Knowledge, Technology and Growth: The Case Study of Textile and Clothing Cluster in Mauritius

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Textiles and Clothing Clusters in Mauritius

Brief introduction
Over the last 25 years Mauritius has known an impressive economic achievement which has improved the living standards of the citizens in the ways of modernisation and a window over the world. Its outward-oriented strategies have transformed this small low productivity agricultural island into a significant exporter of manufacture-based economy within a very short period of time. With a GNI per capita of Rs 140,856 (US$ 5,030) in 2004, Mauritius is categorised as an upper-middle income economy. The two sectors that have boosted up the manufacturing performance of the Mauritian economy are the sugar milling and the clothing sectors. However, the textile sector is now at stake and it means that other new sectors would probably come into view.

The textile and clothing sector appeared in the government’s agenda for the first time in Mauritius in the Meade’s report in the 1960’s. James Meade conducted a study on the Mauritian economy to find a solution for diversifying the sugar-based mono-crop economy. Meade advocated for the setting up of labour-intensive industries if Mauritius did not want to fall into the problem of ‘Malthusian Trap’.

The clothing sector in Mauritius plays an important role in the economy in terms of employment, foreign exchange earnings and share in GDP. In 2003, around 65,000 people, that is, more than 60 % of the manufacturing labour force was engaged in the Mauritian clothing sector. As a share of GDP in 2002, it accounted for 22.4 %. In 2001 wearing apparels accounted for around 56% of Mauritius’ total exports of goods and around 82 % of total manufactured exports.

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1 Summary prepared by Sawkut
Profile and organization of the cluster/sector

The textile and clothing sector of the Mauritian economy can be regarded as having gone through two phases. The first phase is during the 70’s when the Export Processing Zone started. It was during these years that the very first textile and clothing firms started to open in Mauritius. However the growth in number of firms and job creation in this sector became stagnant very quickly. The second phase started with the boom in the textile sector in 1983. During the 80’s and early 90’s textile and clothing firms begun mushrooming all around the island. Foreign investors were attracted to Mauritius because of a pool of educated unemployed labour at cheap rates and the investment-conducive environment set up by the government. The number of firms in the textile and clothing sector rose from 74 in 1983 to 435 in 1988. However, in the 90’s due to full employment of labor conditions, the wage rate of labour in the textile and clothing sector began to increase and labour had to be imported to increase production. Firms started complaining that high wage rates are rendering their exports uncompetitive.

Since January 2005, the Mauritian textile and clothing sector entered a new phase- a third phase- due to changing world trading conditions in the textile sector. Firms will have to be even more competitive to trade at international level. The MFA phase out effect has been felt even before January 2005. This is due to the fact that some importers have shifted their imports towards lower cost producers even before the MFA phase out to take full advantage of the phase out. The value of garments exports for Mauritius, in the year 2003 decreased by around 10 % compared to the year 2002. Table 1 below shows the evolution of the number of firms in the textile and clothing sector in Mauritius during the period March 2000 to June 2005 while table 2 shows evolution of employment level over the same period.

Table 1: Number of textile and clothing firms (2000-2005)

<table>
<thead>
<tr>
<th>March</th>
<th>March</th>
<th>March</th>
<th>March</th>
<th>June 2004</th>
<th>June 2005</th>
</tr>
</thead>
</table>
As can be seen from the above two tables, the number of firms and the number of employees have been decreasing throughout over the reported period. During the period March 2000- June 2005 the number of firms in the textile and wearing apparel sector fell from 420 to 260 and the number of employees in that sector fell from 82020 to 55990. Some more firms are in the process of closing down, which means more job losses in the near future. In December 2004, the number of firms stood up at 265 and a level of employment of 67,249, of which 13,792 are expatriates. Compared to the year 2000, this implies that the number of firms in the textile and clothing sector fell by 7 % whereas the number of jobs fell by 17 %.

Although the bulk of activities in the textile and clothing sector of Mauritius are geared towards the manufacture of ready made garments (94 % of total textile and clothing exports in 2004), yet the importance, though minimal, of spinning and weaving firms on the local market should not be left out. In 2004, there were 4 firms in the spinning sector.
and 3 firms in the weaving sector (1 of them overlapping in both). These figures should be compared to the 224 firms in the ready made garments sector. Within the ready made garment sector, the product base is fairly narrow with only four main products produced and exported accounted for 91% of clothing exported in 2004. They are T-shirts (43%), pullovers (19%), shirts (12%) and trousers (18%).

The quality component of different product lines as at 2004 are shown in table 3.

<table>
<thead>
<tr>
<th>Apparel</th>
<th>Knitwear (Pullover)</th>
<th>Light Knits (T-Shirts)</th>
<th>Bottoms</th>
<th>Shirts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up-market</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td>65%</td>
</tr>
<tr>
<td>Intermediary</td>
<td>80%</td>
<td>20%</td>
<td>80%</td>
<td>35%</td>
</tr>
<tr>
<td>Basic</td>
<td>60%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: JEC/MEPZA

The more the production of these products fall under intermediary and basic, the higher the competition Mauritius have to face from cheap labour producing countries. Apart from the production of shirts, the production of the other 3 products has around 80% of production in Intermediary and basics. One of the strategic approach to survive in this wearing apparel market is to move upmarket into high end high value added products where price competition is less severe and the products fall under “short supply” category.

As at 2004, as in previous years, in fact since the beginning of 1990’s, exports of Mauritian clothing is mainly geared towards three markets which accounts for more than 80% of total clothing exports. The three markets and their respective shares in 2004 are: U.S.A with a share of 29.3 %, U.K. with a share of 28.4 % and France with a share of 24.1 %.

Lall and Wignaraja (1998)² while studying the export competitiveness of the Mauritian economy argued that Mauritius is exceptionally vulnerable since not only it is heavily dependant on few products but also over 80% of its manufactured exports come from one

² Mauritius: Dynamising Exports Competitiveness
product group-clothing. Within the clothing sector, they argue that once exporters’ wage cost advantage is exhausted, export growth will depend upon the ability to add value by backward integration (into textiles) and, within clothing, to upgrade quality and flexibility. And to upgrade quality in garment, investment is required not just in equipment, but also in organizational and labour skills and quality management, design, marketing and response capabilities.

Jhamna M. (2000)\(^3\) carried a survey to study the clothing sector of Mauritius. He ranked the problems that garment manufacturers based in Mauritius face. Table 3 below outlines his findings:

<table>
<thead>
<tr>
<th>PROBLEM</th>
<th>RANKING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rise in Wages</td>
<td>1st</td>
</tr>
<tr>
<td>Limited pool of Labour</td>
<td>2nd</td>
</tr>
<tr>
<td>Potential loss of Markets</td>
<td>3rd</td>
</tr>
<tr>
<td>Ability to Adapt to Technological Change</td>
<td>4th</td>
</tr>
<tr>
<td>Low Productivity</td>
<td>5th</td>
</tr>
</tbody>
</table>

Source: Adapted from Jhamna (2000)

In his analysis he was also concerned with the relocation policy of firms. He ranked the reason put forward by his interviewees concerning relocation of firms and the reasons are displayed in table 4 below.

<table>
<thead>
<tr>
<th>FACTORS</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Wages</td>
<td>1st</td>
</tr>
<tr>
<td>Investment Incentives</td>
<td>2nd</td>
</tr>
</tbody>
</table>

\(^3\) Restructuring the clothing industry in the light of new trade agreements.
Taking tables 3 and 4 into account we see that the problem of high wages in Mauritius is the main factor causing firms to relocate in other countries like Madagascar and Mozambique. We believe that low wages is ranked first because the firms still have a priority to produce basic and cheap range of garments. In 2002, the firms were facing the difficulty of a limited pool of skilled labour available. But today, there exists a pool of around 20,000 workers who were laid off from the textile and clothing sector and they are looking for jobs. Lack of investment incentives and government support are the next factor causing firms to think about re-locating their firms. In the section policy and incentives below, we outline the main incentives given to firms in recent years.

Samson Muradzikwa (2001)\(^4\) studied the Southern African Regional Clothing and Textile Industry. He compared Mauritius, Malawi and Zimbabwe in his study. He presented the hourly labour cost differences for the year 1997, for a number of countries and the following table is adapted from his work.

### Table 5: Hourly Costs of Unskilled Labour in the Textile Industry, 1997

<table>
<thead>
<tr>
<th>Region</th>
<th>Country</th>
<th>Unskilled Labour Cost (US$ per Hour)</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECD</td>
<td>Germany</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>UK</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>USA</td>
<td>14</td>
</tr>
<tr>
<td>Non-OECD Europe</td>
<td>Hungary</td>
<td>2.4</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Country</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>2</td>
</tr>
<tr>
<td>Asia</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>0.55</td>
</tr>
<tr>
<td>India</td>
<td>0.65</td>
</tr>
<tr>
<td>SADC</td>
<td></td>
</tr>
<tr>
<td>Malawi</td>
<td>0.52</td>
</tr>
<tr>
<td>Mauritius</td>
<td>0.95</td>
</tr>
<tr>
<td>South Africa</td>
<td>2.35</td>
</tr>
<tr>
<td>Zambia</td>
<td>0.95</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Source: adapted from Samson Muradzikwa (2001)

In terms of labour costs, clearly Zimbabwe has advantages over its counterparts both in the SADC region and over other non-SADC region.

The first textile and clothing cluster in Mauritius was realized on the 7th Oct 2002. It regrouped 17 firms. This cluster was formed after a year of research and discussions with different parties and stakeholders. This cluster was formed with the initiatives of the National Productivity and Competitiveness Council (NPCC) and in collaboration of various institutions at national level and the private sector. This textile cluster is too young to conclude on the extent to which it is successful although it is working properly.

**Knowledge (including human skills) and technology aspects of the industry/cluster**

A report prepared by the Ministry of Manpower Resources and Vocational and Technical Training, in 1994, emphasized the importance of technical know-how and highlighted the low educational level of the textile and clothing sector’s operatives, who, for the most part, had come from the sugar industry. The main recommendation of the

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5 A productivity implementation committee was set up in 2001. The institutions, both at public and private level are: The ministry of Industry, Commerce and International Trade, Ministry of Training, Skills Development and Productivity, Board of Investment, Export processing Zone Development Authority, Industrial and Vocational Training Board, Joint Economic Council, Mauritius Chamber of Agriculture, Mauritius Chamber of Commerce and industry, Mauritius Research Council, Mauritius Industrial Development Authority, National Productivity and Competitiveness council and the Small and Medium Industries Development Organisation.
A survey prepared for the Industrial and Vocational Training Board (IVTB) in 1997 identified most of the shortcomings in skills and training and recommended more active participation by the board in the human-resources development for the sector (CITA 1997). It also suggested what the board should do to improve labour productivity. The board now coordinates a network of vocational training institutes and cooperates with major international institutes to ensure training in the most modern and sophisticated technologies. It also offers a Higher National Diploma in fashion and design.

There are a number of other institutions which offer courses related to the textile and clothing industries. For instance,

- The Clothing Technology Centre, the technical arm of the Export Processing Zone Development Authority (EPZDA), utilizes qualified experts in textile and clothing from Mauritius or abroad to teach a variety of courses year round, for example:
  - industrial pattern making,
  - circular knitting,
  - optimal sewing methods,
  - screen printing, and
  - line management.

- The textile technology department of the University of Mauritius also offers B.Sc. degrees in textile technology and textile fashion and design; and

- The Manchester Metropolitan University offers a Higher National Diploma/B.Sc. in clothing production management in collaboration with the Professor Basdeo Bissoondoyal College.
At least five training institutions are registered with the Industrial and Vocational Training Board to cater for training needs in textiles and clothing while the tertiary educational sector caters for middle management positions in design and production of textiles and clothing.

The National Productivity and Competitiveness Council (NPCC) carried out an analysis of the textile and clothing sector of Mauritius in October 2003. The objective of their study was to formulate a corporate diagnosis of individual companies, using performance benchmarks, to identify their strengths and weaknesses in areas such as management, organization production, finance and marketing. They used the Ramsey Productivity Models (RAPMODS) which is a tool for measuring the contribution of each unit of input to final output.

The assessment of the productivity indicators and the meetings with enterprises confirmed that the majority of enterprises in the textile and garment sector that are performing poorly are having difficulties, to varying degrees, in these main areas:

- Materials utilisation and procurement
- Productivity planning and budgeting
- Human resource management
- Financial management
- Inventory management
- Technology enhancement
- International marketing
- Competitive pricing

Further discussions with enterprises revealed a number of issues affecting enterprise reactivity and performance, namely:

- Excessive delays in loan processing from banks
• Availability of collateral securities for loans
• High interest on loans, overdrafts and penalty costs

Some enterprises have developed innovative approaches to address a few of the constraints confronting them:

• 7 companies are pooling to reduce freight costs
• Other enterprises are:
  o Reducing interest on loans by borrowing in foreign exchange
  o Implementing lean manufacturing or already restructuring to improve enterprise productivity
  o Improving lead times through restructuring, reducing unnecessary delays and reducing the reliance on more expensive air freight
  o Expressing interest to share orders with other enterprises due to low capacity

Similar positive experiences and the opportunities they represent have to be shared, multiplied and supported throughout the industry. They represent opportunities for improvement that can be tapped with little or no significant monetary investment on the part of enterprises.

The main indicators for the industry show that, on average:

• Small and medium sized firms (SMEs) have been investing more than the bigger ones as shown by the Average Fixed Assets which increase in the smaller sample
• SMEs have been slightly more productive
• SMEs have on the whole higher capital productivity

The Total Productivity Measure\(^6\) (TPM) for the industry in 2002 was 0.9706, a decline from 1.0119 in 2001. This is due to input costs rising faster than output. This would tend

\(^6\) The Total Productivity Measure (TPM) shows the amount of output generated by each rupee spent. If the TPM is less than 1, it means losses are being made – the enterprise is not using effectively its various inputs and factors of production. To produce an output
to show that the clothing industry on aggregate is not productive. However, a breakdown of the indicators reveals that performance is uneven from one enterprise to another, from one product group to another, from one size to another. The industry is not homogeneous and this makes it risky to prescribe across-the-board solutions.

**Policy and incentives**

The textile and clothing sector has always been given incentives from government institutions since the beginning of 1980’s. We will, however, concentrate on the recent incentives taken by the government. We will note here that most of the incentives and policies of the government are towards increasing competitiveness of all manufacturing firms and the same applies to textile and clothing firms. There are very few policies geared towards just the textile and clothing sector.

Before talking about the policies, lets us first mention the creation of Enterprise Mauritius. Enterprise Mauritius was incorporated on the 22nd October 2004 under the Companies Act 2001 as a public company. Its primary purpose is to provide seamless and responsive services to Mauritian enterprises within an integrated framework with a view to enhancing their capability and competitiveness. The establishment board developed the core strategy and defined the main objects of Enterprise Mauritius as follows:

- To act as technology watch and a focal point for technology diffusion
- To provide market information, develop competitive intelligence and cater for export promotion
- To identify, track and co-ordinate skills needs and trends
- To facilitate strategic partnership and networking
- To provide advisory services on enterprise development
- To provide consultancy services

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the enterprise has to buy inputs from outside (these are represented as MI in the model), which are then converted to give the final product. Thus, there are expenses related to conversion (CSI). The formula for obtaining the total productivity is as follows:

\[
TPM = \frac{RSO}{TSI}
\]

Where TSI = MI + CSI
To carry out such other activities conducive to the attainment of the above objects.

The recent initiatives are the following:

1. **Small and Medium Enterprise Scheme**

   This scheme aims at promoting the development of SME's and at integrating them into the industrial landscape. It applies to enterprises whose production equipment does not exceed Rs 10 million in value. Under this scheme, the incentives given to the manufacturing firms are:
   
   - No customs duty on production equipment
   - 15% corporate tax
   - Concessionary loan schemes in order to facilitate access to finance
   - Existence of SME industrial estates equipped with IT facilities

2. **Export Enterprise Scheme**

   The Export Enterprise Certificate is granted to export oriented enterprises, which export their entire production although authorisation to sell a small percentage on the local market (10% to 20%) may be obtained, depending on the nature of the industrial activity. Under this scheme, the incentives given to the firms are:

   - Duty-free import of raw materials and equipment
   - Corporate tax of 15%
   - Tax free dividends
   - No capital gains tax
   - Free repatriation of profits, dividends and capital
• 60% remission of customs duties on buses of 15-25 seats used for the transport of workers.

• Concessionary registration fee on purchase of land and buildings by new industrial enterprises.

3. **Strategic Local Enterprise Scheme**

This scheme is intended for local manufacturing enterprises, which contribute to the economic, industrial and technological development of the country. Under this scheme, the incentives given to the firms are:

• 15% corporate tax

• No tax on dividends

4. **Modernisation and Expansion Scheme**

This scheme aims at accelerating the modernisation, expansion and diversification of existing manufacturing enterprises by encouraging them to invest in modern equipment, computerisation and pollution control technology. Under this scheme, the incentives given to the firms are:

• No customs duty on production equipment

• Income Tax credit of 10% (spread over 3 years) of investment in new plant and machinery provided at least Rs. 10 million are spent within two years of date of issue of certificate. This is in addition to existing capital allowances, which amount to 125% of capital expenditures

• An additional allowance of 30% over the normal initial allowance of 50% on investment made on anti-pollution machinery or plant
Roles and activities of the Industrial and Commercial Institutions in the development of a number of industries including the textile and clothing industry

The Mauritius Industrial Export Development Authority (MIDA) has the responsibility for export promotion and the construction of industrial buildings. It also provides market intelligence through the Trade Information Centre, helps to organize the Mauritius International Clothing and Textile Exhibition, and has several overseas offices to promote exports from Mauritius.

There has been a new wing created at the Board of Investment, called Investment Promotion Department to cater for investment-promotion activities. It helps potential investors and existing industrialists to identify investment opportunities, joint-venture partners, land, and factory buildings and to obtain the various clearances required prior to start-up.

The Mauritius Chamber of Commerce and Industry is the leading private-sector organization involved in the promotion of trade, industry and tourism. It is also a privileged spokesman of the private sector vis-à-vis the government and other bodies. The chamber provides services mainly related to procedures for customs, imports and exports and is an efficient provider of information about import and export markets.

The Mauritius Export Processing Zone Association (MEPZA) is also a private sector institution. Its role is to sustain, promote and develop export activities, quality awareness, organize workshops and runs training programs for its members. The association has about 130 members operating mostly in the EPZ.

The mission of the Export Processing Zones Development Authority (EPZDA) is to provide support to existing enterprises so as to enable them to reach international standards of competitiveness. This institution provides services such as technical assistance, training, documentation and consultancy to enterprises. As such, its objective
is to enable the export oriented sectors of the economy to acquire the skills, technical and managerial, needed for the successful transition of the country from a labour abundant to a skills abundant nation.

The *Small and Medium Industries Development Organisation (SMIDO)* has been set up to help to develop small and medium enterprises (SMEs). It acts as a facilitator and advisor to SMEs in all sectors, including textiles and clothing and provides various schemes and grants to help to modernize SMEs.

**Key success factors**

The success of the textile and clothing industry of Mauritius lies on three fundamental aspects:

- Conducive environment for Investment
- Exogenous factors
- Preferential Trading Arrangements

**Conducive environment for Investment**

Since the 1970’s, the government has implemented policies that have provided a conducive environment to the private sector to be the propeller of the economy. Export promotion began with the enactment of Export Processing Zone (EPZ) Act in 1970. The EPZ was launched in 1971. The act provided incentives and concessions to enterprises exporting their products, as for instance, 10-year tax holiday rebates.

As part of the process of liberalising the economy, the government’s successfully implemented five successive stand-by arrangements and two structural adjustment programmes between 1980 and 1986 which put in place the preconditions of sustainable export led growth.
In 1983, the government established the Mauritius Export Development and Investment Authority (MEDIA, now MIDA) to undertake investment missions and export promotions to boost the number of foreign investors and exports value.

The devaluation of the rupee which created a realistic exchange rate helped to make exports internationally competitive. The rupee was devalued by 30% in 1979 followed by a further 20% rupee re-adjustment in 1981.

During the 1980’s Mauritius had a pool of semi-educated labour which was available at a cheap rate. Although the majority of the available labour was unskilled, they were very versatile and adapted themselves easily to working conditions in the textile sector. Investors, mainly from abroad, successfully took advantage of this readily available labour force by setting up textile and clothing firms.

**Exogenous factors**

The success of the Mauritian textile and clothing sector is partly attributed to factors besides the control of Mauritian authority. Some of such factors which have positively contributed to the growth of the Mauritian economy, in particular the textile and clothing sector are:

- The products of low cost countries, especially Asian countries, fell under the MFA restrictions, during the 1980’s. Thus Mauritius did not have to face tough competition in its exports to the USA. Owing to the third Multi fibre Agreement signed in 1982, several countries had to face serious constraints in their exports. It is in this context that investors from Hong Kong came to set up their firms in Mauritius. This policy of relocation helped them in exporting to the EEC quota free and to take advantage of unexploited quotas to the USA.

- The country’s foreign exchange problem was eased due to a combination of lower and falling oil prices together with a lower debt servicing arising from the depreciation of the overvalued US dollar in 1984.
• During the same period Taiwanese investors set up industries in Mauritius because of an appreciation of the Taiwanese dollar and thereby a fall in Taiwan’s competitiveness on the world market.

• After 1984, demand in European and American markets increased sharply, particularly with the appreciation of the European currencies in relation to the Mauritian rupee causing Mauritian goods to become more competitive.

• During the 1990s, political uncertainty over the future of Hong Kong’s reintegration into China encouraged investors to look for a safe haven and they relocated to Mauritius bringing capital, marketing networks and technological know-how.

Preferred Trading Arrangements

Favourable terms of trade combined with ready market access to developed countries attracted foreign investors to set up their textile and garments firms in Mauritius. Investors, both domestic and foreign have successfully exploited the preferential market access granted by these countries, mainly the EU and the US under the Lomé Convention and the GSP (now AGOA) respectively.

The first Lomé Convention was signed in 1975. This Convention has been replaced by the Benin/Cotonou Convention in 2000 for a period of 8 years. According to this preferential trade agreement, ACP countries have duty-free and quota-free access for their exports to EEC countries. This convention thus bestows considerable advantages to Mauritius over non-ACP countries because the latter’s export of textiles and garments are liable to a 17% duty on entry into the EEC.

The Africa Growth and Opportunity Act (AGOA), enacted on 23rd of May 2000, provide qualifying Sub-Saharan countries with duty free access to the US market, and cover the 8-year period ending September 2008. The Act offers potentially vast benefits for qualifying African countries, while setting stringent and thorough qualifying conditions.

Lessons learned and policy implications
The conditions mentioned above as the pillars for the successful Mauritian textile and clothing sector are no longer the same. Although the policies implemented by the government still act as incentives for the private sector, there are changes in the exogenous and some of the endogenous factors. In fact, the government have over the years, been providing more and more incentives to attract investment in this sector.

Following the MFA phase out since January 2005, Mauritius faces a more severe competition on the world market as it has to compete with countries which were formerly restricted by a quota on the amount of their textile and clothing exports. In terms of market access, all countries are on the same level playing field, since January 2005. However, Mauritian exporters still benefits from the preferential tariff rates imposed by the importing country on exports from different countries.

On the US market, Mauritius still continues to benefit from duty free access for the exports of its clothing under the AGOA. This implies a tariff preference of around 17% to 18% compared to some textile and wearing apparel exporters, like China. The AGOA agreement will, however, phase out in 2008. For the next 3 years therefore, even if Mauritius produce and exports clothing at a cost of 18% higher than China and any other countries which have no preferential tariff treatment, Mauritius can still compete with them. However the immediate competitors for the Mauritian wearing apparel exports in the US market until 2008 are those countries who equally benefit from some kind of preferential tariff treatment, be it AGOA or any other type of preferential agreement on duties, such as CB countries under the Caribbean Basin Trade and Partnership Act (also known as CBI) and Mexico under NAFTA.

On the EU market, Mauritius will continue to benefit from duty free access for its exports of wearing apparels until 2008 under the Cotonou Agreement⁷. This implies a tariff

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⁷ The Cotonou Agreement maintains the existing regime of trade between EU and ACP countries for a preparatory period of 8 years (2000-2008), after which trade liberalization will be started for a transitional period of 12 years. Refer to the following website on details of the Cotonou Agreement: [http://europa.eu.int/comm/development/body/cotonou/overview_en.htm](http://europa.eu.int/comm/development/body/cotonou/overview_en.htm)
margin of around 12% (EU MFN tariff rate on clothing). The EU has such an array of preferential agreements in one form or another that only 10 countries worldwide are subject to the full most MFN treatment. Like Mauritius, other ACP countries are signatory of the Lomé/Cotonou Agreement and therefore have duty free access for their exports to the EU market. The ‘Everything but Arms’ (EBA) initiative provides tariff and quota free access to the EU market for almost all products from Least developed countries (LDCs). Manifestly, Mauritius does not fall in this category. The recent enlargement of the EU, (2004), also act as a hindrance to its wearing apparels exports in the EU as more countries can trade freely within this group. The immediate competitors in the EU market for Mauritian garment exports will be a spectrum of countries having duty free access to the EU for their garment exports.

After the phasing out of the Cotonou and AGOA preference agreement in 2008, Mauritius will most probably, cease to benefit from the tariff preference margin in both EU and USA markets. Like Mauritius, other countries currently benefiting from these two preferential agreements will suffer. But what is more challenging for Mauritius is that other countries currently benefiting from other preferential agreements in these two markets (e.g. Mexico will continue to be in NAFTA) will continue to benefit from those preference even after 2008, and Mauritius will therefore, have to be much more competitive after 2008 to compete with such countries.

The available labour force in Mauritius is now more educated, skilled and more expensive to hire. It is important to note that Mauritius although wage rate has increased, so has productivity of labour.

Hourly Labour Cost, as shown in Table 6 has been increasing at an average growth rate of 5% per annum over the period 1990 to 2000. This has lead to an erosion of competitiveness overtime.

| Table 6: Hourly Labour Cost (US$). |
Not only has there been a sharp increase in the wage level during the years, but also when compared to some Asian countries, the wage level for Mauritius has become much higher. Consider table 7 which shows Hourly Labour Cost in US$ terms in the textile industry in 1998.

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<tbody>
<tr>
<td></td>
<td>0.76</td>
<td>0.88</td>
<td>1.02</td>
<td>1.02</td>
<td>1.14</td>
<td>1.26</td>
<td>1.20</td>
<td>1.20</td>
<td>1.14</td>
<td>1.13</td>
<td>1.17</td>
</tr>
</tbody>
</table>

*Source: Central Statistical Office, Mauritius*

<table>
<thead>
<tr>
<th>Country</th>
<th>2002 Hourly Labour Cost (HLC) in $US, Comparison across Countries, 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Madagascar</td>
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</tr>
<tr>
<td>Bangladesh</td>
<td>0.39</td>
</tr>
<tr>
<td>S. Lanka</td>
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</tr>
<tr>
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</tr>
<tr>
<td>India</td>
<td>0.38</td>
</tr>
<tr>
<td>China</td>
<td>0.68-0.88</td>
</tr>
<tr>
<td>Mauritius</td>
<td>1.25</td>
</tr>
</tbody>
</table>

*Source: The Present State of the Economy: Government of Mauritius & CSO.

Mauritius has an HLC of more than two times that of India and China and also, a productivity level below these countries. Tagg (2002) considered labour productivity in terms of pieces per operator per day and noted the following results: 18 in Mauritius, 18.2 in Taiwan, 19.8 in Thailand and 20 in China.

Therefore the Mauritian wearing apparel industry faces a very serious difficulty: its productivity is lower than its competitors whereas unit labour costs are higher. Although unit labour cost is not the only cost factor, we still emphasize on it because the production of wearing apparels is highly labour intensive and labour cost consist of a significant share in total production cost.

We believe that the skilled-labour factor should be regarded as an asset that needs to be protected in the search for improved competitiveness. Mauritius is working towards positioning itself to remain an important supplier of quality products. Competing with giants like China and India in lower end products is out of question. Mauritius should take the opportunity to find a place as a niche producer in the fashion market and in other

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segments of the industry where the use of technology is intensive. Advanced technology based production complemented with the educated and skilled labour force existing in Mauritius should open a widow for successful production and exports of high end products. The Mauritius Export Processing Zone Association has identified four principles on which the Mauritian textile and clothing firms’ production should be based. They are:

- Producing the right product
- At the right price
- At the right time
- Under the right conditions

Producing the right products calls for training and multi-skilling the existing labour force and the development of quality awareness among both producers and employees. At national level, the government recently initiated a training scheme - programme “Training scheme for unemployed job seekers”. This was indeed an excellent initiative. However, some improvements are needed to better meet the current needs of the market. We believe that the training scheme should be more detailed at micro level so that labour can be trained in each and every task involved in the production process. If necessary, we should import the services of some highly skilled labour to train our labour force.

As we said earlier in this paper, labour cost is not the only important cost of production. Although labour cost in Mauritius is quite high compared to developing countries, the same cost when compared to countries producing high valued products seems to be low. Therefore producing at the right price does not necessarily mean at the lowest price (with the lowest wages). Strategies should be developed to reduce lead time, to use technologically advanced methods of production, to reduce cost on keeping huge stock volumes. Currently, in Mauritius, many firms are revisiting their market strategies in the light of changing worldwide textile consumption patterns, modifying production structures towards more integration and larger unit to benefit from economies of scale and to cope with a more concentrated demand. They can thus upgrade their technology
and enter the higher value-added market segments. Some initiatives that should be taken at the highest level to help clothing firms to restructure and adapt to the current market needs are the flowing:

- Awareness campaigns so that producers are aware of the opportunities open to them. For example exports under AGOA.
- Continuously search for potential markets and potential clients, to provide market information, to establish links with agents in the value chain, develop competitive intelligence and cater for export promotion.
- Provide training facilities to retrain and to multi-skill workers in the sector so that their productivity is enhanced.
- Set up schools of design so that designers and stylist with creative mind can be available in the market whenever needed. They would provide the necessary impetus in going up market and to create a niche market for a Mauritian brand.
- Set up schools of training so that firms do not face the problem of finding skill workers on the market, whenever required.
- Provide financial support at cheap costs to firms so that they can re-organize their plants, modernize and equip them with technologically-advanced production techniques.
- Commission studies at different levels and in different fields to understand the needs of the producers and their worries and then take actions accordingly.
- Commission clustering and benchmarking exercises on a large scale on a continuous basis. Benchmarking should not only be based on past performances of the firms, as the NPCC report for TEST 2003, but also firms’ vis-à-vis other firms in the industry.

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