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Investment Policy Review

Mauritius

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The following symbols have been used in the tables:

Two dots (..) indicate that data are not available or are not separately reported. Rows in tables have been omitted in those cases where no data are available for any of the elements in the row;

A dash (-) indicates that the item is equal to zero or its value is negligible;

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A slash (/) between dates representing years (e.g.1998/99), indicates a financial year;

Use of a hyphen (-) between dates representing years (e.g. 1998-1999), signifies the full period involved, including the beginning and end of years.

Reference to "dollars" ($) means United States dollars, unless otherwise indicated.

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates.

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ABBREVIATIONS

ACP	Asian, Caribbean and Pacific
ACU	Asian Currency Unit
ADM	Asian Dollar Market
ASEAN	Association of South East Asian Nations
BOI	Board of Investment
BT	British Telecom
BIT	Bilateral investment treaty
CMT	Cut-make-trim
COMESA	Common Market for Eastern and Southern Africa
CSO	Central Statistical Office
DBM	Development Bank of Mauritius
DTT	Avoidance of double taxation treaty
DAEs	Dynamic Asian Economies
ECU	European Currency Units
EEZ	Exclusive Economic Zone
EPZ	Export processing zones
EU	European Union
EVA	Enterprise Value Added
FDI	Foreign direct investment
FFA	Forum Fisheries Agency
GDI	Gross domestic investment
GDP	Gross domestic product
GFCF	Gross Fixed Capital Formation
GNP	Gross National Product
HKSB	Hong Kong and Shanghai Banking Corporation
HKSE	Hong Kong Stock Exchange
ILO	International Labour Office
IOC	Indian Ocean Commission
IOR-ARC	Indian Ocean Rim Association for Regional Co-operation
IOTC	Indian Ocean Tuna Commission
ISO	International Standards Organization
IT	Information technology
IVTB	Industrial and Vocational Training Board
IWC	Independent World Commission
MEDIA	Mauritius Export Development Investment Authority
MOBAA	Mauritius Offshore Business Activities Authority
MR	Mauritian Rupee
NAFTA	North American Free Trade Agreement
NTSP	National Information Technology Strategy Plan
RCA	Revealed comparative advantage
REER	Real effective exchange rate
SADC	Southern African Development Community
SBM	State Bank of Mauritius
SIDS	Small Island Developing States
SME	Small and medium-size enterprise
SPTT	South Pacific Tuna Treaty
TNC	Transnational corporation
UNESCO	United Nations Educational, Scientific and Cultural Organization
VAT	Value-added tax
WTO	World Trade Organization

PREFACE

The UNCTAD Investment Policy Reviews are intended to familiarize Governments and the international private sector with an individual country's investment environment and policies. The reviews are presented at the UNCTAD Commission on Investment, Technology and Related Financial Issues.

The Investment Policy Review for Mauritius was initiated at the request of the Government of Mauritius. The Ministry of Industry, Commerce, Corporate Affairs and Financial Services served as the co-operating agency. Relevant Government ministries and statutory authorities supplied information, and the views of the private sector and the international community in Mauritius were sought through interviews. The Government of Mauritius and the United Nations Development Programme financed the project.

The Review was undertaken through a fact finding mission in December 1999 by a team comprising international experts: Rory Allan, Carl Mitchell, Neil Saravanamuttoo and Tan Kong Yam, and UNCTAD staff member, Lena Chia. Philippe Hein, Sivaramen Palayathan and Prasada Reddy provided additional inputs and advice. The work was carried out under the direction of Khalil Hamdani.

The Review was presented at a national workshop on 23 November 2000. The recommendations of the Review were endorsed by the Government at the workshop, including the follow up implementation.

It is hoped that the analysis and recommendations emanating from this review will promote awareness of the investment environment, contribute to an improvement of policies and catalyse increased investment in Mauritius.

INTRODUCTION

Mauritius is an economic success story. The economy has sustained high 6 per cent annual growth for two decades – first driven by sugar, then textiles and clothing, and tourism, and most recently by financial services. Economic growth and structural change were achieved while maintaining national stability and social cohesion. A generation of Mauritians has enjoyed a rise in living standards that few countries can match, reaching an income per capita of $4,000 today. What was once, only another commodity producer, today is the leading manufactures exporter in sub-Saharan Africa.[1]

Foreign direct investment has played a small but pivotal role in Mauritius. In 1970, the Government enacted an Export Processing Zone Act (the first in Africa), attracting small Asian investors to locate textile and garment manufacturing operations in Mauritius and benefit from the preferential access to the European and United States markets. The main exporters are now national companies. FDI is also important in tourism, another pillar of economic prosperity. In the 1990s, Mauritius entered the league of outward investors, as firms began to establish operations in lower-wage sites in the region. The "flying geese" pattern, visible in Asia and Latin America, is finally in the making in Africa, with tiny Mauritius as the hub.

Mauritius is one of the few countries to successfully deploy FDI to maximize the opportunities of preferential trade status, notwithstanding limited supply capacities and remoteness from world markets.

Now a middle-income country, Mauritius faces challenges of a mature developing economy. Rising labour costs are eroding the competitive edge in garments manufacture. Future growth will have to come from efficiency gains and upgrading of production in established industries and from the development of new growth poles, such as regional business and financial services. Unlike manufacturing where competition is global, services can be more regionally based, partly shielded from global competitors.

Will Mauritius move to the next stage of development? Put starkly, this depends on which of two options Mauritius pursues. The first option entails riding out the current development phase, which appears to have reached an inflexion point and settle for slow growth. Conversely, Mauritius can re-invent itself and enjoy another S-curve of growth for the next 20 years. This report pursues the second option.

To sustain high growth, Mauritius must shift more forcefully into higher value sectors, including financial services, business services and information technology. Wealth in these sectors is derived from knowledge networks and a sophisticated support infrastructure that demands substantial capital and expertise. FDI can help Mauritius establish the attributes needed to compete globally in these high value service sectors. Nevertheless, to attract FDI of this kind will require a focused promotional strategy and a substantial overhaul of the policy and operational framework for FDI in line with worldwide "best practice" standards. This theme is developed in the report as follows: