

# **DEVELOPMENT STRATEGY FOR THE INDUSTRIAL SECTOR**

## **1. BACKGROUND**

1.1 Since independence in 1968, Mauritius has gone through two major policy phases, and is currently midway a third major phase, in its efforts to promote and nurture industrial development. The major economic phases are:

- (i) import Substitution Strategy in 1962 to reduce dependence on a basically monocrop economy;
- (ii) Export Expansion Strategy in 1970 owing to a rapid exhaustion of the exiguous domestic market;
- (iii) three-pronged policy phase 1998-2010, encompassing industrial deepening, export diversification and selected import substitution.

1.2 In less than a decade, this sector has transformed the structure of the economy and overcome unemployment by becoming the major provider of jobs. As a result mainly of the growth of the EPZ industries, manufacturing share of GDP stood at 21.5% in 2003 and its share of employment at 27.1%.

1.3 Since 1993 employment in large establishment has been declining. It is estimated that the unemployment rate of 2004 was around 8%. This rise in unemployment can be partly explained by consolidation taking place in the industrial sector. Inward investment has become more difficult to attract and the total number of EPZ enterprises has fallen from 585 in September 1991 to 499 in September 2004.

However, exports reached a level of Rs 33.4 bn in 2003. Industry, particularly the export-oriented part of it, has become a key element in the Mauritius of today and is sure to play a key part also in the Mauritius 2020.

## **1.4 Constraints**

With the globalization and liberalization of economies, the manufacturing sector is under increasing pressures to maintain and improve its competitiveness. In the wake of such circumstances, it is imperative to consolidate, diversify and modernize the manufacturing sector as well as to analyse the constraints/threats to the sector. These are

- (i) **Shortage of Trained Personnel** – The first phase of industrialization was rather based on availability of cheap labour and relatively low technology. However, as the economy tries to shift more and more from a labour-intensive to capital, technology & skills-intensive paradigm, it is confronted with a lack of an adequate pool of trained labour in specialized skills. The educational and vocational system has yet to be improved. Brain services areas such as software development and information technology have not achieved the critical momentum because of inadequate number of trained personnel.
- (ii) **Increasing Production Costs** – A shortage of labour is accompanied with upward pressure on wages. Labour costs in the EPZ sector now accounts for about twenty percent of the total production costs. This in conjunction with high interest rates has a direct bearing on the competitiveness of the products.
- (iii) **Exiguity of the Domestic Market** – The exiguous domestic market poses a structural constraint which impedes industries to achieve economies of scale unless they operate regionally or internationally. This constraint has prevented the implementation of several projects which were geared towards the local market.
- (iv) **Business Environment** – To sustain economic growth and improve competitiveness, the business environment must be facilitating one in that businessmen can operate without any unnecessary obstacles or red tapism. There is still room for improving the business environment. Better coordination between institutions, faster procedures, for example, with regard to authorization to invest and better services both in the public and private sectors would help to bring an enabling environment. Other constraints in the form of price control of certain commodities, dumping and anomalies in the Customs Tariff Act may result in resource misallocation and inefficiency.
- (v) **Internal Weaknesses at Enterprise Level** – The economy relies also on the contribution of the small and medium industries catering for the domestic market to generate employment opportunities and value added. However, many are characterized by a number of weaknesses such as obsolete technology, poor marketing techniques and managerial deficiencies.
- (vi) **External Environment** – The manufacturing sector is under constant pressures to adapt or perish in the wake of such challenges posed by the liberalization and globalization process. Thus the phasing out of the Multi-Fibre Agreement as from this year for example, will result in increasing competition from low cost and large volume producers such as China, India, Indonesia and Pakistan as well as increased competition for foreign

direct investment. In other words, a well-defined strategy has to be promoted for the manufacturing sector which will have to improve and upgrade in order to be regionally and internationally competitive.

2. **EMPHASIS ON A "NEW STRATEGY"**

About one half of the garment manufacturers in the domestic apparel industry operate in the low end of the market. Sharp competition from labour-surplus countries have raised doubts as to the long term viability of these low-end operations.

The new strategy therefore promotes consolidation, expansion and modernization, diversification and industrial integration. The aim is to encourage a shift towards production for the middle and upper segments of the global market.

(a) **Consolidation**

The move towards consolidation in the industrial sector has been facilitated by institutional support fostering industrial re-engineering and re-structuring.

The strategy has focused on promoting major factors like Total Quality, Productivity, Creativity, Innovation, Just-in-Time Delivery, higher technology and upgraded processes for industrial consolidation. The same objective has been promoted through product diversification within the textile sector.

(b) **Expansion and Modernisation**

The expansion and modernization processes have been initiated to propel the industrial sector into a new phase of development characterized by higher capital intensity, vertical integration, technological upliftment and enhancement of environmental friendly production.

(c) **Diversification**

The promotion of labour intensive activities has typically resulted in over-concentration in the textile/garment industry. The industrial sector needed a new dynamism and vigour through the broadening and diversification of the industrial base. An industrial targeting approach has been adopted in order to promote sectors like electronics, informatics, high fashion jewellery, high precision plastics, light engineering and support services.

The diversification process as a long term strategy should be dynamic in nature, allowing flexibility in the choice of product lines to be promoted.

(d) **Industrial Integration**

There has been a tendency for the various components of the industrial sector to operate separately with little integration among them. This situation stems to a large extent from the dual incentive and regulatory framework embodied in previous legislations. This duality has led to distortion in allocation of resources and an unnecessary fragmentation of the various industrial components. The Industrial Expansion Act has aimed at bringing about some element of industrial integration. The policy now is to review the industrial legislation and bring about the level playing field among the various industrial components so that resources will be directed to the most efficient and viable sectors. The integration strategy has the ultimate objective that in the long term the whole industrial sector of Mauritius becomes a modern, highly efficient, export-oriented sector, in which are integrated all the modernized components, that is EPZ and local industries as well as small and medium industries.

3. **DEVELOPMENT OF A COMPETITIVE ENVIRONMENT**

Government recognizes the fundamental importance of a competitive environment to enable development of a thriving and modernized industrial sector. The major thrust has been placed on a conducive regulatory and incentive framework, physical infrastructure development and easier access to capital. Achieving Smart Partnership between public and private sector is also of central importance for competitiveness.

- (a) **The Economic and Regulatory Framework** – The past economic and regulatory system as well as the investment incentive framework favoured a fragmentation of the industrial sector into domestic and export sectors and led to market rigidities as well as distortions in resource allocation.

Reforming the investment incentives into a unified scheme catering for both the export and import substitutes sectors is the longer term goal of Government. The aim is to remove the dualistic approach and put in place a non-specific tax regime for, inter alia, improvement in resource allocation, removal of rent-seeking activities and minimization of effective protection. Such a policy will be compatible with the WTO Agreement on "Subsidies and

Countervailing Measures" which places restrictions on sector specific subsidies.

- (b) **Physical Infrastructure** – At macro level, the supply of adequate and modernized infrastructural facilities will be ensured to meet demands for economic growth.

Government remains a major provider of such facilities constantly upgrading the port, airport, road network, island wide electricity and water supply and telecommunication facilities.

Government will ensure greater participation of the private sector through privatization and the Public Private Partnership Scheme to ensure the free play of market forces for enhanced efficiency and productivity.

At micro level, Government will upgrade infrastructural facilities for provision of quality and standards related services in the fields of metrology, standards, testing and quality. Accreditation of Laboratories and provision of technological infrastructure, for example, the Clothing Technology Centre will help to boost the long term viability of the industrial sector.

- (c) **Access to Capital** – The emphasis on higher capital intensity and technology driven activities has triggered need for more capital.

Government is fostering development of a modern capital market, liberalizing its activities and reducing the regulatory role of the Central Bank.

The past approach of lending to priority sector has been reviewed to favour allocation of capital on basis of project viability, efficiency and productivity.

Moreover, a new impetus will be provided to the SME sector through new financing projects.

- (d) **New Legislation** – The Industrial Expansion Act has given some good results for modernization and diversification. However, in recent years there has been considerable changes in the world trade and investment situation. Also, in the context of the WTO Agreement, there will be increasing pressure for Mauritius to review its investment incentive framework to bring about level playing field between EPZ and non-EPZ sectors.

It is therefore necessary to evolve a new piece of industrial legislation to take account of the new realities on the global market.

(e) **Government & Private Sector Partnership**

Mauritius is a free market economy where Government acts as a facilitator of economic activities and the private sector is the major operator in production and distribution. Moreover, Government has to intervene in activities where there are market failures or where economic return is negative.

The private sector is now given increasing opportunities to interact with Government in the elaboration of strategies and policies for economic development. The private sector is encouraged to participate in seminars, workshops and overseas missions on issues of national concerns.

With a view to achieving greater economic efficiency, Government is determined to create new opportunities for private investment in sectors such as energy, telecommunications and public infrastructure.

Government creates a suspicious free investment climate fostering private sector initiatives and secures their investment portfolio through good governance, political stability and provision of a transparent regulatory framework.

4. **ENHANCING COMPETITIVENESS**

Developing the new competitive edge require emphasis on productivity, diversification and quality enhancement.

- (a) **Productivity** – In recent years labour and capital productivity in the industrial sector have followed an upward trajectory yielding higher rate of multi-factor productivity. This has been due to the gradual shift from labour intensive activities to higher capital intensity and a better utilization of capital.

In future, productivity in the industrial sector will depend on factors like industrial re-engineering, technology deepening and skills development.

Government's strategy is to sensitize Mauritian on the productivity concept. The setting up of the National Productivity Council forms part of a long term strategy to promote the productivity culture in Mauritius.

At the same time, the EPZDA will continue to intervene at enterprise level providing assistance on aspects like improved production processes, better work management, total quality control, work measurement and improved production techniques.

Another dimension of EPZDA's activity consist of providing guidance and expertise on water effluent treatment, waste disposal and issues like minimization of reject rates as part of the long term focus towards enhancing productivity.

Government will also facilitate technology acquisition and diffusion for promotion of international best practices. Skills development will be promoted by Government encouraging enhanced participation of the private sector in on-the-job training.

The policy objective consists also of involving the industrial sector in the analysis of competitiveness problems and solutions and in the implementation of those solutions.

- (b) **Quality Enhancement** – Whether the strategy is to move upmarket to maintain market share, the dominant and uncomprising factor is quality.

Strengthening of institutional support and provision of technology support systems form a major component of Government's strategy. Government through the Mauritius Standards Bureau (MSB) aims at fostering acceptance and implementation of quality systems like the ISO 9000. The standardization standards and quality are considered of paramount importance for improving international competitiveness. Mauritius has adopted a comprehensive strategy for Metrology, Standards, Testing and Quality Assurance through the establishment of a first class MSTQ infrastructure at the MSB to service to public and private sectors.

Government needs now to spell out a National long term policy on standardization, quality assurance, metrology, testing and environmental management. For this purpose a first class Metrology, Standards, Testing and Quality (MSTQ) infrastructure has been established at the MSB. Government is also putting required facilities for accreditation of private sector laboratories.

Developed countries are establishing new standards, specifications or technical regulations to protect health, safety, welfare and the environment.

Mauritius is therefore adjusting its policies and actions so that domestic enterprises can meet these international norms of quality. The long term objective will be achieved through the MAURITAS which provides voluntary accreditation services to bodies involved in conformity assessment.

Much emphasis is laid on the conformity of manufacturing processes to the ISO 14000 series of standards. Government through the MSB will spare no efforts to promote these standards among industries and the service sectors for ecologically sustainable industrial development.

The ultimate objective is to increase overseas confidence in products manufactured with the Mauritian label and facilitate integration of our industrial sector into the global market.

- (c) **Creativity and Innovation in Design** – Government recognizes that the development of good design and fashion sensitive products are vital for success.

Through the EPZDA, the Government is creating the awareness inducing domestic enterprises to keep abreast of latest fashions.

- (d) **Technology**

Mauritius is moving into a new era of industrial development, positioning itself as a reliable supplier of upmarket products.

In the process, technology upgrading will be of fundamental importance for technical progress, cleaner production methods, enhanced quality and productivity.

The Clothing Technology Centre was set up with the long term objective of pushing the textile/garment industries forward in their drive towards modernization of production operations.

The Mauritius Research Council also contributes in the long term goal to promote research projects for application of state-of-the-art technology.

Another component of Government's strategy is to secure technical assistance from international institutions and implement programs like the Technology Diffusion Scheme for technology diffusion and the Techmart for technological innovation and technological partnerships.

Another feature of Government's policy is to promote application of Information Technology in the manufacturing sector particularly in areas of design, production, communication and marketing. In the long term the manufacturing sector will need to acquire the dimension of an information based sector with full utilization of CAD/CAM and other digitized functions to maintain the competitive edge on the export market.

- (e) **Human Resource Development** – The greater emphasis on competitiveness and diversification require the development of new skills as well as on-the-job training for enhanced work performance.

The IVTB has played an important role as a regulator and provider of training for the manufacturing sector. Notwithstanding such efforts, development in the industrial sector continue to be impinged by shortage of both general and specific skills.

The new approach to Human Resource Development now lays emphasis on cost effectiveness and demand-driven training. In the process, the private sector will need to play an enhanced role through in service on-the-job training. On the other hand, the IVTB will operate more as a facilitator than a provider of training.

Nonetheless, Government will continue to intervene in the training arena expanding the role of existing institutions like the University of Mauritius and improving polytechnic education. Support will be provided to new institutions to capture information on market needs for training and facilitate their matchings with supply-side response.

Overall in its effort to promote Human Resource Development, Government will also ensure that Mauritius does not conflict with the core labour social clause and that the industrial sector respects all norms pertaining to child labour.

## 5. **DIVERSIFICATION**

The diversification of markets and source of investment will continue to be a major goal of the long term industrial development strategy.

- (a) **Export Promotion**

The effort of MIDA is to further promote export to traditional markets and to tap new export outlets. The market diversification drive is geared towards the new EU members, Scandinavian countries, member states of SADC/COMESA, the Far East and countries like Russia and Australia.

MIDA has adopted a pro-active approach in its export-promotion campaigns. The objective is to bring the Mauritian suppliers closer to the target clients, focusing more on direct contacts.

MIATEX, a major component of MIDA's export promotion strategy henceforth promotes closer links with buyers in targeted markets.

The trade liberalization on the global scene will open new opportunities for the diversification process. Regional Cooperation through the SADC/COMESA, IOC and IORA also open new vistas to penetrate new markets.

(b) **Investment Promotion**

In Mauritius, foreign investors have played a significant role in the industrialization process. The industrial development strategy now focus on intensifying investment promotional campaigns to propel the new phase of skill and technology intensive development.

The image of Mauritius is being projected as a sound manufacturing base for upmarket garment manufacturing and capital intensive sectors like Printing, Information Technology, Pharmaceutical, Engineering and Jewellery.

Besides the traditional capital-exporting countries, Government through BOI will try to lure investors from new sources.

Besides the traditional arguments of good governance, political stability and a conducive business friendly environment, investors will be lured to our shores on the basis of our memberships to the SADC/COMESA.

(c) **Long Term Strategy**

As a long term strategy, Government is setting up Enterprise Mauritius, a public company to take over the activities of MIDA and EPZDA. The aim of this new organization is to provide seamless and responsive services to Mauritius enterprises within an integrated framework with a view to enhancing their development and competitiveness.

## 6. **DEVELOPMENT OF THE SME SECTOR**

The non-EPZ sector essentially comprises of the small and medium enterprises (SME Sector) which include some 4000 units with a work force of over 30,000 persons representing 6% of the total work force and accounts for some 10% of the GDP.

Government is now establishing a crucial role for the SME sector in the new phase of socio-economic development.

In view of the jobless growth situation in the country, the SME sector is called upon to be the major generator of employment opportunities in the economy. The sector will be a major avenue to absorb the new entrants on the labour market and open new vistas for the entrepreneurial class.

A culture of entrepreneurship is thus being promoted particularly among the new generation paving the way for self-employment.

SME's will be encouraged to adopt best practices, modern management techniques and upgraded manufacturing operations to be in line with other modernized components of the industrial sector.

Government will support the SME sector through programmes to enhance their technological capabilities and technical know-how as well as improve their access to finance. Since SME's are facing problems to identify suitable factory space, Government will also sustain the long term development of this sector through provision of industrial estates in specific regions of the country.

The ultimate aim is to develop an outward looking and modernized SME sector capable of creating the synergy with the other modernized components of the industrial sector.

## 7. **REGIONAL COOPERATION STRATEGY**

Mauritius now looks at the region as a potential market, a new source of raw materials for industrial development and a land of opportunities for re-location of our labor intensive industries. Therefore, regional-oriented activities appear to be the logical direction that is being undertaken.

The long term strategy towards regional cooperation will therefore focus on-

- Delocalisation of textile firms which cannot compete on the low end mass market common products. Textile appears to be the only manufacturing activity that allows Mauritian firms to go global. Although exporting from a national base is much more desirable but

in the context of intense competition, regional implantation is the next ideal solution. The drive to relocate our industries in countries like Madagascar, Mozambique and other African countries form part of this regional strategy.

- Identification of raw materials available in the region. This would enable local operators to think of either setting up production base broad or use the resources for processing in Mauritius.
- Dissemination of trade and other information that could give businessmen the necessary knowledge of the trade and investment opportunities of the region. Lack of information has been identified as a serious constraints to the flow of trade and investment.
- Continue to provide a platform that enables manufacturers and traders to meet e.g. the buyers/sellers meeting, trade fairs, business forum. Such contacts yield better results.
- Ensuring that the phasing out of tariffs and non-tariffs barriers take place in such a way that it does not harm the domestic sector and at the same time provides opportunities for local operators to capitalize on new export opportunities.
- Participation in the elaboration of a regional approach on industrial strategy which would take into consideration our national priorities.
- Geographical consideration require that attention be paid to neighbouring markets where Mauritius has several competitive advantages and where export prospects improve as economic liberalization continues. Our membership of SADC/COMESA/IOC/IORA will be a vital avenue in future to expand our exports and develop Mauritius as a manufacturing base for the region. For example, Mauritius can become a hub for IT operations in the COMESA. Also, consultancy can be a promising area of service exports to the African region.
- Our regional links will be a major instrument to foster technological development in Mauritius.