but not before they had done some irreparable damage to the flora and the fauna of the island: they had exhausted all the ebony or darkwood treesand they had extinguished the dodo bird, which was unique to the island.The next attempt at colonisation was made in 1722 by the French who renamed it “Isle de France” and this time, it was successful, in fact, so successful that Mauritius became an object of struggle between the British and the French during the Napoleonic Wars in this part of the world. After some memorable battles on land as well as on the sea, both Mauritius and the neighbouring sister island of Reunion were captured by the British in 1810. However, Reunion island was restituted to the French through the Paris Peace Treaty of 30 May 1814,(PROSPER, J.G.,1993) but not L’Isle de France. When the latter became a British colony, the name of Mauritius was restored and since then, the country has come to be known as such. It were to remain a British colony until 1968, when it became independent after long years of relatively blood-free struggles, unlike the case for so many other countries under the yoke of colonialism, and it became master of its own destiny. In 1992, Mauritius took a further bold step in its constitutional development by becoming a republic in its own right, within the British Commonwealth, but doing away with the British Queen as Head of State, and installing its own Mauritian President as the new Head of State of Mauritius.

To-day, Mauritius boasts a population of just over a million people, and through its particular historical development, it has become a harmonious, multicultural society with a multi-party political democracy based on the Westminster model of government.On the economic front, it is now classified by the World Bank economists as a middle income developing country. How this has been achieved will be discussed later, but first, let us acquaint ourselves with the economy of Mauritius before it became independent.

3. THE ECONOMY OF MAURITIUS BEFORE INDEPENDENCE

Mauritius obtained its political independence, but not necessarily its economic independence, from Great Britain on 12 March 1968. By then, Mauritius had been a British colony for over one and a half centuries. As mentioned above, it was conquered from the French in 1810 during the period when the Napoleonic wars raged in Europe and officially became a British colony a few years later at the Peace Treaty of Paris in 1814(PROSPER,J.G.,1993,P.77). However, the British did not rush to settle in droves in Mauritius; there were only a few settlers and the British government was only content to just administer the country and the existing population along Whitehall bureaucratic lines. So, most of the British who were in Mauritius were government officials (including the Governor) and they had to deal with people who were mostly of French descent. This acccounted for the preservation of the French culture and some French laws such as the "Code Napoleon" in the colony. That also explained why Mauritians are at least bilingual.

Like most of the other colonies of Great Britain in Africa, Asia and America, Mauritius had to produce whatever the colonial government decided to impose upon it. In those days it had to be primarily a producer of primary raw materials, agricultural products or minerals, so as to provide the manufacturing industries in the metropolitan areas of the United Kingdom with a constant supply of primary inputs for its further growth and development. In the specific case of Mauritius, poor in natural resources, especially in minerals, the most important naturally economic resource was the sugar-cane fields successfully nurtured by the French colonists. But sugar-cane,deer and other things were originally introduced by the Dutch(PROSPER,J.G., 1993).Thus Mauritius was made to produce mainly raw sugar for its colonial master, a bit of tea and then not much else. In this way, it became, again like many other British colonies in the Caribbean area like Jamaica and Barbados, a monocrop plantation economy, a sugar economy. Its raw sugar went to the refinery firms in Great Britain, and it is still the case to-day, albeit in a different economic environment. In those colonial days, however, all economic activities centered around King Sugar - the bulk of the employment (direct and indirect), output and exports was concentrated in the sugar-producing sector.

On the eve of its independence, Mauritius still depended upon sugar for more than 95% of its total export earnings. The sugar sector still accounted for a large proportion of the national output, but had also reached its physical limits of development. It was, in fact, the largest contributor to the national output and also the largest employer. In 1967, the year preceding political independence, sugar accounted for about a third of the gross national product at factor cost, for most of the cultivated land, again for about a third of the total employment in the country and for Rs.281.3 million out of total exports (including a value of re-exports of Rs.6.1

million) valued at Rs.306.8 million(2). Thus, sugar exports accounted for nearly 92% of total export earnings.

During the 1960's, when the process towards political independence was set in motion, especially after the report of the Royal Commission headed by Professor J.E.Meade, an attempt at diversifying the economy was made. Such economic diversification was inevitable for the country if it were not to result in social and political unrest and economic bankruptcy. Already, during the 1950's, the economy was experiencing a period of declining real per capita income and rapidly increasing population due to the high rate of population growth of about 3% per annum. The alarm-bell was first rung in the Titmuss Report which appeared in 1960 as the sessional paper no.6 of the Mauritius Legislative Council. Also, in 1958, the Luce report found the unemployment rate to be about 15% of the labour force. It was the combination of a whole set of difficult economic problems in the latter part of the 1950's which had led to the setting up of the above-mentioned Royal Commission. Tables 1 and 2 below illustrate the dramatic economic situation of the 1950's.

TABLE 1. GROSS NATIONAL PRODUCT AT CONSTANT 1953 FACTOR COST

YEAR	G.N.P. AT CONSTANT PRICES (MILLION RS)	ANNUAL RATE OF G.N.P.GROWTH (PER CENT)	G.N.P. PER CAPITA (RS)
1953	566	-	1078
1954	559	-1.24	1037
1955	565	1.07	1009
1956	571	1.06	986
1957	588	2.98	985
1958	587	-0.17	956

TABLE 2. POPULATION AND LABOUR FORCE

YEAR	POPULATION (THOUSANDS)	ANNUAL POPULATION GROWTH (%)	LABOUR FORCE (THOUSANDS)	ANNUAL LABOUR FORCE GROWTH (%
1953	525	-	187	-
1954	539	2.67	190	1.60
1955	560	3.90	193	1.58
1956	579	3.39	196	1.55
1957	597	3.11	199	1.53
1958	614	2.85	201	1.01

SOURCE: MEADE REPORT(1961),P.43

Furthermore, in 1960, Meade and his Commission colleagues took cognizance of other important barriers to the economic development of the country. There was the paucity of natural resources in the sense that, unlike other African counries, there were no mineral or oil deposits. There was the exiguity of the domestic market which usually acted as a brake for the industrialisation process. There were the large geographical distances that separate Mauritius from the sources of raw materials abroad and from the possible foreign markets. Last but not least, apart from the sugar industry, the rest of the Mauritian economy suffered from a shortage of management and technical skills and capital for investment purposes(WORLD BANK, 1978). So, the main conclusions and recommendations of the Meade Report (1961) were that Mauritius had to diversify from its over-dependence on sugar, and to industrialise in order to be able to cope with the pressing population and unemployment problems. The moot questions were : How? Which type of industrial strategy? At that time, a major debate in development economics was still going on with no clear-cut winner between the proponents of an import-substituting industrialisation (ISI) strategy and those for an export-orientated industrialisation (EOI) strategy. The arguments were strong on both sides and there were no overwhelming evidence yet in favour of one or the other. Mauritius was caught in the middle of such controversy and had to make a quick choice in the light of the urgent and pressing economic problems being faced by the country.

The Government of Mauritius ,in the light of the recommendations of the Meade Report, choose what it thought was best for the economy. Thus, although the Meade Report did not specifically refer to it as such,but some of the recommendations were definitely pointing in that direction, an import-substituting industrialisation (ISI) strategy was adopted in the early 1960's by the government. Thus, in order to encourage manufacturing activities in the economy for import-replacement purposes, legislation was passed in 1964 whereby a host of fiscal and other incentives were provided to encourage the setting up of these ISI industries. Those companies or industries set up within this legal framework were issued with “Development Certificates” and holding a D.C., they were appropriately called D.C. companies. They were protected from external competition in the traditional way through tariff and non-tariff barriers to trade. For details of the incentives provided under the Development Certificate Scheme, see Appendix 1. Though this had led to the setting up of a certain number of industrial activities in the economy, such a strategy was not able to cope with the unemployment situation which was becoming worse and worse as the decade of the 1960’s drew to its end. In fact, between 1964 and 1968, only 1200 jobs were created in those industries,(HEIN,P.,1989) and the labour force was growing at a faster rate than job-creation. By the time political independence came along in March 1968, it was quite evident that the ISI strategy had failed to deliver the goods with respect to the unemployment situation. The unemployment rate was still in the vicinity of 20%. Even, by 1970, there were only 70 such enterprises (HEIN,P.,1989).

But HEIN,P. also mentioned the exceptional case of MICRO-JEWELS, a factory which ran against the mainstream by producing watch-jewel components for exports since 1965, although that investment project was first conceived in 1956. This firm is still going strong to-day.

Therefore, soon after independence, the new government had to look for a quick solution to its main economic problem of unemployment. It also had to look for a better development strategy that would have to take the economy out of the rut of underdevelopment and on to the path of sustained growth and development. By that time, some more empirical evidence about successful export-orientated industrialisation (EOI) strategies adopted by some countries were becoming available. Business circles in Mauritius were becoming aware of this knowledge and newspapers in Mauritius were increasingly mentioning the successful export industries in Puerto Rico and Taiwan(HEIN,P., 1989). The latter reference also talked about an international expert who was invited in 1967 to report on the advisability of setting up an export-processing zone (E.P.Z.) in Mauritius to encourage industries to manufacture for export purposes. Ironically enough, the report submitted was unfavourable. Nevertheless, a fact-finding mission composed of some government officials and other business personalities went abroad to see for themselves and to draw their own conclusions about the matter. They did not have to look very far, or at least some important personalities from Mauritius did not have to travel far to find what they thought could be the key to the solution of the main problems of the economy. They went, they saw and they were conquered by what they found in Taiwan - the Kao-Hsiung Export-Processing Zone. Taiwan was a most interesting case for Mauritius because both islands shared many similarities: an important agricultural sector, relative smallness of the domestic market, no indigenous raw materials. It might be pointed out that, according to BELLO and ROSENFELD (1990), Taiwan had already adopted an EOI strategy since the mid-1960's. As for other little tigers of Asia which were soon to become the Newly-Industrialising Countries (NIC's), Korea and Singapore switched to the EOI strategy after 1963 and 1965 respectively, and after both of these economies had tried the ISI strategy, but not for very long. In the case of Hong-Kong, it had already adopted the EOI strategy in the 1950's(3). They were almost a decade ahead of Mauritius. Thus, after the mission, the Government of Mauritius would also adopt an E.O.I. strategy as from 1970.

We shall discuss, in the next two sections, the experience of Mauritius with this outward-looking development strategy and see what has been achieved on the economic front during those last twenty years or so. Finally we shall also look at current and future policies necessary to maintain the momentum of growth and development for the economy.

1. THE DRIVE TOWARDS INDUSTRIALISATION AND DEVELOPMENT IN THE 1970'S

As already seen above, at the time of attaining political independence from Britain in 1968, a certain number of difficult economic problems was inherited as well. The attempt to solve the main, acute problem of unemployment through the ISI strategy had not worked as well as expected. In fact, it was plainly disappointing. The number of jobs created through the Development Certificate Scheme was not enough to cope with the rate of growth of the labour force which was nearly 3% per annum. The direct consequence was a very high rate of unemployment lying between 15% and 20% of the labour force in the last years of the 1960's. Also, the crude birth and death rates in 1967 were 3.04% and 0.85%, respectively, yielding a rate of natural increase of 2.19% per annum(4).

The growth of the economy during the 1960's was also slow and uneven; it averaged less than one per cent per annum. The sugar sector was still the dominant economic force in the economy, accounting for practically all the export earnings and for 53,310 jobs out of a total employment of 138,170 in September 1967. At the same time, the biggest employer of labour was the government itself, with 59,030 employees. 25,528 worked for the Central Government and 2625 were employed by the local government (municipalities and district councils). The remaining 30,877 (i.e.,more than 50% of government employees) were "relief workers". These were unemployed persons who were employed by the government of the day before the important general elections of August 1967, which was to decide the issue of independence. This measure was an electoral ploy used to woo the electorate and to encourage them to vote in favour of independence rather than against it. These “relief workers” worked for only four days a week on various public works projects, which were vague, ill-designed and unco-ordinated. At that time, and even to-day, one could not make head or tail of what was being achieved by these workers. Employment in the manufacturing sector in September 1967 stood at only 3,855 jobs.

Exports earnings from sugar and its main by-product, molasses, amounted to Rs.289.8 million out of total export earnings of Rs.306.8 million in 1967, i.e., nearly 95% of all foreign exchange earnings came from sugar exports.

The reasons for the failure of the ISI strategy to diversify the economy by developing manufacturing industries and, thus a new structure of production, had been aptly summarised by GHOSH,R.N.(1988): lack of capital, shortage of skilled workers and lack of enterprise and risk-taking regarding new industrial activities (most probably due to the deeply ingrained sugar mentality in the country).

Therefore, soon after independence, the Government of Mauritius had to act very quickly. After realising that the ISI strategy had not worked as well as expected to solve the main and acute problem of unemployment, the Government of Mauritius switched its development strategy to an export-orientated industrialisation(EOI) one. Thus, through the passing of legislation embodied in the Export Processing Zone(EPZ) Act No.51 of 1970, an Export Processing Zone, or a Free Zone as it is also sometimes known, was created. According to BASILE and GERMIDIS(1984, P.20), “An EPZ may be defined as an administratively, and sometimes geographically, distinct area enjoying special status allowing for free import of equipment and other materials to be used in the manufacture of goods earmarked for export. This special status generally involves favourable legal provisions and regulations pertaining to taxation.” In most other countries where such export processing zones were created, they were restricted to specific geographical regions of the country, so much so that they have been dubbed as "export enclaves". In the case of Mauritius, although at the beginning, it was concentrated in a specific area known as Plaine Lauzun (chosen mainly because of its type of land and proximity to all infrastructure and the labour force), nothing in the law prevented investors to set up industries producing for export markets in other parts of the island. By the end of the 1980's, in fact, export-manufacturing firms could be encountered all over the country. The smallness of the place could be an explanatory factor, but the Export Processing Zone was never felt as an enclave separate from the rest of the economy or the country. As a matter of fact, it did have a certain number of both backward and forward linkages with the rest fo the economy. Also, some would view the concept of the free or export-processing zone as a legal status or framework within which firms producing for the export markets could take advantage of the mostly fiscal and financial incentives provided in the law.

Mauritius, like other countries which have just shaken off their shackles of colonisation, did have to face the various problems of an underdeveloped or a poor economy. These mainly were:

(1) a low level of gross domestic or national output coupled with a low level of saving insufficient to generate sufficient funds for investment purposes in order to bring about economic development
(2) a relatively low level of technological know-how (except for the sugar-producing sector)
(3) a relatively low level of management and technical skills generated through the educational sector which was too academically biased.

There were also various social or sociological factors such as the absence of an industrial culture whereby much of the labour force was ignorant of the discipline and hardships required for or in factory work.

The above-mentioned constraints were certainly not exhaustive, but they provide the sort of framework which determined how the export-processing zone (EPZ) was going to look like and operate. So, to encourage the setting up of EPZ industries or manufacturing firms, the government had to offer a large range of financial and fiscal incentives, particularly to attract foreign investors to the country because lack of domestic capital was an important constraint. Whilst the ISI strategy of the 1960's militated against export industries generally, at last, with the advent of the EPZ Act of 1970, the balance was restored so that no economic sector can be said to be at too much of a disadvantage with respect to another, from an economic point of view.

Thus the following incentives(5) were offered to investors to entice them to manufacture for export markets and these incentives apply to both local or domestic investors as well as foreign investors. The main advantages of manufacturing in the E.P.Z. were:

(1) Complete exemption from payment of import duties on productive machinery, equipment and spare parts
(2) Complete exemption from payment of import and excise duties on raw materials and components except spirits, motor-cars and petroleum products
(3) Exemption from payment of income tax on dividends and profits for the first ten years of operation and favourable corporate tax rate
(4) Availability of factory buildings and fully-serviced land at reasonable or subsidised rates
(5) Subsidised electricity or water rates
(6) Favourable labour laws
(7) Mauritius was also well-connected by sea and by air with the rest of the world, and especially Europe, despite its isolated geographical position in the Indian Ocean.

Over and above the above-mentioned incentives, foreign investors also enjoyed the following conditions:

(1) Guarantee against nationalisation
(2) Free repatriation of capital (except capital appreciation), profits and dividends
(3) Availability of permanent residence and work permits for foreign technicians and managers.

On the economic front, there was a plentiful supply of a literate and adaptable labour force which ensured very low wages. There were also possibilities for foreign investors to enter into joint ventures with the local dynamic private sector which was not completely devoid of entrepreneurship. Most importantly, perhaps, in 1970, Mauritius joined the Yaounde II Convention and became an Associate Member of the European Economic Community, the first Commonwealth country to do so and even before the United Kingdom itself joined the European Common Market in 1973. The first Yaounde Convention saw light in 1964(LISTER,M.,1988,p.xiii) and lasted until 1969. Yaounde II would remain in force until the advent of the Lome Convention in 1975, which would then supersede it. Thus, the Yaounde Convention was one of the precursors of the Lome Convention as we know it to-day. The Yaounde Convention was a special arrangement and agreement that France negotiated for, and on behalf of, its colonies in Africa at the time of the setting up of the European Common Market in the late 1950's and early 1960's. The Convention also covered the former Belgian colonies in Africa. It catered for special, privileged trade and aid links between those African colonies and "L'Europe des Six". Mauritius was able to join this club because of its foreign policy and its affinity with French culture. Thus, Mauritius could have ready access to the markets of the countries makingup the European Community. In other words, there were no restrictions whatsoever (quotas or tariffs) on exports of products manufactured in Mauritius to the EEC countries, provided the rules of origin were satisfied, that is, provided that the value added production in Mauritius exceeded a certain threshold,50%, according to C.C.TWITCHETT(1980). This possibility of "new" access to the European market proved to be especially attractive to industrialists in Hong-Kong who were being generally denied such access in order to protect European domestic manufacturing industry.

Finally not to be neglected was the political factor. Mauritius had a stable, political environment, being a parliamentary democracy based on the Westminster model, but with only one House of Representatives known as the Legislative Assembly. In fact, it is one of the very few countries of the developing world where the Western style of democracy seems to work very well, especially compared to some countries in the 1970's when military and political coups-d'etat were so common and numerous.

Thus the institutional framework for industrialisation and development was set up in 1970. During the first half of the 1970's, the EPZ strategy seemed to pay off - many manufacturing enterprises were set up in a short span of time and more jobs than expected were created. See Tables 3 and 4.

TABLE 3. EPZ PERFORMANCE IN MAURITIUS : EMPLOYMENT.

YEAR	NUMBER OF ENTERPRISES	EMPLOYMENT	CHANGE IN EMPLOYMENT	SHARE IN TOTAL EMPLOYMENT
1971	9	644		0.00
1972	19	2588	1944	0.02
1973	32	5721	3133	0.04
1974	45	10669	4948	0.06
1975	66	11407	738	0.07
1976	85	17403	5996	0.09

1977	89	17474	71	0.09
1978	85	18323	849	0.09
1979	94	20742	2419	0.10
1980	101	21642	900	0.11
1981	107	23601	1959	0.12
1982	115	23870	269	0.12
1983	146	25526	1656	0.13

SOURCE : WONG NG,D.(1985), HEIN,P.(1989).

TABLE 4. EPZ PERFORMANCE IN MAURITIUS : EXPORTS AND GDP.

YEAR	GROSS EXPORTS RS.MILLION	SHARE OF TOTAL EXPORTS	CONTRIBUTION AT CURRENT RS.MILLION	TO GDP FACTOR COST PER CENT
1971	3.9	0.00	n.a.	n.a.
1972	12.0	0.00	n.a.	n.a.
1973	45.0	0.06	n.a.	n.a.
1974	135.6	0.08	n.a.	n.a.
1975	196.4	0.11	n.a.	n.a.
1976	308.6	0.18	n.a.	n.a.
1977	433.4	0.21	n.a,	n.a.
1978	484.5	0.24	n.a.	n.a.
1979	620.1	0.25	n.a.	n.a.
1980	894.5	0.27	321	4.3
1981	1087.1	0.36	421	4.8
1982	1235.5	0.31	449	4.5
1983	1306.8	0.30	548	5.2

SOURCE : WONG NG,D.(1985), HEIN,P.(1989).

Alongside the legislation required for putting in place the development strategy of the country, as formulated in the development strategy paper whereby full employment was to be attained by 1980(6), there was also a 4 year plan for social and economic development for the period 1971-75. This first post-independence plan set various economic targets for the economy as a whole and was quite comprehensive. It was an indicative plan based on various macro-economic incentives provided by government in order to indirectly influence the allocation of resources in the economy and it allowed a lot of economic initiatives to the private sector of the economy. The government only made its presence felt through the provision of all the economic infrastructure required (such as roads, electricity and water-supplies, training of labour, internal and external communications such as telephone, telex, air services and sea port facilities).

According to the targets aimed at in the 1971-75 Four-year Plan, output in the manufacturing sector (excluding the processing of sugar, and other agricultural manufacturing) should grow from Rs 54 million in 1969 to Rs 142 million in 1975. On the other hand, employment in the manufacturing sector similarly defined, and for the same period was forecast to grow from 18,400 to 28,400. By 1974, the contribution to GDP at factor cost by the manufacturing sector had already surpassed the expectations of the government by attaining the level of Rs 214 million whilst employment also exceeded its target by reaching 30,000 with about 11,000 jobs created in the new EPZ industries alone.

For the period 1970-74, if 1970 is chosen as the base period and given an index of 100, the Gross National Product (GNP) in 1974 grew to 144, which yielded an annual growth of 9.5% per annum in real terms. Several reasons could account for this very good economic performance. The first one was the successful launching of the EPZ where the bulk of the employment creation took place as can be gauged from Table 3 above. Secondly, the tourism sector also played an important role by growing at a very high average rate of about 20%. This tourism story is an interesting one. Despite the numerous recommendations found in the Meade Report of 1961, the one sector which was overlooked or which was thought not to have the potential to contribute significantly to the economy was the tourism sector. It is therefore very much to the credit of the business sector , or more precisely the sugar sector in Mauritius, that they had been ingenuous enough and able to come up with this original idea of developing a tourism sector in the economy despite the difficult odds at the beginning. As we will find later, this sector is going to develop into a third important leg on which the economy will walk towards its journey to growth and development.

In 1954, there were only 1803 tourists visiting the island. By 1964, the number would go up to about 10,000. Since then, the number of tourist arrivals in Mauritius had been increasing steadily to reach the figure of 27,650 by 1970, an almost three-fold increase over 1964. The average annual rate of growth for the period 1966-70 was slightly more than 20%(20.3%). See Table 5.

Obviously, tourist growth was not a straightline matter; it was a story of ups and down, particularly down at the time of the first oil crisis in 1973. Growth was much slower in the following two years, but it picked up again in the ensuing years. See Table 5 again.

TABLE 5. TOURIST ARRIVALS IN MAURITIUS 1966-1982.

YEAR	TOURIST ARRIVALS THOUSANDS	GROWTH RATE (%) ARRIVALS	TOURIST NIGHTS THOUSANDS	GROWTH RATE (%) NIGHTS	LENGTH OF STAY (NIGHTS)
1966	10.1	0.2	144.9	0.2	14.3
1967	13.0	29.6	162.3	12.0	12.5
1968	15.6	5.0	149.5	-13.1	9.6
1969	20.6	32.4	220.6	47.6	10.7
1970	27.7	34.3	287.6	30.4	10.4
1971	36.4	31.6	399.7	39.0	11.0
1972	48.8	34.1	454.3	13.7	9.3
1973	68.0	39.3	733.1	61.4	10.8
1974	72.9	7.2	772.2	5.3	10.6
1975	74.6	2.3	746.9	-3.3	10.0
1976	92.6	24.0	892.2	19.5	9.6
1977	102.5	10.7	994.8	11.5	9.7
1978	108.3	5.7	1051.6	5.7	9.7
1979	128.4	18.5	1419.6	35.0	11.1
1980	115.1	-10.4	1301.7	-8.3	11.3
1981	121.6	5.7	1361.2	4.6	11.2
1982	118.4	-2.7	1392.5	2.3	11.8

SOURCE: GABBAY,R.(1988), C.S.O.,GOVERNMENT OF MAURITIUS.

In 1971, there were already 22 hotels with room capacity of 811 and available bed-places stood at 1614. Gross earnings from tourism amounted to only Rs.39 million. By the end of the decade in 1979, the number of hotels had increased to 38 with 1981 rooms and 3888 bed-places. There would also be an almost seven-fold increase in tourist earnings which grossed Rs. 260 million. Average annual growth rate in tourist arrivals was still high at nearly 20% again(19.3%). See Table 6 below.

It can be difficult to measure accurately the contribution of the sector to the domestic economy because of the high import content of its services. However, a World Bank study by ARCHER AND WANHILL(1981) had estimated that, for each directly related job created in the tourism industry, nearly three jobs are created elsewhere in the economy. The same study had estimated the net foreign exchange earnings amounted to 25% of the gross earnings of the industry compared to about 40% for the EPZ sector and 80% for the sugar sector.

TABLE 6. TOURISM:HOTEL CAPACITY AND GROSS EARNINGS.

YEAR	NO.OF HOTELS	NO.OF ROOMS	NO.OF BEDS	VISIBLE GROSS EARNINGS RS. MILLION
1971	22	811	1614	39
1972	25	1009	2081	52
1973	29	1182	2394	83
1974	30	1248	2466	111
1975	34	1499	2884	135
1976	37	1881	3688	184
1977	37	1881	3688	210
1978	38	1981	3888	225
1979	38	1981	3888	260
1980	43	2000	4000	361
1981	51	2201	4484	421
1982	51	2204	4530	450

SOURCE: GABBAY,R.(1988), C.S.O.,GOVERNMENT OF MAURITIUS.

Through a number of backward and forward linkages in the economy, as a result of the developments in the above income-generating sectors and in the construction industry, a large number of jobs had also been created in the tertiary or services sector of the economy. This had made it possible for the economy to overshoot the employment and output targets of the first 4-year plan.

Another important external factor that must be mentioned for the Mauritian economy is the commodities boom of the period 1972-75, which straddled the first oil crisis of 1973 as well. This primary commodities boom was important for Mauritius because world sugar prices rocketed sky-high during this period and reached record levels of about 300 pounds sterling per ton in 1974. At that time, Mauritius was still exporting its sugar to the United Kingdom under the Commonwealth Sugar Agreement. The Sugar Protocol and the Lome Convention linking Mauritius to the EEC were not yet in operation, although Mauritius was a full adherent of the Yaounde Convention. Mauritius could have broken its contract and sold its sugar at the fantastic world prices, but it would have been bad politics. Instead, the Government of Mauritius negotiated with the British Government for a better price for its sugar, given the world sugar situation. Sensibly and responsibly, in 1974, the British agreed to give Mauritius a much better and higher price which was around 170 pound sterling per ton (still far away from the then prevailing high world sugar prices) and in 1975, Mauritius received 234 pound sterling per ton when the world sugar had dropped to 203 pound sterling per ton(WELLISZ & LAM SHIN SAW,1993,p.253). But on the other hand, Mauritius was given a guaranteed market for its sugar over the long term. The future of the sugar industry was then and thus assured. The high prices obtained for sugar would prove to be both a blessing and a poisoned gift for the economy of Mauritius. They were a blessing in the sense that it made available sufficient funds to the sugar industry to modernise its plantation and its equipment as well as to diversify into other sectors of the economy such as manufacturing and tourism because, due to the foreign exchange control regulations, it was not possible to invest overseas. Investment thus increased in the domestic economy.

From the economy's point of view, the sugar bonanza also helped to cushion the effects of the quadrupling of oil prices in 1973 on the economy, particularly on the balance of payments.

However, much of the windfall gains in the sugar sector also led to large increases in wages and salaries, not only in the sugar industry, but in all the other industries in the private sector, all government departments and para-statal bodies. This resulted into a substantial price inflation in the economy. Furthermore, in 1974, laws were passed to maintain the real purchasing power of workers in the economy through the cost of living allowance or adjustment. In other words, workers were compensated for any increase in prices occurring it the economy. Wages and salaries were thus automatically indexed to the consumer price index.

In the latter half of the 1970's, the economic momentum was lost through a combination of domestic and international factors. There was the world recession following the first oil crisis of 1973. Other external factors were: the deterioration in the terms of trade of the country as the sugar prices started to tumble down as from 1976 and the second oil crisis of 1979 resulting in a doubling of oil prices(GHOSH,R.N.,1988); import restrictions on EPZ exports in 1976 by France and in 1979 by the United Kingdom(HEIN,P.,1989); increasing competition from other EPZ’s in other less developed countries(LAMUSSE,R.,1990); and a relative decline in foreign investment(WONG NG,D.,1985).

On the domestic front, inflationary pressures developed in the economy as a result of the ill-advised wage policy mentioned above and an expansionary monetary policy during the period. Higher labour costs, higher water and electricity rates, high absenteeism, strikes and go-slows all contributed to a loss of competitiveness of Mauritian products in the export markets(WONG NG,D.,1985). There was also a decline in capital availability from the sugar industry due to falling sugar prices(WONG NG,D.,1985) and according to HEIN,P.,(1989), there was also an adverse reaction of local investors regarding the government wage policy measures. A balance-of-payments problem was also encountered due to too much imports of consumption goods. And in 1975, there was a severe cyclone, Gervaise, which damaged a third of the sugar-cane crop at a time when sugar prices were still quite high. Other climatic disasters followed in 1976 with floods, drought in 1977 and another damaging cyclone, Claudette, in 1979.

Thus, during the latter half of the 1970’s, the drive towards rapid industrialisation and development by the economy of Mauritius suffered a huge setback as a result of some factors beyond the control of the government, but also because of other factors of its own making due to its inappropriate and ill-advised adoption of the policies concerning wages, the money supply and the macroeconomy in general.

1. THE 1980'S: ADJUSTMENT POLICY AND STRUCTURAL CHANGE

By the end of the 1970's, in 1979, Mauritius seemed to have miserably failed in its attempt to solve its various development problems, despite an aggressive EOI strategy to diversify the economy away from mono-dependence on the sugar industry. In fact, whilst the decade of the 1970's was launched with an ambitious economic program elaborated in the Development strategy 1970-80 paper(7), whereby full employment of the economy was to be attained by 1980, in 1979, things were looking economically gloomy.

Despite the successful creation of the Export-Processing Zone launched in 1970, the level of unemployment was still quite high, in double figures. In 1980, the last year of the Second Plan, the unemployment was still 11% and increasing to 17% in 1983. The lowest for the decade was less than 7% in 1977 but rose to 7.1% in 1978.

The sugar sector was still the dominant economic sector, in terms of employment, output and export earnings, and not yet challenged by the EPZ sector, which was suffering from some late teething problems. In 1979, the sugar industry accounted for 52,668 jobs or 26.5% of total employment in “large establishments”, or more precisely, 22% of total employment in the economy. Its contributions to gross domestic product at current factor cost and total foreign exchange earnings were 25% and 60% respectively.

Due to the commodities boom of 1973/74, world sugar prices reached record heights and the domestic sugar sector had reaped large benefits from such favourable circumstances as seen above. Employees in the sugar industry were given substantial increases in wages and salaries. Many employees also received a 12-month salary bonus in 1974, and since the sugar industry is a pace-setter for wages and salaries in the other sectors of the economy, including the public sector, i.e., central and local government and the para-statal bodies, the result was general, large increases in wages and salaries in the country. There was no way, from a political standpoint, that the government of the day would allow the inequitable sectoral distribution of income, which would result if nothing was done, to remain untouched; specially as sooner or later, the government had to hold general elections which had already been postponed and were long overdue. This general increase in wages and salaries would have serious negative effects on the economy, specially as they were not linked to any increases in productivity: they were purely circumstantial. Consequently, the rate of inflation increased considerably at an average annual rate of 15% for the period 1971-1975(8). Obviously, one of the side effects of the increasing prices in the economy was that the manufactured exports became less competitive abroad than before and the development of the EPZ suffered a big setback with a particular blow to the achievement of the full employment objective by 1980.

The government's budget deficit had also become quite large, again as a result of increases in wages and salaries of government employees as the 1973 Sedgwick Report was implemented.

On the external front, balance-of-payments deficits had become quite common as from 1976, which was a watershed year(9). Increased disposable incomes had resulted in increases in consumption in the economy, which, in turn, had led to large increases in imports, since the latter amounts to quite a high proportion of GNP (about 50%).

Two other factors had combined to make the external situation of Mauritius still more precarious. Climatewise, two very bad cyclones had hit Mauritius in 1975 and 1979. They had significantly damaged the sugar-cane crop for the following years. Thereby, sugar output was reduced substantially and as a result, export earnings dropped dramatically in 1976, reducing the capacity to import for the economy. In 1980, sugar output fell to around 525,000 metric tons compared to nearly 690,000 metric tons in 1979 because of cyclone Claudette(10).

Also, in 1979, the second oil crisis, with another 100% increase in the prices of petroleum products, hit the world and Mauritius. This time, there was no corresponding increase in sugar prices to cushion the damaging economic and financial effects of this second oil price shock.

All the above factors thus contributed to an almost bankrupt economic situation in 1979 for Mauritius, which had only foreign currency reserves amounting to only two weeks of imports. It had to borrow heavily on the Euro-currency market to prevent the dislocation of the economy but with not much success.

Thus in 1979, the Government of Mauritius did not have such choice, but to turn to the IMF and the World Bank to work out a tough structural adjustment policy package for the economy. By then, the symptoms of the sort of disease suffered by the economy of Mauritius were typical- the "twin deficits" in the government budget and in the current account/balance-of-payments, aggregate savings was low, and there were problems of unemployment and inflation.

So the IMF medicine for a structural adjustment policy for the economy was prescribed and it involved the following main measures : For the financial year 1978/79, the trade balance deficit amounted to Rs 1.1 billion. At that time the Mauritian currency, the rupee, was pegged as from 5 January 1976 to the Special Drawing Rights (SDR'S) at the rate of 1 SDR = Rs 7.70. Before, it had an automatic link with the British pound sterling,which was worth Rs 13.33.

On 23 October 1979, the rupee was devalued by about 30% to 1 SDR = Rs 10. On 28 September 1981, the rupee was further devalued by 20%, making 1 SDR worth 12 Mauritian rupees.Whereas the first devaluation of 1979 was mainly due to the unfavourable balance-of-payments situation, the second devaluation of 1981 was rendered necessary, on the one hand, because of the negative effect of floods on the sugar output in 1980 and also, because of exchange rate variation of the Mauritian rupee against the major foreign currencies used in the foreign trade of Mauritius(BLANCHON & YEUNG 1981).

To reduce the Government budget deficit, it was important to cut back on subsidies given for the consumption of rice and flour, in fact, to reduce expenditures and to increase government revenue. For the latter, a new sales tax was soon to be introduced.

Monetary policy was also tightened so that available credit was much more restricted than before in order to reduce inflationary pressures in the economy. During the early 1970’s, money supply and credit expanded rapidly because of the high prices and receipts obtained for sugar exports.

More emphasis was to be given to free market forces in the economy, and particularly in the external trade sector, where import restrictions were to be done away with.

Maintenance or reduction of wages in real terms and control of trade union activities were also on the agenda.

To quote the government of the day, the other main components of this first structural adjustment package were reduction in private expenditures and imports in real terms, re-direction of investment into more productive sectors, restriction of credit expansion on a selective basis and the promotion of exports of manufactured products. (Government of Mauritius,1983).

To enable Mauritius to carry out with some chance of success its structural adjustment programme, it required two structural adjustment loans (SAL) from the World Bank valued at US$ 55 million and five I.M.F. stand-by agreements totalling 320 millions of SDR'S and supplemented by two further loans on a bi-lateral basis(ASSIDON,E.,1990). The first I.M.F. Stand-by Agreement was negotiated in October 1979 at the time of the first devaluation of the Mauritian rupee for an amount of 73 million Special Drawing Rights(SDR’S) to run for a period of two years. Unfortunately, due to cyclone Claudette in December 1979, a new second Stand-by Agreement of 35 million SDR’S was re-negotiated in September 1980(WELLISZ & LAM SHIN SAW,1993). A further three Stand-by Agreements were also necessary until 1986. Concurrently, the first World Bank Structural Adjustment Loan for an amount of U.S.$ 15 million was also negotiated in April 1981, with the second one concluded after changes in government in 1982 and 1983. It must be pointed out that the period of structural adjustment was straddled by three different governments but fortunately, there was no change in economic philosophy. Otherwise, this could have made things more complicated and difficult.

The programme of structural adjustment was initiated in 1979 by the coalition government made up of the Mauritius Labour Party and the “Parti Mauricien Social Democrate”, (P.M.S.D.),its former arch-rival in the previous general elections of 1967. The December 1976 general elections were a three horse race between the two parties already mentioned and a new party, founded in 1969 after independence, called the “Mouvement Militant Mauricien”, (M.M.M.). The Labour Party, the main party in power since before independence, realising during the electoral campaign that they were going to lose the elections, made a last minute electoral promise to woo the voters back to them. That promise was free secondary and tertiary education for everybody and this pledge was going to have important, negative economic repercussions for the country at a later stage, particularly worsening the government budget deficit situation; but it is widely believed that it very narrowly saved the government of the day. Although the M.M.M. won the greatest number of seats, 34 out of a total of 70, just short of the majority required to form the government, the other two parties combined together to form a coalition government again, thus preventing the new party from coming to power. The new coalition government performed so badly, and so poorly managed the economy that, at the following general elections of June 1982, they were completely routed and booted out by the population and a new government, made up of the M.M.M. and the “Parti Socialiste Mauricien”, (P.S.M.), a splinter group from the Labour Party, was installed. The new government lasted only nine months, causing a split this time in the M.M.M. The “Mouvement Socialiste Mauricien” (M.S.M.) thus saw the light. Fresh elections were again held in August 1983, pitting the M.M.M. all alone by itself against the Alliance Party made up of the M.S.M.,the Labour Party and the P.M.S.D. The latter won handsomely and they would see through the small economic miracle for Mauritius.

The adjustment period, which lasted from 1979 to 1986, could be conveniently analysed in two distinct phases, 1979-1983 and 1983-86. During the first phase, the results of the stabilisation cum adjustment policy measures, already mentioned above and implemented by the Government, were more effective in reducing the Government budget deficit than in correcting the external accounts, particularly the external trade balance which remained largely in deficit (ASSIDON,E.,1990). This was due to quite an extent to some non-tariff barriers to trade (quotas) against the textile exports of Mauritius towards Europe and North America, coupled with the high debt service ratio which moved from 15% in 1981 to 23% in 1983. On the other hand, in the public financial sector, the government budget deficit fell from 14% in 1980/81 to only 6.4% in 1983/84. Also, the rate of inflation which was 42% in 1980 (due mainly to the first rupee devaluation) fell to 14.5% in 1981 and 5.6% in 1983. Unemployment however was still incredibly high at 17% in 1983(2-YEAR PLAN 1984-86,p.20).

In the second phase of the adjustment process between 1983 and 1986, the international economic environment had become much more favourable. Prices of petroleum products and imported cereals by Mauritius had fallen. The US dollar had been depreciating, world interest rates had generally fallen and there was economic recovery in the industrialised world.

Strong economic growth was achieved during this second phase, due mainly to the textile exports of the EPZ and to the tourism industry (See Tables 7-10 below). The budget deficit was brought further down to the level of only 3.3% of GDP in 1986/87 and for the same fiscal year, for the first time after ten years, the current account exhibited a surplus.

On the policy front, important changes had occurred. First of all, internal prices determination was now carried out through free market forces and import policy had also been liberalised after 1983. Between 1968 and 1975, government did not tamper with the import sector. However,because of the deterioration in the terms of trade due to falling sugar prices in 1976 and imports accounting for nearly 60% of GDP at factor cost(GHOSH,R.N.,1988), a host of import restrictions were adopted until 1982. They were then removed in 1983.(JHUMKA H. 1990 p.52).

In 1983, a new sales tax at the rate of 5% was introduced for the first time in the economy. This then paved the way for a re-structuring of the tax system in the following years. In 1984, with the July Finance Act, the company tax rate on undistributed profits, which stood at 66% for private companies and 55% for public companies, was brought down to a unique rate of only 35%. The budget speech for 1985/86 did away with the ten-year tax holiday provided to the EPZ enterprises since 1970, as it contained an obvious flaw. But to encourage investors to set up more long-lasting firms, the new tax rate for such EPZ industries was fixed at only 15%. The existing firms had the option to remain with the old tax regime or to embrace the new one. New EPZ firms would not pay any tax in the first few years in any case as they were unlikely to make any profits. Also, to encourage import-substituting industries to export abroad, they could reduce their tax of 35% according to the proportion of their output which is sold overseas. Thus, the company tax rate ranges from only 15% for an EPZ firm to a maximum of 35% for a company producing only for the local market(GHOSH RN 1988,p.90; WELLISZ & LAM SHIN SAW 1993,p.247-8).

In the same budget speech, the income-tax structure was simplified and only four tax brackets were retained, reducing the maximum marginal tax rate from 70% to 35% as well. The marginal tax rates were 5%,15%,25% and 35%. These tax reductions were meant to stimulate higher productivity and to encourage savings and investment in the economy.

In 1985, minimum wages for men in the EPZ sector,which were higher than for women but disadvantaged them in obtaining employment in the sector, were eliminated. As a result, male employment in the EPZ increased to 33% in 1986.

Finally, in 1983, exchange rate was also liberalised by pegging the rupee to a basket of the more important trading currencies instead of the SDR in order to maintain the competitiveness of the export sector of the economy through gradual depreciation.

TABLE 7. EMPLOYMENT IN THE EPZ 1983-1993

YEAR	NO.OF ENTERPRISES	EMPLOYMENT	SHARE IN TOTAL EMPLOYMENT
1983	146	25526	0.13
1984	195	37522	0.19
1985	290	53951	0.25
1986	408	74051	0.31
1987	531	87905	0.34
1988	591	89080	0.33
1989	563	88658	0.32
1990	568	89906	0.31
1991	586	90861	0.30
1992	558	86937	0.30
1993	536	85621	0.30

SOURCE: C.S.O.,GOVERNMENT OF MAURITIUS-VARIOUS PUBLICATIONS.
YIN,P. ET ALII(1992).

TABLE 8. EPZ GROSS EARNINGS AND GDP CONTRIBUTION 1983-1995.

YEAR	GROSS EARNINGS RS.MILLION	SHARE OF TOTAL EXPORT EARNINGS	CONTRIBUTION AT CURRENT RS.MILLION	TO GDP PRICES PER CENT
1983	1307	0.30	548	5.2
1984	2151	0.42	865	7.2
1985	3283	0.49	1333	9.6
1986	4951	0.55	1860	11.3
1987	6567	0.55	2585	12.7
1988	8176	0.59	3125	13.0
1989	9057	0.58	3400	12.1
1990	11474	0.64	3975	12.0
1991	12136	0.65	4400	11.7
1992	13081	0.65	5011	11.8
1993	15821	0.69	5705	11.9
1994	16545	0.69	6230	11.5
1995			6935	11.5

SOURCE : AS FOR TABLE 7.

TABLE 9. TOURIST ARRIVALS IN MAURITIUS 1983-1995.

YEAR	TOURIST ARRIVALS THOUSANDS	GROWTH RATE (%) ARRIVALS	TOURIST NIGHTS THOUSANDS	GROWTH RATE (%) NIGHTS	LENGTH OF STAY NIGHTS
1983	123.8	4.6	1405.9	1.0	11.4
1984	139.7	12.8	1542.0	9.7	11.0
1985	148.9	6.6	1736.0	12.6	11.7
1986	165.3	11.1	1878.4	8.2	11.4
1987	207.6	25.6	2372.0	26.3	11.4
1988	239.3	15.3	3002.8	26.6	12.5
1989	262.8	9.8	3196.8	6.5	12.2
1990	291.6	10.9	3564.9	11.5	12.2
1991	300.7	3.1	3697.0	3.7	12.3
1992	335.4	11.6	4110.4	11.2	12.3
1993	374.6	11.7	4610.4	1.2	12.3
1994	400.5	6.9	4539.3	-5.4	11.4
1995	422.5	5.5	4434.9	1.7	10.7

SOURCE: MAURITIUS GOVERNMENT TOURIST OFFICE - HANDBOOK OF STATISTICAL DATA ON TOURISM, VARIOUS YEARS.

TABLE 10. TOURISM: HOTELS AND GROSS EARNINGS.

YEAR	NO.OF HOTELS	NO.OF ROOMS	NO.OF BEDS	VISIBLE GROSS EARNINGS RS.MILLION
1983	51	2204	4530	510
1984	54	2488	5102	633
1985	55	2630	5387	845
1986	56	2888	5955	1190
1987	60	3108	6418	1786
1988	64	3399	7005	2381
1989	67	3605	7374	2796
1990	75	4603	9572	3630
1991	80	5064	10482	3940
1992	84	5271	10917	4655
1993	85	5341	11058	5362
1994	90	5888	12187	6415
1995	95	5977	12359	7472

SOURCE: AS FOR TABLE 9.

Let us now see whether the painful but necessary adjustment process of the last eight years and beyond had borne any fruit and whether the structure of the economy had been significantly modified.

The most striking result obtained through the adjustment process begun in 1979 was the unexpected structural change in the economy. Whilst in 1979, Mauritius seemed to be condemned to remain a monocrop economy and to be saddled with an ever acute problem of unemployment, by the end of the 1980's, the economic landscape had changed dramatically. The contribution of the sugar sector to the total GDP of the economy which was about 20% in 1979 fell to less than 14% in the late 1980's. But more importantly, sugar exports which accounted for more than 60% of export earnings in 1979 also saw a fall in its share of total export receipts in 1987 to less than 40% - in fact, only 37%. On the other hand, the role of the E.P.Z. had simultaneously become more prominent both as a contributor to the total GDP (which rose from less than 4% in 1979 to nearly 15% in 1987) and as a worthwhile foreign exchange earner (in 1979, share of EPZ exports in total exports was 25% and it reached 58% in 1989). This tendency of the EPZ manufacturing sector to become more economically dynamic than the sugar sector would continue into the early 1990's. See Tables 7 and 8 above.

At the same time, a third pillar of the economy had reared its head: the tourism sector. Due to a very aggressive advertising campaign, better communications networks through Air Mauritius to Europe and excellent and increased hotel accommodation in the country, in 1991, nearly 300,000 tourists visited the island, creating in its wake much employment and bringing into the country substantial foreign exchange as gross earnings reached the level of Rs.4 billion.

So, by the end of the decade of the 1980's, or in the early 1990's, the economy of Mauritius can be said to be walking on 3 important legs - sugar production, E.P.Z. manufacturing and tourism services. Of course, these sectors have important repercussions on the rest of the economy in terms of both backward and forward linkages.

However, as it had also happened before in other countries, Mauritius had become a victim of its own success. The economy can be said to have reached full employment by the early 1990's as the recorded level of unemployment was below 3%. Furthermore, for the first time since the days of indentured labour in the 19th Century, Mauritius had to import some labour from China and Sri Lanka to work in its E.P.Z. manufacturing industries. With the advent of tight labour markets, inflation had again made its appearance on the economic scene, reaching double-digit figures in 1989 and 1990 although it had been brought down to 7% in 1991. This would have important repercussions in the economy as the competitiveness of the export products of Mauritius would be affected. On the wage front, workers had also been granted substantial increases, which were partly responsible for the increase in prices in the economy. The gradual deterioration of the foreign exchange rate due to the crawling peg system also tended to inject some inflationary pressure, although it is still small at present.

Thus, remarkable as the economic performance of Mauritius might have been in the second half of the 1980's with the very successful implementation of the policy of structural adjustment with growth, the key economic question which remains is how to maintain the momentum of the economy in order to attain or achieve sustained economic development. If no clear policy answers are forthcoming, no doubt some clouds will soon appear in the horizon and the gains and progress achieved so far may go backwards. It must not be forgotten that the liberalisation of the economy, especially in the most important sectors such as foreign trade and the labour market, has nevertheless helped Mauritius to become more and better integrated into the world economy. Mauritius is thus more than ever before dependent on the external economic circumstances for its survival and the continuation of its well-being, although some would argue, it is a "protected dependence"(ASSIDON E 1990), especially through its special links with the EEC, the Sugar Protocol of the Lome Convention and free access of its manufactured products to the European Union(ex-EEC). However, things can change in the near future, and the following questions should be asked. If international pressure continues to build up in one way or another to force the EEC to review and change its Common Agricultural Policy(CAP), will the Sugar Protocol of the Lome Convention survive these attacks, especially if indeed subsidies to European farmers are reduced? Although the Sugar Protocol might not be affected, the reduction of subsidies under the CAP is a real possibility from both a political and an economic point of view and such reduction will result in lower prices for sugar exported by the ACP countries to Europe. Politically, Britain strongly wants to reduce these subsidies for its national interest. Economically,the European Union has gone from a deficit sugar producer in 1975 to a surplus producer currently. It is now paying a higher price for ACP sugar and obtaining a lower price for its sugar on the world market. And so, the economic pressure is even stronger for lower sugar prices to be paid to the ACP countries. Mauritius, as the largest beneficiary of the Sugar Protocol, stands to lose the most from this eventuality and must be prepared for the consequences.

Next, how will any new Multi-Fibre Agreement affect the entry of textile products from Mauritius into the E.E.C.? Although Mauritius had to some extent "successfully" industrialised, one must not forget that it is an industrialisation driven mainly by textile products.

Thus, important policy responses will have to be provided to the above possibilities, as the whole future of the economy hinges upon them. So, in the next section we will discuss some possible policy options being contemplated for the economy.

6. DEVELOPMENT POLICY

As has been mentioned above, the three pillars of the economy of Mauritius are the sugar sector in agriculture, the EPZ (mainly textile) sector in industry and the tourism sector. We shall discuss briefly the current government policy for each of the sectors and then the macro-economic framework surrounding these sectoral policies.

The common feature of the sugar producing sector and the textile sector of the economy is that they are both the dominant products in their respective industrial sectors usually having an importance of more than 80%. The sensible development strategy required and the development policies flowing from such a strategy seem to logically point in the direction of both agricultural and manufacturing diversification.

With respect to the agricultural sector, much encouragement and incentives are being provided to non-sugar production. The ambition of a former Prime Minister to produce one ton of sugar per inhabitant of the economy is already a long lost dream because sugar production has already reached both its physical and technological limits. No more physical land is available for more sugar-cane plantation and the sugar-cane varieties best suited to the climatic conditions of the island are already being used in the fields. A certain amount of agricultural diversification has already taken place with the production of potatoes, peanuts, and peas in the "inter-lines" of the sugar cane fields. But these crops are mainly for domestic consumption. What is needed is some other crops which can earn export income. Thus the production of fruits (especially fresh tropical fruits such as letchis, bananas and mangoes), other vegetables and flowers is being seriously looked into. Horticulture is believed to play an important role in the future. So policies are to be formulated by the government in the order to provide the appropriate environment for a successful agricultural diversification. These would provide answers to the amount of sugar to be produced, the use of sugar byproducts (e.g. “bagasse” to produce electricity) and the new crops to be produced on a sufficiently large scale for export purposes.

In the manufacturing sector, a similar diversification policy is required to move away from too much dependence in textiles; this does not mean that the goose that lays the golden eggs should be pushed aside and neglected but in parallel, other industrial products are to be promoted. It would seem that leather goods, jewellery, electronics, informatics, optical goods and agro-industries could become more important sectors in the future.

Again policies need to be framed to provide the right kind of labour for these new industries as well as foreign market prospects.

Another important aspect of manufacturing diversification is to eliminate the differences of treatment between E.P.Z. and non E.P.Z. industries in terms of incentives and taxation policy. Thus quite a number of policy issues need to be faced.

With respect to the tourism sector, two important policy issues have to be addressed, especially with the rapidly increasing trend in the number of tourists visiting the country. The first issue is to maintain the select clientele, who are high-spending tourists and to avoid mass tourism and the other issue is the environmental issue, in both a physical and social sense.
As for the macroeconomic context, public financial stability is still an important policy objective as well as appropriate monetary and exchange rate policies. Wages and price policies must also ensure that the international competitiveness of Mauritian products is not adversely affected. Macroeconomic policy must also provide a good climate for investment in both physical and human factors of production in order to increase labour productivity in the economy, and be more competitive in the world market. Thus the road to sustained development has to necessarily go through higher productivity in the economy.

NOTES:
(1). See specially TOUSSAINT(1974),(1972).
(2). Government of Mauritius: Report on Mauritius,1967.
(3). See FINDLAY & WELLISZ(1993).
(4). See Report on Mauritius,1967.
(5). See Appendix 2.
(6). See Government of Mauritius, Ministry of Planning & Development: 1970-1980 Development Strategy for full employment.
(7). IBID.
(8). Government of Mauritius: Five-Year Plan 1975-80,p.2.
(9). 1976 was indeed a watershed year because it marked the downturn of the boom sugar prices and a reduction in the sugar output due to cyclone Gervaise in 1975; It was also general elections year when the first general elections after independence were held after having been postponed for a few years.
(10). Government of Mauritius: Two Year Plan,p.57.

APPENDIX I. INCENTIVES UNDER THE DEVELOPMENT CERTIFICATE SCHEME.

Companies awarded a Development Certificate (D.C.) enjoy the following fiscal and financial incentives and advantages :

(1). Protective import duties for infant industries.
(2). Suspension of import duties on materials and equipment not locally available.
(3). Rebates of import duties on other raw materials and components for specified industries.
(4). Customs' drawback of import duties on materials and components subsequently re-exported in finished products.
(5). Import quota protection of up to 80 percent of the market.
(6). Initial depreciation allowance of 40 percent of plant and 20 percent on industrial buildings.
(7). Corporate income tax holidays of 5 years if the benefit of initial depreciation allowance is utilized and 8 years with normal depreciation allowances.
(8). Exemption from payment of income tax on dividends for a period of 5 years.
(9). Long term loans at favourable rates from the Development Bank of Mauritius for up to 50 percent of long term capital employed.
(10). Lease of standard factory buildings at subsidised rates.
(11). Free repatriation of profits.

SOURCE: Government of Mauritius, various publications.

APPENDIX 2. INCENTIVES UNDER THE EXPORT PROCESSING ZONE SCHEME.

Companies awarded an Export Processing Zone (E.P.Z.) Certificate are called export enterprises and enjoy the following fiscal and financial incentives and advantages :

(1). Complete exemption from payment of import duty on capitalgoods (i.e., machinery, equipment and spare parts).
(2). Complete exemption from payment of import and excise duty on raw materials, components and semi-finished goods (except spirits, tobacco and petroleum products).
(3). Corporate income tax holiday for a minimum of 10 years and maximum of 20 years, depending on the merits of each case.
(4). Exemption from payment of income tax on dividends for a period of 5 years.
(5). Free repatriation of capital and remittance abroad of profits and dividends to companies with an approved status.
(6). Electric power at preferential rates.
(7). Loans at preferential rates (from commercial banks) for the importation of raw materials.
(8). Provision of reinforced factory buildings for use by industrialists.
(9). Loans of up to 50 percent of total building cost for a 10 year period.
(10). Favourable labour legislation to assist export industries to meet their export objectives.
(11). Export finance at preferential rates of interest from commercial banks.
(12). Exemption from payment of crane and other harbour-handling dues chargeable by Government on imported content of export products.
(13). Exemption from payment of registration fees on lands and buildings purchased by new industrial enterprises.
(14). Leases at preferential rates of land in the vicinity of certain housing estates.

(15). The issue of permanent residence permits to promoters and shareholders as warranted by the size of their interest.
(16). Completion within 24 hours of Customs inspection of incoming or outgoing commodities.
(17). Priority, wherever possible, in the allocation of investment capital by the Development Bank of Mauritius.
(18). The services of the Government Foreign Trade Unit are made available to facilitate access to foreign markets and provide market information to exporters.
(19). Government contribution to the cost of approved trade missions, trade fairs and collective advertising.
(20). Direct negotiation by the Government with shipping and airlines for favourable terms of freight.
(21). Exemption from income tax on profits earned from foreign investments in Mauritius if these are not transferred but are re-invested in Mauritius.
(22). Immediate issue of import licences for machinery, and raw and semi-finished materials and export licences for the finished products.
(23). Guarantee against nationalisation (Sessional Paper No.2 of 1963).
(24). Equitable settlement of disputes assured by the Government's adherence to the Convention on the Settlement of Investment Disputes administered under the auspices of the International Bank for Reconstruction and Development.

SOURCE: "Mauritius - Export Processing Zones", Ministry of Commerce and Industry, Government of Mauritius, February 1973.

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