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Investment Policy Review

Mauritius

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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:

Chapter I summarizes FDI trends. Mauritius has not received significant FDI in nominal terms but FDI has contributed importantly to the diversification of the economy from an exporter of sugar in the 1970s to an exporter of textiles and garments. As Mauritius shifts increasingly into higher value added sectors, FDI will be critical for growth and international competitiveness.

Chapter II reviews the investment policy framework, outlining reforms that can lead to a more attractive FDI environment. It falls short of best practice in respect of openness to FDI and transparency of policy. Initiatives to improve FDI and growth performance would include removing the differentiation between local and foreign investors, undertaking the fast-track privatization of state-owned utilities, improving the institutional arrangements for FDI, focusing tax incentives and addressing issues of market competition.

[1] In terms of export composition, the share of manufactures in the total exports of Mauritius was 68 per cent in 1990, twice the figure in South-Africa.

Chapter III provides a strategic perspective on how Mauritius can re-position itself to compete in international markets and make the upward structural shift using FDI. The potential lies in moving into high value services, but this will require priority attention on innovative ways to put the local development of human capital on a faster track. More vigorous human resource development especially at the tertiary education level is a clear imperative in the repositioning of Mauritius to attract investment in high value services. Infrastructure and utilities are central to the efficient operation of the rest of the economy. The recent partial privatization of Mauritius Telecom is an encouraging step, and privatization and liberalization in this and other service sectors must be built upon to provide quality low cost services to business. Close monitoring of international competitive indicators is important.

Chapter IV examines FDI potential in regional financial services, information technology and the marine sector. Foreign investment can be used to build a regional financial services industry. There is potential to tap private and institutional funds to service the region's increasing demand for investment funds for infrastructure and other industrial projects. Scope for FDI opportunities in information technology are in three key sub-sectors but the challenge lies in removing the constraints of high cost of telecommunications services, and the limited pool of skilled professionals. There are still investment opportunities in marine resources, as this sector has not been fully exploited.

The report concludes with a summary of recommendations for improving the contribution of FDI in Mauritius.

Table 1. Indicators of macroeconomic performance

KEY INDICATOR	1991	1992	1993	1994	1995	1996	1997	1998	1999
Population (million) mid-year	1.07	1.08	1.10	1.11	1.12	1.13	1.15	1.16	1.17
Real GDP Growth (per cent)	4.4	6.6	4.9	5.2	5.6	6.2	5.6	5.8	2.6
GNP per capita ($)	2.820	3.185	3.191	3.480	3.881	3.922	4.105	4.044	..
Inflation (per cent)	7.0	4.6	10.5	7.3	6.0	6.6	6.6	6.8	6.9
GDI/GDP (per cent)	28.6	27.8	28.4	30.8	24.2	26	27.1	23.6	27.9
Savings as a per cent of GDP	24.9	26.1	24.5	23.4	23.3	24	24.5	24.8	22.8
FDI inflows ($ millions)	19	15	15	20	19	37	57	13	..
FDI/GFCF (%)	2.1	1.7	1.6	1.9	1.9	3.3	5	1.3	..
Budget Balance, % GDP	-2.7	-2.0	-2.5	-3.7	-6.8	-6.6	-3.7	-3.8	-3.2

Sources: Government of Mauritius: Ministry of Economic Development, Corporate Affairs and Financial Services, Central Statistical Office; UNCTAD/TNC Database.

I. FOREIGN DIRECT INVESTMENT IN MAURITIUS

Mauritius has not received much FDI but what it has received has had great impact. Domestic savings and local investment have always been more important for growth than foreign investment. But, FDI was instrumental in diversifying the economy and, with that, the expansion of exports and the creation of many new and better paid jobs and skills.

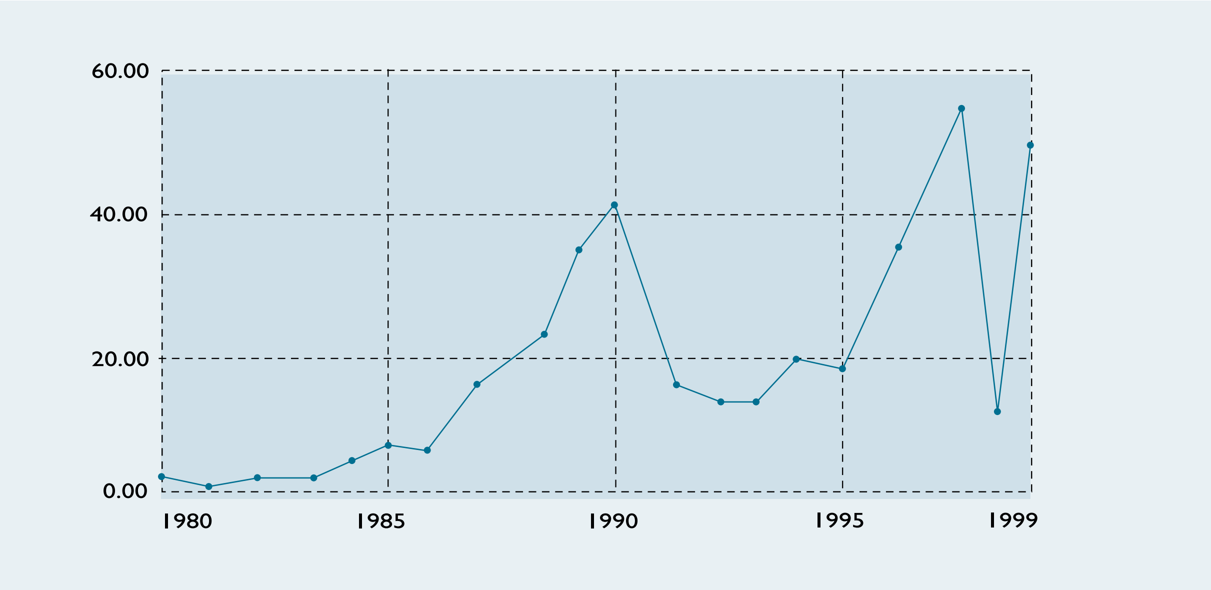
A. Investment trends

1. FDI inflows

Foreign direct investment into Mauritius is not significant in quantitative terms. FDI has rarely exceeded $30 million in any one year Annual FDI inflows averaged $10 million during 1980-1989 and $38 million in 1990-1999 (see chart 1). After a leap in the latter half of 1980s, annual inflows have been more or less stagnant.[2]

The favourable FDI performance of the mid-1980s was spearheaded by the Export Processing Zone (EPZ) Programme, which attracted two-thirds of all FDI inflows, mainly from Asia and concentrated on knitwear and garments manufacture. During this period the EPZ provided more jobs, contributed more value-added and earned more export revenue than sugar, the primary engine of growth until then. The upward shift from primary production to manufactures export placed the economy on the upside of a new S-curve of 6 per cent growth.

Chart 1. FDI inflows, 1980-1999
($ million)



Source: UNCTAD, World Investment Report 1999 and Bank of Mauritius

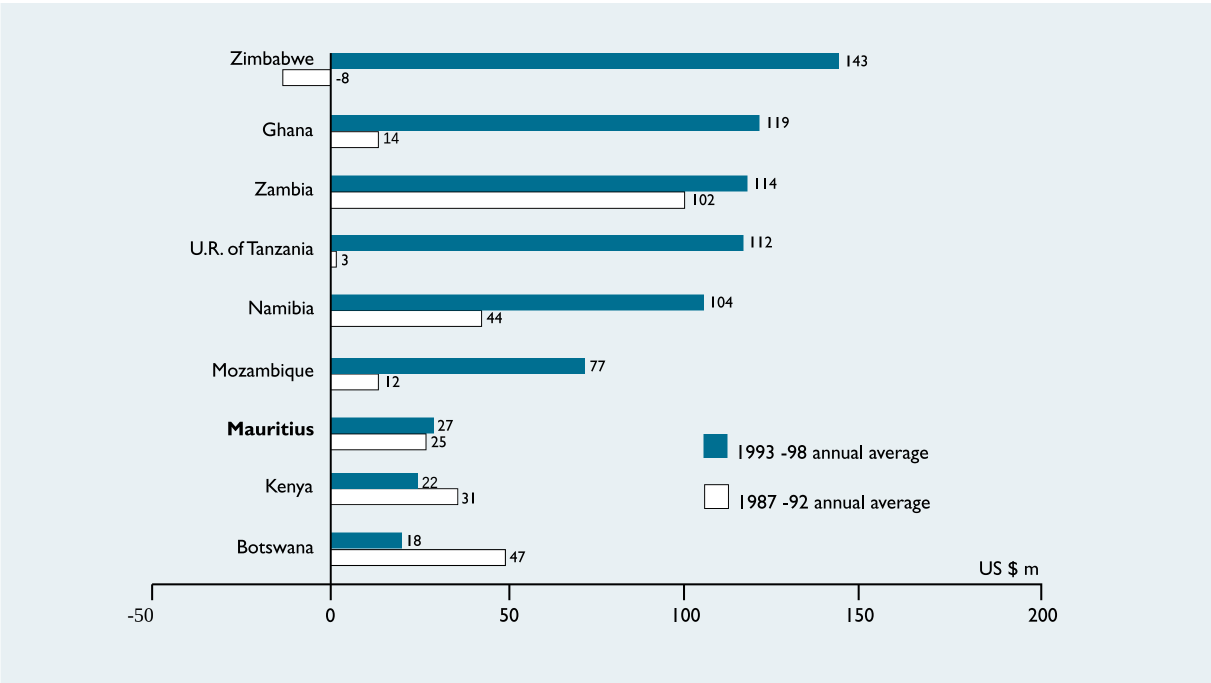
[2] The upturns in 1996, 1997 and 1999 are due to a single, large project in each of these years.

The first half of the 1990s witnessed stagnation in FDI inflows, due to a slowdown of FDI in the EPZ. However, the investment rate has remained high (see table 1), principally from domestic industries reinvesting earnings. There has also been investment in infrastructure. Assessed as the second most competitive economy in Sub-Saharan Africa,[3] Mauritius has continued to average close to 6 per cent annual economic growth.

Mauritius ranks low as a beneficiary of FDI flows to Africa on two counts. First, FDI as a percentage of gross fixed capital formation in the period 1993 to 1998 is only 2.5 per cent in Mauritius, compared to 7.8 per cent for African economies and 9 per cent for all developing countries. Second, while FDI inflows into sub-Saharan Africa increased by 18 per cent between 1993 and 1998, flows to Mauritius were static, except for spurts in 1996 and 1997. Countries like Ghana, Mozambique, Namibia, the United Republic of Tanzania, Zambia and Zimbabwe have reaped the gains of increased FDI into Africa (see chart 2).[4]

Low reliance on FDI is not itself an indication of economic weakness, however, it does suggest a low inflow of new products, technology and managerial know-how. These are necessary to remain competitive in world markets and diversify into new industries.

Chart 2. FDI inflows to sub-Saharan Africa, Annual average
1987-92 and 1993-98 ($ million)



Source: UNCTAD FDI/TNC database

[3] The World Economic Forum, *Africa Competitiveness Report*, Geneva, Switzerland, 2000.
[4] South Africa, classified in the developed country group, averaged an increase of 2.7 per cent during 1994–1998

(a) Sectoral distribution

Manufacturing attracted an important share of FDI in the 1980s, and much of it was concentrated in the EPZ.[5] However, this sector is now experiencing declining inflows (see table 2). FDI flows in manufacturing declined from an annual average of $12.8 million in 1985-1989 to $8.4 million in 1990-1997. The decline is most prominent in garments and textiles, which together account for 72.8 per cent of cumulative FDI in manufacturing. FDI in other manufacturing sub-sectors is marginal: electric and electronic components account for only 1.3 per cent of total FDI, and the high skilled sector, watches and clocks, 0.8 per cent.

Table 2. Foreign direct investment in the manufacturing sector (1993-1998)

Year	Average Annual inflows ($ Million)		Manufacturing as % of total flows
	Total	Manufacturing	
1993	15	5.4	36
1994	20	2.3	12
1995	19	13.8 *	73
1996	2.6	2.6	7
1997	57	0.0	0
1998	13	1.1	8

Source: UNCTAD, Bank of Mauritius.
* There was one large textile project.

FDI in services expanded in the 1990s (see chart 3). Banking accounts for a quarter of all new FDI, due to a single deal: an investment of $45.9 million in 1997 by the South African bank, Nedcor, in the State Bank of Mauritius. Other services attracting FDI include tourism (which has received a steady inflow of FDI in hotels since 1983), construction, retail trade and leisure.

The offshore services sector has become quite significant in Mauritius, but this does not show up in the country's FDI data.[6] As of November 1999, 10,561 offshore entities are registered, of which slightly less than half are offshore companies, and the remaining half are international companies operating in fields ranging from international trading, insurance and shipping to funds management. The sector's activities have generated direct employment in high value-added jobs for accountants, lawyers, managers and auditors, as well as spin-offs in other industries.

[5] The EPZ programme in Mauritius is considered one of the two most successful schemes in developing countries. See The World Bank, 1992.

[6] Unlike the Caribbean region where offshore investment services are recorded as FDI, Mauritius does not capture such data. Inward stock in 1998 was reported in UNCTAD World Investment report,1999, as $1.03 billion for Bahamas, $30.9 billion for Bermuda and $9.23 billion for Cayman Islands.

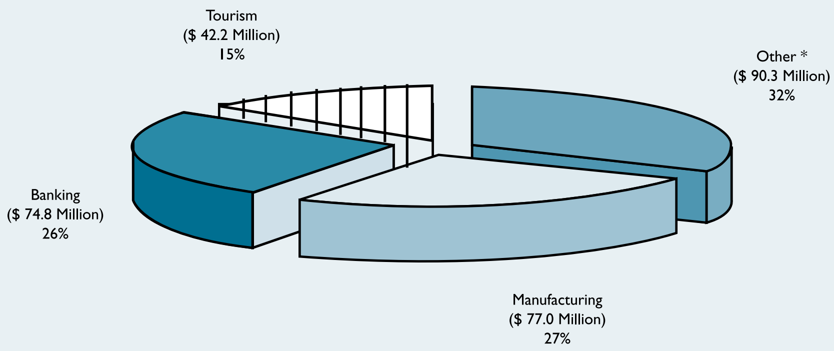
Mauritius is moving away from the tax haven type of operation. Through the recently introduced Regional Headquarters scheme, it expects to attract regionally based companies with greater links to the local economy. Already, a move can be seen in this direction.[7]

(b) Sources of FDI

The predominant investments in Mauritius are small in volume, from India, France and Hong Kong, China, among other countries (see chart 4). However, South Africa is currently the largest source of investment, because of the Nedcor investment. Likewise, FDI from Singapore is dominated by a single investment in 1996 in a racecourse project. It is notable that the United States does not figure among the major investors (see table 3). United States firms invested only $3.5 million into Mauritius during 1990-1998, suggesting that the island is only marginally recognized among American multinationals as an investment opportunity.

Chart 3. FDI distribution by sectors, cumulative flows 1990-1999

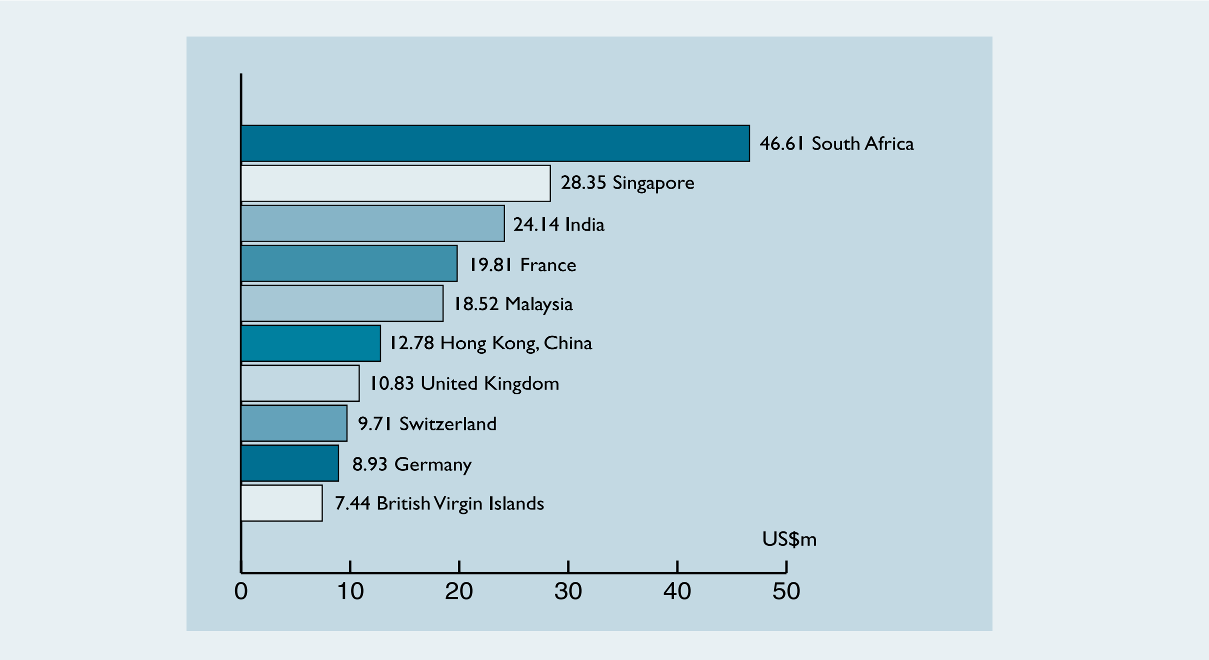
($ million)



Source: Bank of Mauritius.

[7] A first certificate has been awarded to Finanzplan to set up its regional headquarters in Mauritius under the Regional Headquarters Scheme. Other companies such as Gap, Hewlett-Packard, IBM, Samsung and Unisys are reported to show similar interest. See ABN-AMRO, Mauritius Weekly Report, 18 August 2000.

Chart 4. Inward FDI by country of origin, cumulative flows
1990-98 ($ million)



Source: Bank of Mauritius.

2. FDI outflows

Mauritius emerged as an outward investor in the 1990s, with annual outflows of FDI averaging $18 million in 1990-1994, and around $6 million in 1995-1999. Outflows exceeded inflows in 1992, 1993 and 1998. FDI outflows should be viewed positively, as a sign of Mauritius assuming a larger business role in the region.

The Mauritius Commercial Bank Group has developed a strong presence in the Indian Ocean. It has acquired the Banque Francaise Commercial (INDOSUEZ Group) in 1992, and has established a network in Réunion, Madagascar and Seychelles and branches in Mozambique, as well as in Paris.

Outward FDI in the garments industry emerged in 1990, when the low-end operations were relocated to lower wage countries in the region. The first major move was by Floreal Garments, which started relocating to Madagascar in 1990 and today has over 5,000 employees abroad. Another textile enterprise, Compagnie Mauricienne de Textiles SARL (CMT Pte Ltd.) has also moved its low-end operations to Madagascar, involving about 4,000 jobs.

Outward FDI is also seen in the tourism sector, where Mauritian companies have developed core competence in hotel management and are expanding operations into Seychelles and Comoros (see box 1). Investment in Réunion in commerce and non-banking financial services builds on close trade links. More recent investment on the African mainland is exploiting expertise in the sugar industry to rehabilitate sugar production in Mozambique's newly created Special Economic Zone, and in the United Republic of Tanzania.

Table 3. Major Foreign Affiliates in Mauritius

Company	Home economy	Sector
A. AGRICULTURE		
Illovo Sugar (Mauritius) Ltd	South Africa	Sugar, hotels
B. INDUSTRIAL		
Arvind Overseas (Mauritius) Ltd	India	Textile & garments
Novel Textiles Ltd.	Hong Kong, China	Textiles
Prince Tuna (Mauritius) Ltd.	United Kingdom	Tuna canning
Sentosa Enterprises Ltd.	Hong Kong, China	Garments
Summit Textiles Ltd.	Hong Kong, China	Garments
Esquel Group	Hong Kong, China	Garments
Novel Garments (Mauritius) Ltd.	Hong Kong, China	Garments
Socota Textile Mills Ltd.	Madagascar	Garments
Sinotex (Mauritius) Ltd.	Hong Kong, China	Garments
Star Knitwear Ltd.	Singapore/Seychelles	Garments
Goodlands Knitters Ltd.	Hong Kong, China	Garments
Tangara Knitting Factory Ltd.	Hong Kong, China	Garments
British American Tobacco (Mauritius) Plc	United Kingdom	Tobacco
C. SERVICES		
Caltex Oil Mauritius Limited	United States	Petroleum retail
Courts (Mauritius) Ltd.	United Kingdom	Retail
Shell Mauritius Ltd.	United Kingdom	Petroleum retail
British American Insurance Co. Ltd.	United States	Insurance
Life Insurance Corporation of India	India	Insurance
Hong Kong and Shanghai Banking Corp.	Hong Kong	Banking
Barclays Bank Plc	United Kingdom	Banking
Banque Nationale de Paris Intercontinentale SARL	France	Banking
Bank of Baroda	India	Banking
Delphis Bank Ltd.	Kenya	Banking
Habib Bank Ltd.	Pakistan	Banking
Sun Resorts International Ltd.	South Africa	Tourism
Esso Mauritius Ltd.	United States	Petroleum retail
Berjaya Hotel and Resort (Mauritius)Ltd.	Malaysia	Tourism
South East Asian Bank Ltd.	Malaysia	Banking
Total Mauritius Ltd.	France	Petroleum retail

Source: Mauritius Chamber of Commerce.

Outward investors include recognized Mauritian conglomerates like the Rogers Group and the Currimjee Group (both established since the 1890s) with diversified business interests in shipping, trade, tourism, agriculture, manufacturing and textiles. They have established foreign subsidiaries in commerce, financial non-banking services and tourism. Mauritius Telcom and Emtel, a subsidiary of the Currimjee Group, invested about $4.6 million in 1998 and 1999 in the telecommunications sector in Seychelles and Madagascar.

Other outward players include the oldest company, the Anglo-Mauritius Assurance Society with investment of $1.5 million abroad in 1998. A new consortium, the Sena Group, comprising Mauritian and other foreign investors, is presently negotiating a takeover of the Marromeu sugar project in Mozambique.Table 4 provides the major host countries and sectors that have received FDI from Mauritius.

Outward investment is encouraged by the Government, which grants tax incentives to Mauritian companies under Regional Development Certificates. All this augurs well for regional growth and trade and may serve as an important factor to induce growth of FDI in the region. Particularly in Mauritius where enterprises need to rationalize production and make the fresh investments in upgrades, as traditional sources of comparative advantage erode over time. Such a "flying geese" pattern has provided a viable development path for several East Asian economies and could equally well serve Mauritius.

Table 4. Direct Investment Abroad by Host Country, 1990-1999
($ million)

Host Country	Investment	Main sectors
Réunion	40.5	banking, tourism, commerce, insurance
India	32.1	banking
Comoros	18.9	tourism, telecommunications
Madagascar	6.0	textiles and garments
Mozambique	3.2	agrobusiness
Seychelles	1.6	tourism, telecommunications
South Africa	1.5	banking
France	1.3	commerce
Others	13.5	tourism
Total.	119.0	petroleum retail

Source: Bank of Mauritius.

B. Economic Impacts

FDI has helped move Mauritius from a high unemployment, mono-crop economy to one that is broad-based and characterized by full employment.

The centrepiece of the Government's industrial development strategy in the 1970s was the advent of the EPZ to attract FDI in labour-intensive manufacturing for export. The structural transformation of the economy was dramatic. In 1970, agriculture accounted for about 16 per cent of GDP and most exports (sugar). Manufacturing was small (14 per cent of GDP) and mainly for the domestic market, and non-tradable services made up the bulk of GDP (62 per cent). By 1997, agriculture accounted for only 9 per cent of GDP and less than a fourth of total exports. Manufacturing's share in GDP had doubled (to 25 per cent) and dominated exports, and services, while still a major contributor to GDP (58 per cent), were to a significant extent tradable (tourism). Thus, manufacturing and tourism have today emerged as the main pillars in the economy, and an internationally oriented service sector is increasing in importance.

Real GDP expanded by around 6 per cent annually during this prolonged growth phase, creating jobs and wealth for all. According to an ILO country study, "available evidence suggests that income distribution improved while socio-economic benefits such as education, health services and housing amenities reach virtually everyone".[8]

[8] ILO, *Progress report on the country studies on the social impact of globalization* (GB.273/WP/SDL/2), November 1998.

1. Employment

FDI helped lower unemployment rates from between 10 per cent to over 20 per cent in the 1970s to around 3 per cent in 1989. Jobs created in the EPZ were mainly in the textiles and garments sector (over 80 per cent). Table 5 provides data on employment in the EPZ sector, which includes Mauritian as well as foreign-owned enterprises and joint ventures. In 1996, 30 per cent of these enterprises accounted for 88 per cent of the employment in the EPZ.

Table 5. Employment in the EPZ Sector

Year	Number of Entreprises	Employment*
1972	19	2,500
1979	94	20,700
1989	563	88,658
1999	586	91,374

Source: Bank of Mauritius, Quarterly Bulletin, March 2000
* No separate data for foreign owned companies.

FDI in hotel development promoted growth in the tourist sector in the 1980s, and also to expanding overall employment opportunities in the country.[9] Offshore banking activities have generated high value-added jobs, such as for accountants, lawyers, managers and auditors (when it started in 1989, 450 such jobs were created). Overall, job creation in trade-related sectors amounted to about 20 per cent of total employment.

2. Export development

Mauritius has achieved export success in manufactures, principally due to FDI in the EPZ. In 1980, sugar exports accounted for 70 per cent of exports, and clothing and garment exports from the EPZ, about 15 per cent. In 1998, the proportion was reversed. Sugar exports declined to around 22 per cent of total exports, while clothing and garments accounted for about half of total exports. Throughout this period, 1980-1998, the average growth rate of garment exports has remained high - above 10 per cent, even when overall export growth slowed to 4.6 per cent per annum in 1990 to 1998.

[9] The Ministry of Tourism and Leisure data on employment of the tourist industry (only of establishments employing more than 10 employees) indicated direct employment of 1,288 persons in restaurants, 11,715 in hotels and 4,108 in travel and tourism. This covers both locally and foreign-owned enterprises.

Mauritius' export performance was strong, particularly in the highly competitive world market for garments. As shown in Chart 5:[10]

- Mauritius has outperformed other exporters in the expanding segment of the garments market, both, in inner and outer garments.

- Mauritius has also gained market share in the shrinking segment of the market, namely denim fabrics, yarn of combed wool and women/girls blouses and shirts made of cotton.

- Overall, Mauritius' exports are mainly winners, with very few losers.

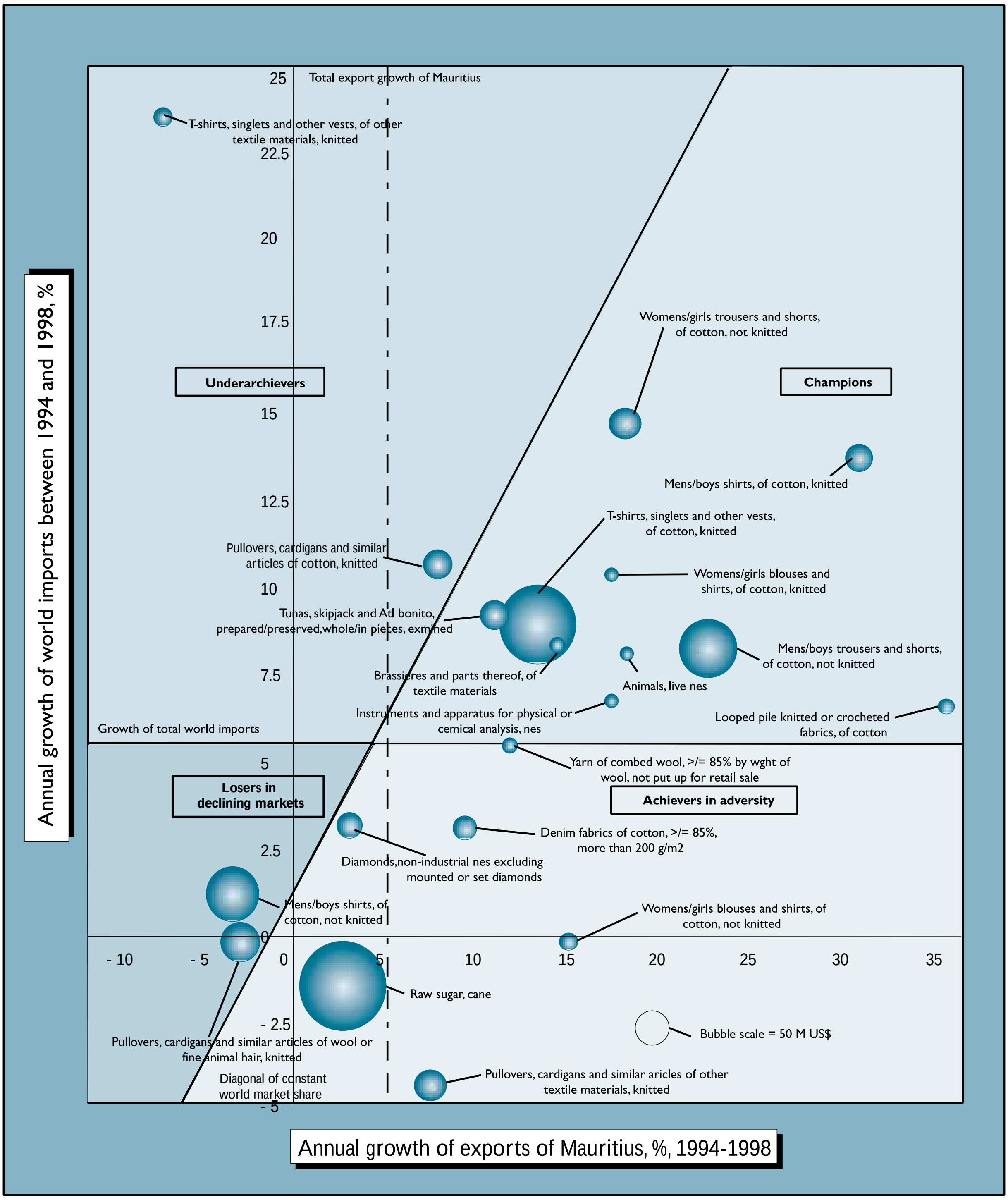
Other indicators of export performance are Mauritius' high revealed comparative advantage in clothing and garments[11] and it ranks as the second largest exporter of the “woolmark” label in the world.[12]

However, the concentration of exports in only one product group of low skill content (clothing) indicates a shallow technological base with limited skills and capabilities and little capacity to rapidly upgrade production to higher value exports.[13] Upgrading is the key to export sustainability in the footloose garment industry, where comparative advantage can deteriorate rapidly with rising wage costs.

Still, Mauritius ranks high in terms of exports per capita, signifying a broad range of exporting skills, information and institutions relative to the small economy, well ahead of other economies in Africa.[14] These skills can be exported in a variety of trade-supporting services for the region. Focus on regional markets underscores the importance of initiatives relating to the regional financial, commercial and maritime services sectors. The promotion of the Mauritius Freeport for transhipment and distribution activities is an example.

[10] The chart, a tool designed by the International Trade Centre, Geneva, depicts performance of Mauritius' 20 leading exports against world demand for these products. The dotted vertical reference indicates average nominal growth of total exports for the period 1994-1998, and the horizontal reference, the corresponding average nominal growth of world imports. It highlights the extent in which leading export products are positioned in growing and declining markets. The diagonal line (e.g. line of constant world constant world market share) divides the chart into two parts – export products to the right of this line grow faster than world imports, implying an increase of their share in world market; and product groups left of the line are those which have seen eroding share in the world market. The diagonal and horizontal reference lines divide the charts into 4 quadrants with different characteristics, showing them to be champions, underachievers, losers in declining markets and achievers in adversity, as the case may be.
[11] The “revealed comparative advantage” (RCA) ratio shows the importance of a country's export of a particular product relative to its overall export performance. It is measured by the ratio of a country's world market share in a particular export to the world market share of its total manufactured exports. RCA indices ranged around unity, with figures below one denoting a relative disadvantage in exporting that product, and those above one denoting a relative advantage. In 1998, Mauritius' RCA for undergarments (knitted and non-knitted) ranged from 31 to 36, and it was around 17 for women's outerwear (non-knit) and outwear (knit, non-elastic).
[12] R.G Paratian, Global Production systems and labour market. New perspectives on enterprise networks, labour issues and their policy implications: A case study of Mauritius, International Institute of Labour Studies, ILO, Geneva 1998
[13] Unlike Mauritius, the Asian economies (e.g., Singapore, Malaysia and Thailand) had a more differentiated export structure, with a greater skill range, which allowed them to upgrade exports with high technology products. See Lall and Wignaraja (1998), Mauritius – Dynamising Export Competitiveness, Commonwealth Secretariat, Economic Paper No. 33, 1998, chap. 2.
[14] Lall and Wignaraja (1998), op cit., p.33.

Chart 5. Growth of national supply and international demand for leading export products of Mauritius



Source: International World Trade Center, Geneva

3. Local supply linkages

FDI has created both direct and indirect linkages for the local economy.

Backward linkage is generally limited in the textiles and garments sector. The main raw materials, yarn and wool, are imported. Also, the vast majority of firms operating in the garment industry are specialized manufacturers with no supply integration.[15] Links with domestic enterprises are in such activities as dyeing of fabrics, embroidery and sewing. CMT (cut-make-trim) subcontracting, which is elsewhere common in the garment industry, has not developed as a specialist operation in Mauritius.[16] However, firms in the Republic of Korea have recently expressed interest in aiding local textile enterprises to vertically integrate and improve quality and productivity. This, with a view to tapping opportunities from market access provided by the US Africa Trade and Development Act.[17] Nonetheless, the EPZ sector has multilipier effects on the economy, in particular, it creates demand for services in packaging, consultancy, water, electricity, transport, mechanical workshops etc.

The offshore sector has had spin-off effects on other industries, such as tourism, telecommunications and real estate. It has also opened up international business for Mauritian companies. For instance, two Mauritian banks have established offshore banking units in joint venture with foreign banks.

4. Skill transfer

Mauritius has a good learning curve. The EPZ comprises public and private estates, as well as a large number of local enterprises. Domestic firms have been able to learn from foreign firms and even play a leading role. Thus, while EPZ exports in the 1980s were mainly from foreign firms, today these exports are mainly from national firms. Such substitutability is important for the footloose garment industry.[18] Mauritian firms have also been somewhat successful in raising the quality of garment products and in acquiring design and marketing capabilities.

FDI has provided managerial skills and training of local personnel, particularly in the services sector. In hotel management, international hotel chains have introduced modern reservation systems and marketing know-how (see box 1). In banking, foreign banks have helped bridge the gap in professional management personnel through training schemes. Local banks have been able to enter new areas and manage new products (see box 2).

On-the-job training in a foreign enterprise can fill a key manpower need, as Mauritius has a high primary and secondary school enrolment rate, comparable to the dynamic Asian economies, but is low in tertiary enrolment rate (6 per cent as against the Asian group's average of 17 per cent in 1996). Moreover, past curricula have underemphasized technical and vocational subjects.

[15] According to the census of textiles and garments firms carried out by the Ministry of Industry, 1990.
[16] R.G. Paratian, ILO, Geneva 1998, op cit., p. 32
[17] ABN-AMRO, Mauritius Weekly Report, 18 Aug 2000.
[18] According to one survey, 50 per cent of foreign-owned firms in Mauritius "had begun or were considering relocating to other more attractive manufacturing locations in the developing world and Eastern Europe." Lall and Wignaraja (1998), p. 116.

Box 1. Alliance with Sun Resorts International Limited (South Africa) helps in achieving international standards and widens options for Mauritian players

Sun Resorts Limited was incorporated in Mauritius in 1983 to acquire three existing hotel properties. It is managed under contract by Sun Resorts International Limited which is part of the Sun Resorts group of South Africa. The Sun Resorts group holds 22.8 per cent of Sun Resorts Limited. The other major shareholders are Ireland Blyth Limited with 22.8 per cent (a long established listed Mauritian company in commerce) and Consolidated Investments and Enterprises Limited with 8 per cent (a Mauritian company with majority holdings in Floreal Knitwear Ltd and Aquarelle Clothing Co. Ltd).

Sun Resorts Limited operates seven luxury resorts. It has won the ISO 9002 certification in 1998 and its hotels are featured in leading international travel magazines. In 1996 it developed Le Coco Beach Hotel and the Sugar Beach Hotel, and both projects entail investment of above 1 billion rupees. One of the original properties (Le Saint Geran) has also been re-developed in 1999.

Sun Resorts Limited and New Mauritius Hotels between them command 60 per cent of the Mauritius hotel market. Sun Resorts' vision is to be the leading tourism player in the Indian Ocean. In 1995 it acquired 95 per cent interest in two hotels in the Comoros. It also owns a wholesale tour operator and a service company in South Africa. It also plans to add a resort development in the Seychelles.

Sources: Mauritius, The Top 100 Companies 1999 Edition, Business Magazine, Mauritius, 1999. Mauritius, Fishing for Value, Flemings Research, Mauritius, July 1999.

Box 2. SBM ABN-AMRO Asia Securities Limited

SBM ABN-AMRO Securities limited is a securities' brokerage joint venture between the State Bank of Mauritius ("SBM") and ABN-AMRO. SBM is the second largest commercial bank in Mauritius with a 30 per cent market share. Since partial privatization it has attracted domestic and foreign institutional investment and has Nedbank of South Africa as a strategic partner in the core commercial banking operation. ABN-AMRO is a leading Dutch international bank and securities firm.

The joint venture was formed in 1997 with a relatively small capital investment of 500,000 Rupees by ABN-AMRO (45 per cent shareholding) but, importantly with a commitment to introduce the management, systems and training to enable SBM to diversify effectively into securities brokerage.

ABN AMRO manages the joint venture, which has a staff of 7 (4 management and sales, and 3 research). The research team covers all the principal sectors of Mauritius listings. Local research analysts have been trained to prepare research in accordance with the ABN-AMRO global template. For example the research uses enterprise value added (EVA™) as a key analytical tool for equities' valuation. Thus Mauritius analysts prepare research reports which are of international quality and are presented in the same format as all ABN-AMRO's world-wide research. This enables the joint venture to channel research material on Mauritius to ABN-AMRO's global client base.

The joint venture has accelerated the entry of SBM into this field of the financial services industry. It has introduced advanced training, international standard research and permitted global reach in institutional sales of equities. It also positions SBM well to be a leader in equity capital markets in Mauritius when the market for new issues develops.

Source: Field interview.

C. Overall assessment

Mauritius' impressive economic achievements over the past three decades are a testimony of forward-looking industrial policies on diversification, combined with flexible export strategies. Stemming from these policies, FDI has played a pivotal role in the development of manufactured exports. Likewise, policies for attracting offshore foreign companies to register in Mauritius, has led to the emergence of an increasingly important internationally oriented service sector. This headstart in offshore services and promotion of the country as a base for regional headquarters will help to consolidate Mauritius' position in the region.

Circumstances in Mauritius are nevertheless changing. With full employment, Mauritius has lost the labour-based competitive advantage, both in terms of costs and in terms of ability to generate and absorb new labour-intensive production capacities. To take the economy forward on a sustainable basis, Mauritius will need to turn to a development paradigm centred on higher value-adding activities. This strategy will call for a vertical shift involving a continual upgrading of the traditional sectors, e.g. sugar, textiles and clothing and a horizontal shift, to expand services into new areas of high value. FDI can play a critical role in such a strategy, by augmenting the present skill base and by providing access to global networks.

Regional dynamics spurred by the region's growing needs for infrastructure development and consumer goods and the recent endorsement by both the European Union and the United States to allow preferential access of African exports into their markets, will create new business opportunities. Mauritius must capitalize on its numerous strengths to exploit niches in regional markets and attract additional FDI into business and financing.

II. POLICY AND OPERATIONAL FRAMEWORK FOR FDI

A. The permissive framework

Mauritius welcomes foreign direct investment although its approach to the entry of foreign investors can be selective and not always clear.

Prior approval for all new FDI is required. Application is made to the Department of the Prime Minister, which grants an “authorization to invest”.

The legal authority for the screening of proposed FDI appears to rest in the Non-citizens (Property Restriction) Act of 1975. Foreign investment in “immovable property” or in a company owning immovable property requires approval. This extends to the lease of property for more than six months in any year. The only significant exception to this requirement is for the acquisition of shares in a listed Mauritius company or unit trust - both of which are intended to be more relevant to portfolio than direct foreign investment.

The 1975 Act does not set out the criteria under which applications for approval are judged. It does not indicate priority or reserved sectors or give guidance on what conditions may be placed on approved investments. It is not a usual kind of FDI law in this respect. Moreover, there is no guidance given to prospective investors by any comprehensive Government policy statement on the entry regime for FDI. It is understood that part of the rationale for screening all FDI is to guard against the entry of drug running and money laundering activities.

In practice FDI is welcomed and encouraged in selected sectors and discreetly not encouraged in many others. The areas open to FDI broadly include:

- Manufacturing, especially with an export orientation;
- Hotel development and management (but not tourist services);
- Financial and business services, including offshore and Freeport centre activities;
- Regional headquarters.

Particular priority is attached currently to the development of Mauritius as a regional financial and business services hub, which includes the Regional Headquarters Scheme to promote the country as a prime base for regional headquarters. The Government sees this set of activities as potentially forming a fourth “ pillar” of the economy to add to sugar, textiles and tourism.

The Government does not encourage new FDI in traditional agriculture or in a wide range of services including wholesale and retail trade, engineering, and construction. The presumption is that FDI is not welcome. Nevertheless, these activities are not legally prohibited for FDI. A determined foreign investor can apply for authorization to invest and await the outcome. Although the criteria used to judge an application remains unpublished, there is some basis for believing the Government will look more favourably on larger investments (e.g. a hypermarket rather than a small store) and joint ventures with national investors.

The most extensive elaboration of FDI entry policy in a "reserved" sector has been made in tourism; even here the policy has not been set out in a transparent public fashion. Box 3 sets out a quite restrictive policy towards a key sector.

Domestic commercial banking appears to be a third "neutral" category where FDI is neither encouraged nor discouraged.

A fourth category contains businesses reserved for the State and not available to private investors, whether national or foreign. Some important infrastructure and utilities are dominated by the State, including fixed-line telecommunications, electricity (except for some generation), water, ports and airports although the partial privatization of Mauritius Telecom was recently completed. Government business ownership is extensive in Mauritius. Limited privatization has begun. It is likely that investment opportunities through this programme will be made available equally to national and foreign investors.

Another channel of FDI has recently been opened with the Permanent Residence Scheme. Permanent residence, convertible to nationality after five years, can be obtained by investment of at least $500,000 either in a business or in an approved investment fund.

Box 3. Policy towards FDI in the tourism sector

The Government became concerned about ten years ago that over-capacity in hotel rooms was developing. It introduced restrictions on new investment that fell more heavily on foreign than national investors. 100 per cent foreign ownership of new developments was permitted only for hotels of more than 100 rooms. Foreign participation in smaller hotels was restricted to 49 per cent. These criteria replaced more ad hoc restrictions that had previously been applied on a case-by-case basis.

There is no FDI restriction for hotel management companies.

The remainder of the tourist sector is almost entirely reserved for national investors. Foreign participation in restaurant operations is limited to 49 per cent and only where investment exceeds MR10 million ($400,000) which would be a rare occurrence.

No foreign investment is permitted in travel agencies, tour operators, tourist guides, car rental, yacht charters and duty free shops.

Despite fears of over-capacity the tourist market has grown rapidly and there has been significant investment in new hotels by both national and foreign investors. Approximately 40 per cent of the 25 larger hotels (with more than 100 rooms) are partly foreign owned. Most major restaurants and car rental chains are represented through franchises or agencies. Yet McDonalds, for example, is so far not represented although it is understood that a restaurant has recently been approved.

Source: Field interview

B. Specific standards of treatment and protection

In the absence of a foreign investment law there are none of the usual provisions in Mauritius law governing specific standards of treatment in relation to matters such as national treatment, non-discrimination, funds repatriation and access to international arbitration.

Foreign investors must rely on the good track record of foreign investor treatment established by Mauritius and where applicable, on an investment treaty to obtain the standard protections. Mauritius has entered bilateral investment treaties (BITs) with 13 countries and a further 6 await signing or ratification.[19] Mauritius has been energetic in extending its investment and tax treaty network as shown in the comparison with other small island states in table 6.

These treaties have standard provisions in relation to the key areas of specific standards of treatment.

NATIONAL TREATMENT: the Mauritius BITs guarantee fair and equitable treatment to foreign investors but not necessarily national treatment.

NON-DISCRIMINATION: the Mauritius BITs extend most-favoured-nation treatment to investors with the usual exclusions for regional agreements and double tax treaties.

FUNDS REPATRIATION: in 1994, Mauritius suspended application of the Exchange Control Act. No exchange controls of any kind now apply. The Mauritius BITs provide for the free transfer in convertible currency of capital and returns including profits, fees and royalties. These guarantees are made subject to prevailing law - a significant qualification.

EXPROPRIATION: the Mauritius BITs provide that expropriation will only take place for public purposes, in accordance with due process and will result in prompt, adequate and effective compensation.

INTERNATIONAL ARBITRATION: the Mauritius BITs provide a foreign investor in dispute with the State a choice of local judicial hearing or international arbitration. Mauritius joined the International Centre for the Settlement of Investment Disputes in 1969.

Mauritius does not offer foreign investors investment certificates of a kind that give contractual stability to specific measures of investor protection (or indeed to any of the general measures described below). Given the excellent track record of Mauritius of policy stability and investor treatment such guarantees would be unnecessary except in very special cases. The sole exception is the 1997 concession projects law that offers contractual rights of funds repatriation.

[19] Investment treaties are in place with Germany, France, the United Kingdom, China, Mozambique, Pakistan, Indonesia, Portugal, South Africa, India, Switzerland, the Czech Republic and Nepal. Treaties awaiting signature or ratification are with Malawi, Uganda, Chile, Romania, Singapore and Zimbabwe.

Table 6. Comparative Treaty Networks

Country	Population 1997/98 (millions)	Per Capita GNP, 1998 ($)	Number of treaties: Bilateral Investment Treaty	Double Taxation Treaty
Mauritius	1	3,700	12	24
Ireland	4	18,340	1	44
New Zealand	4	14,700	2	24
Singapore	3	30,060	30	44
Bahamas			0	1
Fiji	0.8	2.110	0	7
Jamaica	3	1,680	13	11
Madagascar	15	260	4	2

Source: Treaties - UNCTAD Database.
Population and per capita GNP - World Bank, World Development Report 1999/2000.

C. General standards of treatment

1. Taxation

Mauritius has developed a modern platform of business taxation with substantial reforms over the last 15 years.[20] The key business taxes are corporate income tax, import duties, value-added tax (VAT) and property taxes. Pension and training levy contributions, plus bonuses and paid leave, add about 30 per cent to the basic pay of employees.

Upon this modern platform of business taxation, Mauritius has sought to offer a low tax regime for investors by offering widespread incentives. It is quite possible that a majority of business activity is now conducted under one form or another of fiscal incentives. We describe here the principal elements of the key taxes on business. Section D below describes the fiscal and other incentives that have been developed to promote investment.

The *income tax* regime provides for a conventional range of deductions and unlimited loss carry forward. Capital allowances are moderately favourable and a 25 per cent investment allowance is available in the first year for new industrial premises, plant and machinery and for computer software. Employee welfare deductions, such as pension fund contributions, seem especially favourable. The corporate tax rate is 35 per cent but as noted in table 7, and Section D below, many businesses qualify for reduced rates of corporate tax in the 0-25 per cent range.

Payments of dividends to both residents and non-residents are tax-exempt. Interest and royalties paid to non-residents are taxable. Typical treaty rates are zero to 15 per cent for interest and royalties.

[20] These reforms show a large turnaround in attitudes. In 1985 the top personal tax rate was reduced from 70 per cent to 35 per cent and the corporate tax rate was reduced from 60 per cent to 35 per cent in 1986.

In treaties with Singapore, Kuwait and Oman, Mauritius has reciprocated the exemption from taxation of dividends, interest and royalties paid from these countries to non-residents.

Management and other technical service fees are not subject to withholding on gross amounts but to taxation on the amount of net income derived from Mauritius.

Mauritius has been very energetic in this decade in expanding its network of double taxation treaties (DTTs) as shown in table 6. The DTTs concluded by Mauritius include the principal existing source countries of FDI. Mauritius is also extending its treaty network with potential regional targets for outward FDI.

Import duties vary from zero on capital goods, raw materials and foodstuffs to 80 per cent on non-basic consumer goods. A further 20 per cent duty applies to imports dutied in the 55-80 per cent range, sourced from "non-scheduled" countries. As indicated in table 7 and elsewhere, there are substantial exemptions available from import duties - rightly so in the case of EPZs. These exemptions reduce the overall level of duties from over 17 per cent to under 11 per cent of total import value.[21] Mauritius is likely to reduce the higher duty rates in future to comply with sub-regional free trade initiatives.

VAT was introduced at a rate of 10 per cent in 1998 to replace sales tax.

Registration duty of up to 13.2 per cent of the value of land and improvements is applied on transfer of title. A land transfer tax of 10 per cent is levied if the property interest is transferred within 5 years; reduced to 5 per cent if the transfer is made after 5 years. The high rate of these taxes appears to be designed to collect economic rents from land scarcity and to curb speculation. Also, a tax of 4.4 per cent is applied to the rent and other charges paid by lessees of land.

2. Foreign exchange arrangements

Mauritius has no official foreign exchange controls of any kind, a policy that was formalized in 1994.

3. Labour

The labour market is ostensibly subject to substantial rigidities. Minimum wages are set for a vast range of unskilled, skilled and even professional occupations[22] by the Minister for Labour and Human Resources after reference to a tripartite National Remuneration Board. Interviews suggested that wages are often higher than the minimum awards, which are therefore not a source of uneconomic costs. This is borne out by recent estimates that actual wages in many key industries are typically at least twice as high as the minimum wage.[23]

[21] International Monetary Fund. Mauritius, Selected Issues and Statistical Appendix. October 1999, p.22.
[22] The regulations setting out the 1999 awards cover almost 100 pages.
[23] International Labour Office, Mauritius, Geneva, 1999. p.80. The survey included sugar cane farming and processing, textile manufacturing, wholesale and retail trade, restaurants and hotels

An enterprise with more than 10 employees must apply to the Minister for Labour in order to reduce staff. The Minister refers the application to a statutory body, the Termination of Contracts of Service Board. If this body finds that the reduction is "not justified" it can order the retrenched workers to receive 6 times the normal severance award.

The Industrial Relations Act does not set out the considerations that must be taken into account by either board in their deliberations.

Industrial relations are good, evidenced by a low rate of industrial disputes.

4. Employment of non-citizens

Non-citizen personnel are required to have a work permit and a residence permit. The Government is keen to ensure that employers are active in training and localization of local staff and recognises that it will usually be in the natural interests of employers to localize quickly in order to reduce costs.

Accordingly, the Government takes a flexible approach. It will recognise the need for a new investor to employ group staff in key positions and will not apply a labour market test to positions that are justified on such grounds. There is no minimum or maximum number of such positions per investor although at least one key representative will be permitted. For key positions, each employee receives initial work and residence permit for one year and subsequently for three-year periods.

For other positions the issuance of work and residence permits to non-citizens is granted if a person meets one of two criteria. The person will introduce either expertise not available in Mauritius (skilled positions) or that such labour is unavailable in Mauritius (semi-skilled positions). The latter provision has been used extensively in the textile industry where workers from Asia have been recruited on contracts for up to three years.

An interdepartmental committee screens all work and residence permit applications and recommends the grant of permits to the Minister for Labour and Human Resources. In the recent past there have been delays in the grant of permits. A fast track procedure has now been introduced, involving some delegation of powers by the Minister, which has speeded up processing to an average of 2-3 weeks according to the Government. Private sector sources indicate that there can still be prolonged delays and embarrassing incidents in the issue of permits and are of the firm view that the system is sub-standard.

5. Competition Policy

Mauritius has no legislation to tackle restrictive business practices. A 1995 study[24] found that high market concentration exists in many markets and that some types of restrictive business practices may occur.

A high degree of market concentration was found in the following industries:

- Public utilities including telecommunications, electricity (excluding generation), radio and television broadcasting and air transport (airlines and airports operations);
- Manufacture of beer, tobacco products, flour, fertiliser, pharmaceutical products, edible oils, livestock feed, paint, soft drinks and poultry;
- Import and distribution of cement (the sole private importer and distributor is a consortium of local and foreign[25]investors), and the importation of petroleum products (monopoly of the State Trading Corporation);
- Services such as commercial banking, equipment leasing and car rental and duty free shopping.

Businesses surveyed for the study were especially concerned at high prices and/or poor quality of key service in airfreight, telecommunications and insurance and attributed this to a lack of competition. A competition law has been drafted but is stalled as it is regarded in some quarters as too draconian for the business community. The introduction of such a law could be especially beneficial in the services sector, which accounts for over 60 per cent of GDP, and in the supply of some intermediate goods for business. Greater openness to new entrants in highly concentrated industries could attract new FDI that will be beneficial for the competitiveness of the economy.

The Government itself is a leading practitioner of non-competitive business arrangements. Apart from its dominant ownership of many public utilities and services it exercises anti-competitive controls on commercial rents.

6. Protection of intellectual property

Mauritius has a modern copyright law and is in the process of finalizing a best practice law on industrial property e.g., patents, trademarks and industrial designs. The intellectual property regime is consistent with WTO requirements. However, implementation of copyright law needs to be effectively enforced.

7. Corporate governance

Mauritius is reviewing its Companies Act of 1984 in order to modernize several provisions based on current best practice exemplified by the New Zealand regime and to simplify incorporation. A new Securities Act will deal with the offer of shares to the public and the insolvency provisions will be updated in separate law. Most companies will be obliged to adopt international accounting standards.

[24] UNCTAD, Market Concentration and Restrictive Business Practices in Mauritius, June 1995.
[25] Lafarge and Blue Circle

D. Investment incentives

1. Background

The provision of incentives, primarily fiscal, has been one of the foundations of investment promotion in Mauritius. Incentives are extensive. Where they support feasible strategic outcomes, they have been associated with rapid investment growth. Prime examples are the export processing zone concepts (which marshalled substantial investment in the 1980s in the textile industry for export under preferential trade arrangements to Europe) and incentives for hotel investors and operators (which helped a rapid build up of up-scale hotels in the 1990s). Textiles and garments, and tourism are now referred to as the second and third pillars of the economy.

Preferential offshore arrangements were begun in the 1990s in the hope of creating international financial services as a fourth pillar. There has been a great deal of commitment and energy and some success in promoting FDI in the offshore sector.

The original incentive programme, the Development Incentives Act of 1974, was introduced to encourage import substitution in manufacturing. That Mauritius was able to abandon the strategically indefensible idea of promoting protected manufacturing for the tiny local market in favour of the new opportunities for export-oriented textile industry says much about the clarity of thinking at that time. The Development Incentives Act was repealed in 2000.

There is much less strategic vision evident in a second generation of industry incentives that were introduced with the Industrial Expansion Act of 1993. This Act offered tax incentives to selected manufacturing and industrial support industries principally aimed at the local market. Many elements of these incentive schemes lack a strategic focus and in some cases are manifestly of the “me too” variety (e.g. given to one industry simply to satisfy a claim for parity with another). It is possible that on balance they and other ad hoc incentives have involved more pain (to public revenues) than gain (induced increase in investment).

A round of incentives to promote domestic capital markets and financial services was also introduced in the 1990s. These included incentives for companies to list on the stock exchange and for investors to buy listed securities. Arguably these have failed. It is probable that a high proportion of companies have listed only to secure lower taxation. Many stocks are illiquid and turnover is low. Moreover there has not been one public offering of new shares in the last four years.

A scheme to encourage outward investment in the region has been introduced and one project has been approved for the relevant incentives.

In December 2000 the National Assembly passed the Investment Promotion Act which confirmed the creation of a Board of Investment Act 2000. This Act would provide additional powers to the Government to design and grant fiscal incentives on a case-by-case basis to a range of business activities in which the amount of new investment exceeds the equivalent of about $ 400,000.

2. Incentives (other than for offshore business)

The investment incentives offered by Mauritius are so extensive as to defy comprehensive summary. A survey of key incentives of most interest to potential foreign investors is set out in table 7. Clearly Mauritius presents an attractive low tax regime for FDI in areas where it is welcomed.

Table 7. Investment incentives

Sector	Summary of incentives
AGRICULTURE	
Non-traditional	◆ 15 per cent corporate tax rate ◆ no import duty on plant, machinery and spares ◆ 50 per cent reduction in land registration duty
Fishing (for export)	◆ 15 per cent corporate income tax rate ◆ no import duty or VAT on raw materials and equipment ◆ no personal tax on 2 expatriate staff
MANUFACTURING	
All (including cases below)	◆ 15 per cent corporate income tax rate except on beer and soft drinks producers
Export processing (including agro-industry)	◆ no import duty or VAT on equipment and raw materials ◆ no personal income tax on 2 expatriate staff
High technology	◆ no import duty or VAT on equipment and certain materials ◆ 50 per cent relief on personal income tax for 2 expatriate staff
Upgrading and anti-pollution investment	◆ 10 per cent of new capital expenditure up to $400,000 available as tax credit ◆ no import duty on qualifying imports
SERVICES AND INFRASTRUCTURE	
Export-oriented services	◆ 15 per cent corporate income tax rate ◆ no import duty on office equipment
Industrial property development	◆ 15 per cent corporate income tax rate ◆ 50 per cent reduction in land registration duty
IT	◆ as for export processing
Printing & publishing	◆ as for export processing
Education and health	◆ 15 per cent corporate income tax rate
Capital market	◆ 25 per cent corporate income tax rate for listed companies (15 per cent for mutual funds and listed trusts) ◆ no tax on interest on quoted bonds
Regional headquarters	◆ 10-year tax holiday, on foreign sourced income, and 15per cent corporate tax thereafter ◆ Tax-free dividends ◆ Duty free import of furniture, equipment, including a maximum of 2 cars for expatriate personnel ◆ Concessionary personal income tax for two expatriates non-resident Mauritian employees for the first four years of employment

SELECTED FINANCIAL SERVICES	
	15 per cent corporate income tax rate for unit fund trustees, venture capital funds and managers, holders of a development certificate or pioneer services certificate
Concession projects	◆ Ministerial discretion to reduce any tax or charge on a project basis
TOURISM	
Hotel management	◆ 15 per cent corporate income tax rate ◆ concessional finance
Hotel development	◆ as for hotel management; plus ◆ no import duty on certain equipment ◆ cheap land

Sources: National legislation including the Income Tax Act, Development Incentives Act, Industrial Expansion Act, Health Management (Incentives) Act, Health Development Certificate Act.

3. Incentives to develop offshore, freeport and outward investment

In recognition that it has a small internal market, Mauritius wants to position itself as provider of services to non-residents and as a base for investors in the sub-region. Three channels have been identified:

- Offshore business and financial services;
- Freeport (transshipment and re-export);
- Outward FDI.

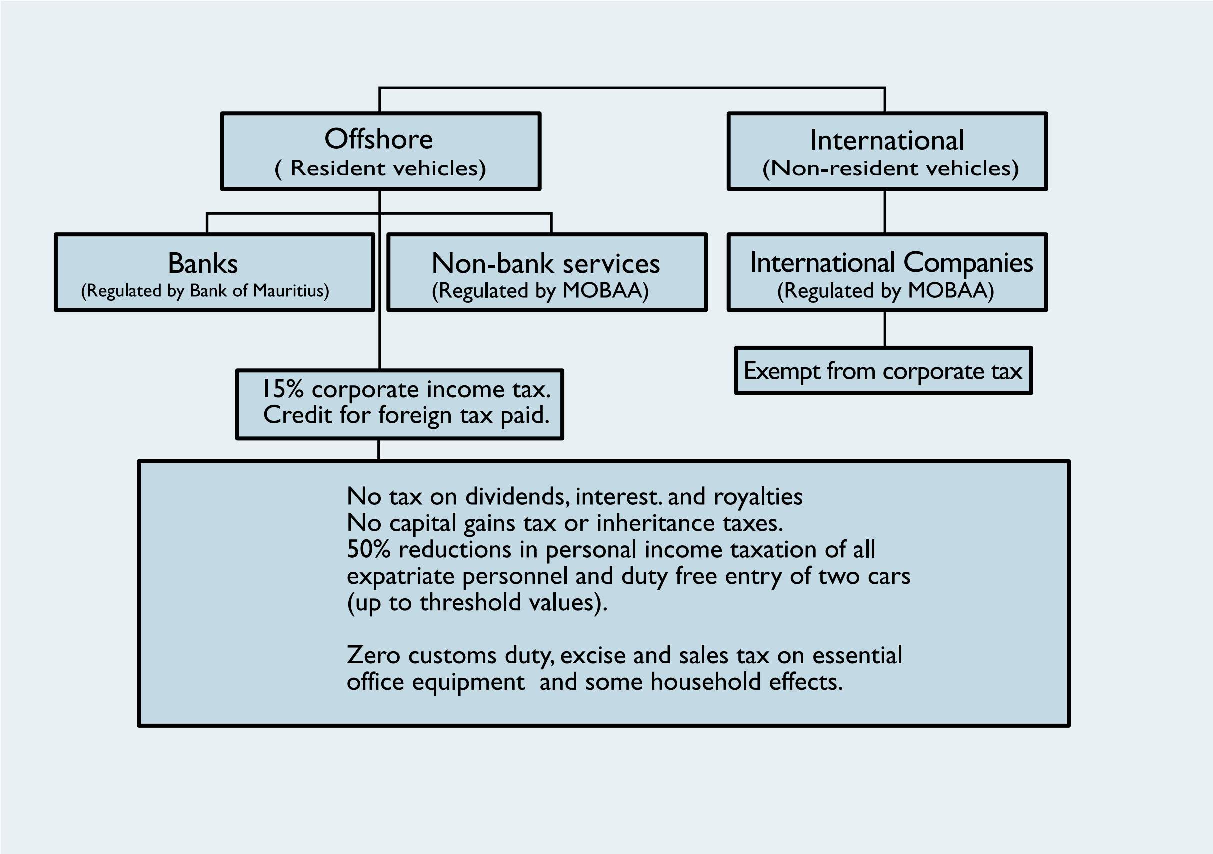
THE OFFSHORE SECTOR

Offshore sector development began with offshore banking in 1989 and accelerated with the creation of the Mauritius Offshore Business Activities Authority (MOBAA) in 1992. MOBAA has sought to develop offshore banking and non-bank financial services within a tax advantaged, low cost and well-regulated environment. It has concentrated its promotional work on investment funds, investment holding and international trading and has also endeavoured to develop Mauritius as a location for captive insurance, aircraft leasing and ship registration.

Since 1992 a distinction has been defined between resident offshore vehicles and non-resident or “international” vehicles. Resident vehicles are subject to Mauritius income tax and are thus within the ambit of double taxation treaties. International vehicles are exempt and do not benefit from the provisions of these treaties.

Apart from the formalities of registering and maintaining a registered office in Mauritius an offshore company can obtain residence by contracting corporate secretarial duties to a licensed offshore management company that is resident in Mauritius. Chart 6 sets out the key features and applicable incentives.

Chart 6. The Offshore sector



FREEPORT

The freeport initiative began in 1992 under a statutory licensing and management entity, the Mauritius Freeport Authority.The main incentives given for the free port are:

- No corporate income tax;
- No customs duty or VAT on capital items and re-exports;
- Subsidised warehousing and storage.

OUTWARD INVESTMENT

Mauritius companies are increasingly interested in investment in neighbouring countries. This has been enabled by the abolition of exchange control. It is motivated by a need to relocate parts of the textile and garments, and sugar industries, to lower cost areas in the region, and by profitable opportunities identified by hotel, banking and other investors.

Incentives for outward FDI were formalized in 1998 by the creation of a regional development certificate. An enterprise based in Mauritius can apply for this certificate if it plans to invest in any sector in a defined regional country. A Mauritius investor with at least a 35 per cent interest in such an enterprise is also eligible for incentives. Table 8 summarizes these incentives.

Table 8. Incentives for outward FDI

Outward FDI	Incentive
Enterprise	◆ 15 per cent corporate income tax rat ◆ Foreign tax credit ◆ No income tax on dividends from investment abroad
Investor in enterprise	◆ Annual investment allowance ◆ 25 per cent investment allowance on all capital expenditure

Source: Income Tax Act, 1995 as amended up to December 1999.

4. Double taxation treaties

Mauritius has energetically expanded its double taxation treaty network over this decade. There are now 24 treaties in effect and a further 14 are under either negotiation or awaiting signature or ratification. Importantly, all but 4 of the treaties in effect have tax-sparing provisions that enable foreign investors from the relevant home countries to effectively retain the benefit of Mauritius corporate tax incentives. Treaties with France, Germany, and Italy do not contain this benefit.

E. The entry process

All foreign investment requires "authorization to invest" which is issued by the Department of the Prime Minister. Simultaneously, most foreign investors other than in traditional industries will elect to apply for incentives in the form of a certificate.

Until recently there were significant delays in the first step. The Government's Task Force on EPZ Competitiveness found, in 1996, that authorization to invest could in some cases take up to 3 months and also noted that a prospective investor had to transfer funds before an application could be considered. It is understood that delays have been reduced.

Investment promotion and the facilitation of secondary permits has hitherto been done on a sectoral ministry basis. For example the former Ministry of Industry, Commerce, Corporate Affairs and Financial Services offered a "one-stop shop" facilitation service. This is also offered by MOBAA.The Ministry noted, correctly, that its unit did not have the power itself to issue such permits but undertook to assist the investor by way of close liaison with line agencies.

The general experience of obtaining secondary permits seems good and the Government is conscious of the importance of smooth secondary permitting. For example there can be delays in obtaining development permits and trade licences from local authorities. These authorities have been urged to streamline procedures, and, unless immediate progress was evident, the Government might step in to take back licence issuance powers from non-performing councils.

Recently the Government has moved to create a Board of Investment which will centralize the oversight of the secondary permits process and will consolidate the approval mechanisms for most investment incentives (see box 4). This is a significant development.

Box 4. Creation of the Board of Investment

The Investment Promotion Act of December 2000 confirmed the establishment of a Board of Investment (BOI) which is intended to have a central role in promoting and facilitating both local and foreign investment.

The new BOI is expected to promote Mauritius as an international business and service centre, to assist in the upgrading of Mauritius industry and to promote investment in technologically advanced enterprise. Its Board of Management will be drawn from a cross-section of stakeholders.

Principal changes to the entry process to be introduced by this Act will be:

- The consolidation in one body, the new BOI, of the power to approve applications for investment incentives. All onshore incentive schemes with the exception of those for small and medium enterprises are to be handled by the BOI.

- Continuation of existing fiscal incentives schemes and the broadening of fiscal incentives to apply to investments exceeding the equivalent of about $ 400,000 in a range of sectors.

- Creation in the BOI of mechanisms to oversight and expedite the issue of secondary permits by public sector agencies.

The founding Board and Managing Director have already been appointed.

Sources: Investment Promotion Act 2000; presentation by Mr G. Comarmond, Managing Director, BOI to the UNCTAD/UNDP sponsored workshop on the Investment Policy Review, 23 November 2000.

F. Foreign investment - a broader vision

Mauritius has the highest per capita GDP and is rated the most competitive economy in Africa. Why then have inflows of FDI this decade been so small even when allowance is made for its size and remoteness? In descending order of importance the following reasons are suggested:

- Mauritius has not offered a profile of opportunities for large-scale FDI due to its late start in privatizing major utilities. It is argued that this has also been a strategic mis-step with wider implications;

- FDI in textile and garments manufacturing sector has fallen sharply and is only offset by an increase in FDI in the tourism sector;

- FDI is arguably not encouraged and certainly not promoted in a wide range of non-financial domestic services and commerce. There is a wary and inward-looking stance towards the entry of FDI in these sectors and the entry approval process is non-transparent. In a world competing for FDI this is a handicap;

- Failure to attract big name international investors with strong signalling capacity that Mauritius is an attractive investment destination. This is another consequence of the late start in privatization;

- The offshore sector, which has grown over the decade, is a low capital/high skill form of investment. FDI inflow statistics understate the importance of this investment.

Whilst these five elements remain, the trend in FDI inflows will continue to be downward - relieved by occasional spikes as major hotel developments are commissioned and privatizations are completed.

If the present stance towards FDI continues, it will not contribute to moving Mauritius above a middle/low growth path of per capita income. Per capita GDP of over $10,000 by 2020 is unlikely to be attainable without an acceleration of FDI, notwithstanding vigorous investment by leading Mauritius companies.

Changes in the policy and operational framework will be required for FDI to play its full part in raising the national income growth path. The following boxes set out the policy choices. "High growth" represents a regime of best practice where the stance of FDI policy contributes to high growth. "Medium growth" and "low growth" represent choices where FDI is part of lower economic growth scenarios. *(Shaded areas indicate the current status of Mauritius policy).*

1. The permissive framework

	High Growth	Medium Growth	Low Growth
	Permissive framework		
OPENNESS	No reserved list	Pro-active reserved list	Reactive reserved list
ADMISSION	All FDI registered not screened	All FDI transparently screened	Non-transparent screening of some FDI
PRIVATIZATION	Fast track privatization	Announced privatization programme	Piece-meal privatization

Mauritius currently has a low growth permissive framework that falls well below best practice standards of openness and transparency.

The high growth permissive framework is one in which a confident middle-income country welcomes FDI in all sectors. Admission of new FDI is a process of registration rather than screening. It recognizes that FDI can contribute capital, skills, technology, market development throughout the economy and moreover, that competition with established producers, while sometimes painful, improves the overall competitiveness of the economy. The provision of goods and services to business is immediately opened up. As part of this, the Government adopts a major privatization programme that is open to FDI. The Government concentrates on setting up an appropriate regulatory framework (equally applicable to domestic and foreign investors) that promotes competition and aims at equal treatment.

A medium growth framework is a less radical departure from current practice. A reserved list is maintained but FDI is sought pro-actively where:

- An established Mauritius company seeks a foreign joint venture partner;

- In sectors and activities where there is evidence of undue market concentration or restrictive business practices or where the proposed benchmarking shows substandard price or quality of goods and services. These sectors and activities would be publicly listed based on the results of the studies already undertaken (1995 study[26]) and with provision to expand that list based on annual reviews;

- It will be used as a platform to provide regional business or financial services.

This extension of the current approach in which FDI is approved case-by-case in "reserved" sectors where it brings in scale or technology not currently available e.g. hypermarkets.

Whether a high or medium growth path is selected the current propensity to decide applications through the Prime Minister's Office in secrecy and against unpublished criteria should be changed. The current process is more akin to the new member rituals of an English gentlemen's club than to the standards expected of a progressive country.

The decision of Mauritius not to embark on an early and comprehensive privatization programme is a serious strategic mis-step. Consider the benefits for the regional business services strategy of being first mover in privatization in the region:

- Privatization of the utilities could attract major foreign direct investors to Mauritius, which currently lacks the names and clout of major foreign companies;

- Successful investment and restructuring following privatization would give Mauritius enterprises the credibility to bid for the many opportunities becoming available through privatization in the region - including ports, electricity, airports, telecommunications. Importantly in many cases these could be too small for major foreign investors to tackle directly - the Mauritius affiliate would be ideally placed to be the regional base for smaller privatization opportunities;

- Certain regional privatization opportunities would link directly with the regional hub ambitions of Mauritius. For example participation in the development and operations of the ports of Beira, Dar-es-Salam and Mombasa could fit well with the regional freeport/transshipment strategy;

- Past under-investment and neglect means that privatization in Africa will be structured to require substantial new investment to improve capacity and service. The financing requirements will be very large. The presence of major foreign investors bidding through Mauritius enterprises will provide the financial clout to meet new investment obligations. Opportunities will also be provided for the domestic and offshore banking sector to develop its lending expertise in the region;

[26] UNCTAD, *Market Concentration and Restrictive Business Practices in Mauritius.* June 1995

- State of the art foreign investment in strategic utilities (telecommmunications, water and power) would lower the production costs of Mauritius making the whole economy more competitive (and therefore more attractive to FDI);

- Big name foreign investors would help place Mauritius on the international FDI map and link services in Mauritius to best practice international developments. Successful privatization to major investors is a matchless public relations opportunity.

Certainly there have been individual initiatives by Mauritius investors, including public enterprises to invest in the region. However, early privatization has not been used as a platform for a major strategic push.

A broader view of the potential strategic benefits of privatization is lacking. The 1997 White Paper on Privatization, for example, does not mention FDI or the potential of Mauritius to be a base for international companies investing in privatized businesses in the region. Early mover advantage has been lost but it may not be too late if immediate steps are taken to implement a privatization programme driven by a broader strategic vision.

2. Institutional arrangements

	High Growth	Medium Growth	Low Growth
	Institutional Arrangement		
INVESTMENT PROMOTION	Single high calibre leader	Sectoral promotion units	No dedicated promotion unit
PERFORMANCE INCENTIVES	Promotional targets and rewards	Promotional performance on civil service standards	NA (see above)
INVESTMENT FACILITATION	Single high calibre facilitator	Sectoral facilitator	No dedicated facilitator
INTEGRATION	Combined promotion and facilitation	Disjointed promotion and facilitation	No dedicated promotion unit
PRIVATIZATION	Super privatization unit	Centralized privatization unit within a ministry	Decentralized privatization responsibility
CONCESSIONING	Dedicated Unit. Modern legal framework	Poor legal framework and ad hoc project initiatives	No framework for public partnerships
REGULATION	Pro-market utilities regulator	Sub-standard policy and enforcement	Key monopolies public ownership

Historically, individual ministries and agencies appear to have had responsibility for promotion and facilitation of FDI. This led to a patchy coverage. In a small country such as Mauritius it makes sense to have a single agency that leads all investment promotion (allbeit in co-operation with the sectoral ministries) and also to concentrate facilitation in one agency. Moreover the agency that attracts a foreign investor should maintain contact, and accept a degree of responsibility towards the client, by also being responsible for facilitating the issue of secondary permits. The newly created Board of Investment will co-ordinate investment promotion and facilitation. The new agency also has a policy development and advocacy role in relation to FDI and should develop into the authoritative voice on foreign investment matters in the Mauritius Government. The Board of Investment should have particular responsibility for promoting two-way investment between Mauritius and its partners in the SADC, COMESA and IOR countries. This development will move Mauritius towards the "high growth" path in respect of integrated investment promotion and facilitation.

MOBAA and the Freeport Authority are successfully promoting and facilitating investment in their specialized areas. It is not suggested that their activities be merged with the new agency.

If a fast track approach to privatization is adopted, a separate high capacity implementing agency will be needed. This would include short-term staff with investment banking skills brought in from the private sector with special remuneration packages. Successful privatization agencies elsewhere have been able to utilize aid funding to support a small professional unit and to pay retainers of transaction advisers. Similar considerations apply to supporting the unit responsible for concession projects. There are immediate opportunities for concession projects in the provision of infrastructure and utilities. Moreover, the concessioning approach should be extended to areas that are more traditional, especially tourism, where access to valuable development land and to marine parks could be made available by competitive tender.

If privatization and project concessioning move onto a fast track, it is recommended that Mauritius create a super investment agency which:

- Consolidates investment promotion and facilitation under one roof;
- Incorporates expert units dealing with privatization and concession projects;
- Sets standards and incentives for outstanding performance and brings in private sector expertise to complement the skills of the public service.

Similarly, if privatization proceeds, Mauritius will need to establish regulatory oversight of industries where there is a degree of monopoly. A single enforcement body that oversees all sectors may be the most efficient approach to mobilizing the needed expertise and thus to ensuring that prospective foreign investors have confidence in the regulatory system. Logically, its powers would include enforcement of competition policy when competition legislation is enacted (see section C below).

3. *Specific standards of treatment of FDI*

	High Growth	**Medium Growth**	**Low Growth**
	Specific Standards		
PROTECTION	Modern legal framework	Good track record	Bad track record
TREATIES	Extensive treaty including major and regional partners	Expanding treaty network	Poor treaty network

Mauritius already has a medium to high growth profile in specific standards of treatment and protection for investor, once they enter the country. This arises from a good track record and an expanding investment treaty network. Given this, it is not essential to have a foreign investment law that states these principles. However, the introduction of a modern foreign investment law could be a good promotional tool - especially if it marks a passage from the present restrictive and non-transparent FDI regime towards the high growth alternative.

4. *General standards and policies which impact FDI*

	High Growth	**Medium Growth**	**Low Growth**
	General Standards/Policies		
FISCAL	Incentives based on strategic merit and international competitiveness	Low tax regime through piecemeal incentives	Uncompetitive high tax regime
REVENUE ADMINISTRATION	Fair and prompt action on assessments, refunds and clearances	Fair but inefficient administration	Widespread avoidance and chronic corruption
EXCHANGE CONTROL	None	Flexible, no access problems	Volatile, access difficult
LAND AND LABOUR	Market driven access to land and labour within specific and transparent public interest safeguards	Over-regulated but not unduly restrictive controls on land, and labour	Rigid anti-market controls with uncompetitive pricing
INTERMEDIATE GOODS AND SERVICES	Strong and well enforced competition law. FDI facilitated to increase competitiveness	Significant pockets of market concentration and barriers to entry. Inappropriate controls	Pervasive private and public monopolies

EXPATRIATE ENTRY	Flexible. Responsive to investor needs	Balanced rules. Inefficient administration	Severe labour market tests. Corrupt administration
INTELLECTUAL PROPERTY PROTECTION	Modern and well enforced laws	Developing framework and enforcement	Poor legal regime and/or widespread abuse
CORPORATE GOVERNANCE AND ACCOUNTING	Modern laws and international accounting standards		Rule of the jungle
RULE OF LAW	Impartial and efficient judicial process and law enforcement	Some discrimination or inefficiency	Non-independent judiciary. Insecure legal and personal environment

Mauritius is on a medium or high growth path in respect of the key general standards listed above. Two areas need priority attention from the standpoint of FDI - the tax incentive strategy and the tendency to market concentration in the supply of business goods and services.

TAX INCENTIVES

Mauritius companies operating in 32 different business activities are entitled to a concessional corporate income tax rate of 15 per cent. In addition, any company listed on the Mauritius Stock Exchange is taxed at the maximun rate of 25 per cent, regardless of its sector of business. Moreover, income from profit, interest, or dividends is exempt from taxation in dozens of cases. As discussed in section D.1, some incentive schemes may have succeeded but many have failed. There is substantial international research, which shows that fiscal incentives are not the most important factors that induce FDI. Although, in a small country like Mauritius, an attractive overall tax regime gives a strong signal that the country is keen to attract investment. Moreover, poorly designed incentives are generally costly as well as being ineffective. In Mauritius three particular issues also stand out:

1. Many existing incentives lack a strategic rationale. For example, it is difficult to argue that there is strategic merit in according tax incentive status to bus operators, construction companies, farming companies, duty free shop operators and casino operators.[27]

2. Incentives with a strategic rationale will fail (and sometimes at considerable cost to public revenues) if they do not have the wholehearted support of other policies. Capital market development incentives are a case in point. In addition to reduced corporate income tax for listed companies the incentives extend to their investors who have a generous tax credit on listed shares, no capital gains tax, and no tax on interest on listed debt securities. The income tax and tax credits applicable to companies by virtue of their listed status account for nearly 30 per cent of the value of all such incentives given in Mauritius. Yet, liquidity is poor and there has not been a single new equity issue in four years. The exchange is simply a tax shelter for most of the listed companies. In part, the tax

[27] In the case of casinos the terms of government equity participation may have a fiscal effect.

breaks have failed because of half-hearted approach to other elements of capital market development - failure to break up the management of statutory funds, low equity investment limits of institutions and because the Government pension scheme is unfunded. The incentives for IT development, including the building of an informatics park is another example. Can these incentives work whilst telecommunications policy permits uncompetitive user costs to persist? When initiatives are not fully thought through they can handicap investment promotion, frustrate investors and undermine credibility.

3. The incentive for investors in enterprises holding regional development incentive certificates will be costly and counterproductive. It is reasonable for a Mauritian company making an investment abroad to have broadly neutral tax treatment compared with investing at home. But substantial Mauritius-based investors in such companies will get an extraordinary degree of tax relief which may create a strong bias against investing at home.

The Government should:

- Remove all incentives that do not have strategic rationale or where costs exceed the benefits. In 1998/99 the value of corporate income tax and tax credit incentives (outside the offshore and freeport sectors) was equivalent to nearly $20 million compared with total corporate tax payments of $52 million;
- Move towards a uniform corporate income tax regime that rewards new investment directly through generous rates of capital allowances. This will ensure (a) that no sector is disadvantaged, and (b) that the sacrifice of public revenue is focussed where the payoff is greatest;
- Concentrate the resultant revenue savings on highly competitive incentive arrangements in key strategic areas. These may have as much to do with expenditure on appropriate infrastructure and improved tertiary education and training (see strategic overview) as with providing tax concessions. There is also likely to be scope to lower import duties to improve this cost element of competitiveness and move away from specific exemptions;
- Ensure that incentives are supported by all other policies which can shape the attractiveness of investment;
- Be in a position to offer exceptional terms to large or special investments, including FDI, on a case-by-case basis as foreshadowed in 1999-2000 Budget Speech.

COMPETITION

There is evidence of high market concentration and potential for uncompetitive behaviour in the supply of goods and services to business. The entry of new investors can contribute to increased competition. FDI can contribute competitive pressures to lower business costs. A benchmarking exercise, recommended in chapter 3 of this report, will identify Mauritius' weakness in competitiveness and should be used proactively to seek new FDI to increase competition.

The Government should:

- Use benchmarking (as recommended in chapter 3) to pro-actively identify where new FDI could lead to greater competitiveness;

- Ensure that the proposed competition agency and BOI work together to maximize the opportunities for FDI in the relevant sectors. The competition agency should create a "watch list" of industries and services where undue market power is restricting competition. Problematic areas could include those listed in section C.5 above. Where there are barriers to entry of FDI caused by either FDI restrictions or other factors, inimical to foreign investors the watch list would play an advocacy role with the investment promotion agency to overcome them. The watch list should also have a voice in setting the competitive framework in sectors undergoing privatization;

- Adopt as strategic a view as possible, against narrow interests. In so doing, the entry of FDI will enhance the ability and credibility of Mauritius to be a regional provider of business services.

G. Key findings and recommendations

Historically, Mauritius has functioned well, especially judged against the standards of low-income countries. Economic growth and structural change has been achieved whilst maintaining admirable national stability and social cohesion.

But FDI inflows have been disappointing for some years. This review of where Mauritius stands in relation to best practice in the policy and operational framework for FDI has found:

- A low growth permissive framework which restricts opportunities for FDI;

- Good medium to high growth specific standards in the treatment of foreign investors;

- Medium growth institutional arrangements for promoting and facilitating FDI;

- A mix of medium and high growth general standards and policies that concern foreign investors.

For Mauritius to achieve a high growth path and become a business hub for Africa it must be viewed as one of the most open, investor friendly and progressive countries in the world - that is, not just in Africa. In this light, our recommendations of reforms in the policy and operational framework for FDI can be encapsulated in six points:

1. Rethink the role of FDI. Weigh a broader view of FDI as a tool to support strategic objectives against a narrower view of protecting local investors (see 3 and 4 below).2. Publish a policy statement and bring transparency to FDI regime including the admission process.

2. Publish a policy statement and bring transparency to FDI regime including the admission process.

3. Undertake a fast track privatization programme. Open this to FDI to bring world-class standards, “name” investors and enhanced capacity and credibility to the regional investment and business services strategy.

4. Utilize FDI to increase competitiveness in the local market. Focus on strategic areas, for example in the provision of goods and services to business.

5. Create a super agency to consolidate investment promotion and facilitation including the execution of privatization and concession programmes. The able public service of Mauritius will be a promotional strength if organized and motivated correctly.

6. Reorganize and focus investment incentives on strategic objectives and ensure that all complementary policies are in place prior to launching investment promotion initiatives.

III. STRATEGIC PERSPECTIVE: ENHANCING THE ROLE OF FDI IN DEVELOPMENT

Mauritius has done extremely well given its constraints. To have succeeded in building a strong economy, managing the complex ethnic relations and still be able to sustain a vibrant democracy over the past three decades are commendable achievements. The high quality of expertise in the public sector is striking given the small population base.

A fresh strategy is needed to sustain growth in the new millennium. There is a need to upgrade the basis of production of goods and services and promote new businesses and activities to achieve greater diversification and vibrancy of its exportable service sector. This is not a new challenge for Mauritius but it is imperative, as its international competitiveness is eroding.

Mauritius has risen to the challenge in the past. The economy was almost entirely reliant on sugar exports at independence but today, the economic structure is balanced around three major pillars – sugar, tourism and manufacturing for export – and increasingly, a new pillar in financial and offshore services.

Mauritius must upgrade and intensify its diversification drive, both in markets[28] and activities. Diversification is necessary because the competitive landscape is changing: wages are rising faster than worker productivity in the EPZ, driving up unit labour costs by more than 50 per cent between 1990 and 1998. Growth of manufactured exports has slowed, reflecting a loss of competitiveness to low-wage exporters in Asia, Eastern Europe and Latin America.

Mauritius has sought FDI over the past two decades to accelerate its diversification into textiles and garments, and tourism. FDI has been modest in scale but has supplemented domestic capital and provided key inputs of technology, management and market knowledge. In turn, these sectors have attracted efficiency-seeking foreign investors in textiles and resource-seeking foreign investors in tourism.

Is it viable for Mauritius to continue expecting efficiency-seeking investment in textiles and garments? For several years FDI inflows have stagnated, and FDI which seeks low-cost labour, increasingly flows out of, rather than into Mauritius. Natural beauty and a safe environment still provide an attractive resource for Mauritius in attracting FDI in tourism. Can this sector develop in ways that will sustain higher growth? Mauritius has put much effort into developing as a niche market for offshore financial services and has attracted modest commitments by foreign commercial banks to this sector. Can a market for financial and business service products be developed of sufficient scale to attract substantial commitments to Mauritius by leading foreign investors?

These FDI questions must be addressed in formulating a development strategy that is needed to help Mauritius re-position itself. The development strategy will entail a profound upgrading and structural shift.

[28] Exports of merchandise to the European Union and United States traditionally accounted for almost four-fifths of total exports. Exports and re-exports of merchandise to the COMESA markets have been increasing in recent years.

A. Upgrading and structural shift

1. Strategic perspective

Mauritius is a small, open economy that has successfully risen from a low income to an upper-middle income developing country. However, the industrial structure has not upgraded at a commensurate pace. The skill and technology base remains weak, and manufacturing remains concentrated in low value-added activity. Consequently, productivity growth has not kept pace with rising wages and incomes.

An important source of growth in the next two decades will have to come from efficiency gains. At present, total factor productivity in Mauritius contributes only 10 per cent to productivity growth as compared to 24-58 per cent in Asian economies (see table 9).

Table 9. Productivity growth in East Asia, 1964-94
(percentage)

Country	Growth of output per worker	Contribution of total factor productivity
China	4.5	58
Indonesia	3.4	24
Rep. of Korea	5.7	26
Malaysia	3.8	24
Singapore	5.4	28
Thailand	5.0	36

Source: S. Collins and B. Bosworth, "Economic Growth in East Asia: Accumulation Versus Assimilation", Brookings Papers on Economic Activity 2, 1996.

Mauritius could benefit from the development experience of other developing countries. In strongly growing economies with large domestic markets, rising wages induced industrial upgrading within the manufacturing sector. These economies moved from labour-intensive and low-wage industries, such as textiles, garments, toys, leather products and footwear to more capital-intensive, higher wage and more diversified industries (in terms of technology and skill), such as petrochemicals, other chemicals, electronics, automobiles, machinery and equipment. Thus, over a quarter-century span, manufacturing expanded in Malaysia and Thailand from respectively, 12 per cent and 16 per cent of GDP, to 27 per cent and 29 per cent (see table 10). Industries like electronics, machinery and equipment contributed an increasing proportion of manufacturing output.

However, the experience is different for small open economies without large domestic markets, such as Hong Kong, China and Singapore. They achieved sustained growth through upgrading in services (see table 10). The share of manufacturing in GDP peaked at the levels of around 28 to 31 per cent in the early stage in both economies, and it then declined.[29] Hong Kong, China, experienced significant decrease (from 31 per cent in 1970 to 6 per cent in 1998) as production shifted increasingly to services such as offshore financial services, regional trading services or services of regional headquarters of TNCs. Faced with rising labour costs, as well as competition from larger developing countries with abundant supply of labour and land, and bigger domestic markets, these smaller economies upgraded into high value services. FDI had played a major role in this development.

Table 10. Sectoral composition of GDP of high performing economies in Asia, 1970 – 1997

Country	1970	1980	1990	1997
HONG KONG, CHINA				
Primary	2.1	1.0	0.2	0.1
Secondary	30.9	22.5	16.7	6.0
Tertiary, of which:	67.0	76.5	83.1	93.9
financial and business services	14.9	21.8	19.2	24.4
MALAYSIA				
Primary	37.8	33.9	28.0	17.3
Secondary	12.2	20.2	26.5	27.3
Tertiary, of which :	50.0	45.9	45.5	55.4
financial and business services	7.8	8.5	9.6	13.0
SINGAPORE				
Secondary	20.1	28.0	25.8	21.6
Tertiary, of which :	79.9	72.0	74.2	78.4
financial and business services	13.7	16.5	21.9	26.2
TAIWAN, PROVINCE OF CHINA				
Primary	17.2	8.7	4.5	3.1
Secondary	29.9	36.2	32.7	26.5
Tertiary, of which :	52.9	55.1	62.8	70.4
financial and business services	10.0	12.8	17.9	22.1
THAILAND				
Primary	28.9	25.0	14.1	12.9
Secondary	15.9	21.5	27.2	28.8
Tertiary, of which :	55.2	53.5	58.7	58.3
financial and business services	2.5	3.1	5.5	9.2

Sources: National statistics

An optimal upgrading path for Mauritius may well resemble that of Hong Kong, China and Singapore, given their similar characteristics of size and the lack of a diversified natural resource base. Upgrading efforts should span across industries. Thus Mauritius has to continue to seek whatever vertical shift opportunities exist in the current industrial structure of manufacturing, particularly textiles and garments, as well as sugar and tourism. Equally, there is a need for a horizontal shift - to expand services into new areas of high value (e.g. financial services, business services and information technology), building particularly on regional opportunities.

[29] Singapore has a specific policy to maintain the share at 25 per cent, largely due to concern of hollowing out and over-dependence of services on regional markets.

2. Vertical and horizontal shift

The pressure to upgrade in manufacturing is driven by wages, which are high in comparison to wages in other countries in the region and elsewhere (see table 11). There are an increasing number of low-wage countries, including China, India, Thailand, Philippines and Latin American countries, competing for FDI in manufacturing for export. In the light of this, it will become increasingly difficult for Mauritius to compete on the basis of labour cost, rather, more importantly on the basis of quality and services to a regional industry.

Upgrading opportunities exist in the textiles industry. With appropriate investment, productivity levels can rise by 20 per cent and exports increase by 30 per cent.[30] The industry has begun to meet the challenge by diversifying some manufacturing to lower wage countries in the region. The regional strategy developed in 1990, will help industries maintain business volume, lower their overall production costs and add more value to their products. Mauritius is enhancing its regional role, with increased specialization in capital-intensive activities, and providing other countries in the region, with the necessary know-how in manufacturing operations, marketing and technology.

Table 11. Labour Costs in the apparel industry, 1996
($ per hour, including social and fringe benefits)

Country	Cost
Poland	2.10
South Africa	1.26
Mauritius	1.02
Philippines	0.62
Bangladesh	0.31
Russia	0.58
Sri Lanka	0.41
India	0.36
Kenya	0.30
Madagascar	0.29
China	0.28

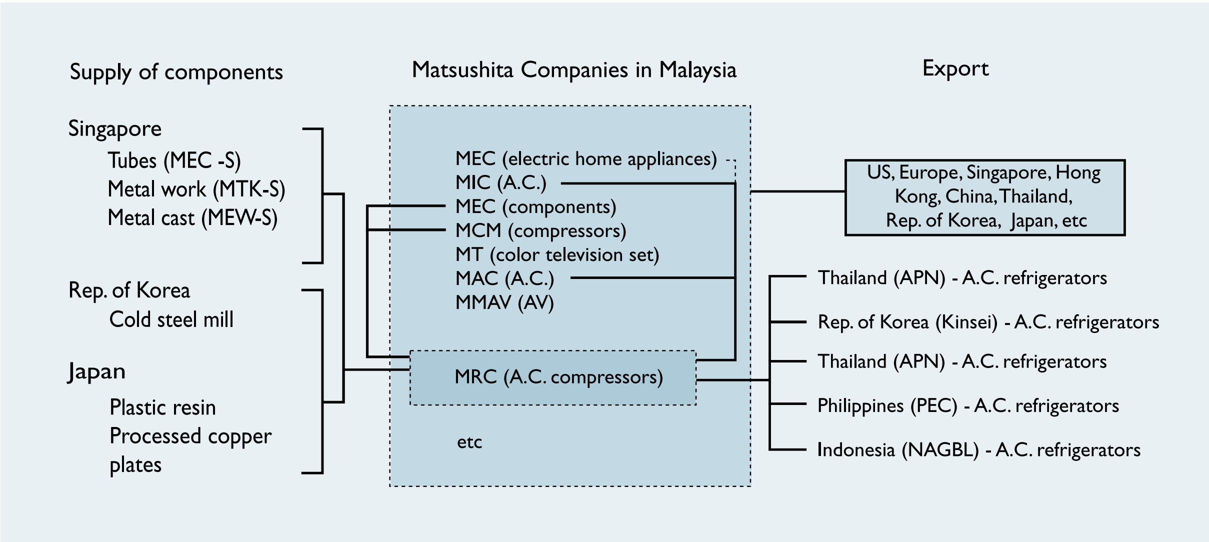
Source: Werner International (1998).

Upgrading efforts taken in the textiles and garments industries will pay dividends with the passage of the US Africa Trade and Development Act, 2000, and confer a greater regional role for Mauritius. The network of offshore production, which Mauritius has built up will enable it to provide top quality products at competitive prices. As a next step, Mauritius must draw foreign industry buyers to set up office. Mauritius will be poised to become a one-stop operation centre for sourcing from African countries. This will lead to increased linkages for local enterprises and create new employment as well as increasing exports.

[30] UNIDO, "Sectoral Study of the Textile and Garment Industy in Mauritius," May 2000.

Overall, the scope for upgrading in other manufactures is quite limited. In the case of the electronics industry, the sector is small and limited to assembling of television sets and domestic electrical appliances for the national and (still small) regional markets. The technologies came in a turnkey package, including training programmes. There is no cluster of component industries to support easy upgrading to the present generation of export-oriented production in industrial electronics, which will enable it to attract efficiency seeking FDI (as illustrated by the operations of the Matsushita Electric Company of Japan in East Asia in chart 7).

Chart 7. Regional integration of Matsushita Electric Company operations in the ASEAN region



Source: Nomura Research Institute, Japan.

The sugar industry is relatively diversified, [31] with limited potential to upgrade into high value-adding products locally. The most likely upgrading potential is investment in and provision of management services to sugar producers in other African countries. Mauritius will be an outward investor and strategically must try to gain dominant position in domestic sugar markets of larger African countries, in anticipation of the eventual scrapping of favourable international trade protocols. Inward FDI is likely to play a limited future role.

Mauritius already has a high-end (upmarket) tourism industry. It is primarily locally owned, but has attracted foreign investment and management. Further volume growth of the local market based on the existing resource base is feasible and should attract additional FDI. Acceleration of value-added services will rely on outward investment from Mauritius into hotel and resort developments in regional countries. These will lead to higher value management, procurement, and professional services income streams to Mauritius. This has begun in nearby countries. The Mauritius industry will need to structure alliances with major international hotel chains that facilitate the position of Mauritius as a leading source of investment and hotel services in the region.

[31] Products includes rum, bagasse for generating electricity and its by-product, filter cake which is used as fertilizer.

An essential element of upgrading will be the ability of Mauritius to move vigorously into business and financial services. The international provision of high value services is highly competitive and dominated by companies based in OECD countries. Mauritius has been able to exploit some niches in international markets for financial services through its offshore financial sector. But Mauritius' competitive advantage ultimately lies more in regional markets than in international markets. In regional markets, Mauritian businesses should aim to access those markets which are too small or specialized for major international companies to service directly from their head office. Mauritian businesses must be able to deliver to these markets, services where the quality and price meet regional requirements. The Mauritian printing industry, for example, has been able to respond to niches in regional markets but not in world markets, as domestic capacity does not adequately meet international quality standards.[32]

Mauritius can capitalize on the opening up of economies in a growing hinterland. Increased prospects for business opportunities and growth in the region over the next decade, can overcome the small size of the domestic market for business and financial services and be a source for potential market-seeking FDI. This should enhance opportunities for local, small and medium-sized enterprises to establish linkages with foreign firms. The capacity of these local enterprises to attract foreign partners must be strengthened. Guidelines on strengthening overall capabilities of SMEs are being implemented (see box 5).

Box 5. Enhancing the role of Mauritian SMEs

There is increasing policy interest in the future role of Mauritian SMEs as exporters and investors especially in the African region. Currently, Mauritius has over 5,000 enterprises with less than 100 employees and most of them do not export: collectively they accounted for 32 per cent of manufacturing employment and about 2 per cent of exports in 1997. Export-oriented SMEs are mainly the larger enterprises with over 100 employees. In 1997 there are 480 such enterprises, of which 336 are located in the EPZ. Linkages with foreign firms are traditionally in the country's developed textile and garments sector, sugar and tourist sectors.

A study by the Commonwealth Secretariat recommended measures to improve the efficiency and international competitiveness of SMEs so as to promote them as an engine of regional growth for Africa. Key recommendations include:

- creating an Export Development Fund to finance overseas marketing efforts of SMEs. This was established in 2000;
- streamlining all bureaucratic procedures affecting SMEs;
- establishing a gateway to co-ordinate the provision of business development services to SMEs;
- developing a supplier-linkage programme to upgrade SMEs in marketing relationships with foreign buyers;
- commercialising the management of the development bank to ensure better access to SME's finance; and
- creating a strong federation of SME's associations to make the case for SME support and to deliver consultancy services to SMEs. This has now been established.

Source: G. Wignaraja and S. O'Neil (1999), "SMEs' Exports and Public Policies in Mauritius" Commonwealth Trade and Enterprise Paper No. 1

[32] Burkinson Johnson, "*Integrated marketing programme for the Mauritian printing sector*".

Mauritius has gained a headstart in developing an offshore banking sector (see box 6). The absence of foreign exchange controls confers an advantage over larger capital markets in South Africa and Zimbabwe. Mauritius can enhance its first mover advantage by developing as a regional financial centre in Africa. There is scope for a range of high value financial services for the region, provided Mauritius can project itself as the natural regional base of leading financial service providers. Chapter IV, section A details financial services that could be developed in Mauritius for the region.

Another strategic intervention for Mauritius would be to promote the development of an IT industry. This is a high value sector which can provide high wage employment as well as enhancing domestic competitiveness. FDI will have a central role in the development of this industry (see details in chapter IV, section B).

In summary, textiles and garments, and tourism offer scope for vertical shift towards more value-added activities within these industries. The prospect of developing new manufacturing industries is likely to be arduous given the changing competitive global environment, Mauritius' remoteness of location, lack of a diversified industrial base, relatively high wages, and a small domestic market. The example of the most successful small economies of Asia suggests that Mauritius must aim to shift into being a leading provider of business and financial services to the region.

Box 6. Mauritius' diversified offshore services

In less than two decades, Mauritius has built up a diversified offshore service sector. With good regulatory and supervisory framework, and, having also, an Anti Money Laundering Act, it has made its mark as a serious and credible jurisdiction.

At the initial stage, offshore entities are mainly management companies and corporate service trusts, which undertake the registration of companies/trusts and carry out their administration. These services have now proliferated to include offshore investment funds services, promotion of ship registration aircraft financing and related management services. In addition, Mauritius also offers aircraft leasing and captive insurance services. The special package (among others, tax exemption on capital gains from sales of aircraft and income tax on rental income) provided by Ireland, for example, to encourage offshore aircraft leasing, has created sufficient interest to generate a sector. It has led the US company, General Electric Aviation to set up a physical base in Ireland, providing employment to 600 persons, namely, lawyers, accountants and marketing personnel.

Captive insurance, a vehicle for self-insurance, responds to companies' needs for putting aside huge reserves to cover catastrophic risks for their property and liabilities. The frequency for the occurrence of such risks may be few and far between, for example, oil exploration companies which may keep reserves for replacing offshore platforms in case of unforeseen accidents, and for paying liabilities arising from pollution. Keeping aside huge reserves onshore can be costly from the tax point of view. Mauritius hopes to tap such high value services.

Mauritius' experience in running these sophisticated operations will give it the edge to expand financial businesses into the region.

B. Role of FDI in the strategic shift

To date, FDI represents less than 50 per cent of investment in the key developing sectors of tourism and textiles and garments, although it has been essential in providing market knowledge, technology and management for many businesses. Will the strategic shift described in section A above imply greater or lesser reliance on FDI, and how will it be attracted to Mauritius?

Two factors suggest that FDI should play a key role in accelerating the strategic shift:

- Access to the regional market is a common theme in moving to higher value activities. Assured penetration of regional markets will quite often depend on outward investment from Mauritius. The domestic capital market is too small to support an expansion of the vigour required. Hotels, sugar farms and factories in particular, and garment factories to a lesser extent, are all capital intensive.

- High value activities and services must, by definition, be of superior quality in order to capture business. Mauritius must therefore be able to service the region from a delivery platform that is closer to the best international standards than that of competitors. Where Mauritius is not a regional leader, the fastest way to establish a superior platform is to engage FDI. For example, Mauritius is likely to be ahead of regional competitors in textiles and garments, sugar and in niche offshore financial services. However, it is less developed in financial services such as investment banking and fund management. It will need to attract leading foreign financial houses to be able to provide superior execution ability to regional clients.

Apart from the intrinsic merits of the project, a prospective foreign investor has to make two primary decisions in order to locate in Mauritius. The first is that access to business in regional countries is best pursued from a regional hub. (As reviewed, textiles may have reached this position.) The second is that Mauritius is the preferred regional hub. If the latter does not hold, Mauritius becomes a spoke of a regional hub located elsewhere. In consequence, FDI does not contribute to the regional strategy, and indeed, may preclude regional expansion because of the hub investor's participation in other spokes. A special case arises when the home economy is a potential competitor for regional investment as is the case of South Africa. For example the Nedbank (State Bank of Mauritius Limited) and Sun International (Sun Resorts Limited) investments are welcome in their own right. The question follows: is Mauritius seen as a hub or a spoke by the parent companies?

Mauritius has a number of strengths, as detailed in Chapter IV, in positioning itself as a preferred regional hub. Its biggest handicap is the small domestic market and a need to overcome a natural tendency by foreign investors to make their hub into the largest individual market in the region. The undoubted foresight and skill of local Mauritian investors in offering attractive co-investment opportunities can go a long way towards neutralizing this disadvantage. However, the Government can also assist directly by opening up opportunities in "big ticket" Government monopolies to foreign investors who will pursue a regional strategy from a Mauritius hub. Examples include structuring opportunities for private management of public pension funds and introducing preference in transport and utilities' privatization to investors with a regional focus. Providing the Government directly assists by opening up 'opportunities', it will rapidly engage leading foreign investors in the strategic shift that Mauritius must take.

The Government may consider and implement other crucial actions to ensure Mauritius is considered a preferred regional hub. Section C sets out the priority measures.

C. Measures to facilitate FDI in the strategic shift

Developmental and investment policies go hand-in-hand. In competing for FDI, it would require strategic interventions by Mauritius to upgrade technological efficiency and promote regional links.

Key policy requirements are a need for a more aggressive human resource development policy, and a faster pace of privatization of the telecommunications industry to improve competitiveness in the overall business environment. Policies should be guided by constant monitoring of international competitiveness (see box 7). The policy and investment framework is equally important, and the key issues are reviewed in the previous chapter.

Box 7. Keeping in line - international benchmarking

A small open economy like Mauritius needs to monitor closely its indicators of international competitiveness.

International investors assess Mauritius relative to other economies, not just in Africa but around the world. Important benchmarks include cost indicators (wages of managers, engineers, workers); productivity indicators at sectoral or industry level; cost of business indicators, namely, telecommunications charges, electricity tariff rates, rental of industrial space, rental of commercial office space; airport and sea port charges as well as their efficiency indicators like turnaround time.

Other relevant indicators include the real effective exchange rate (REER) which some countries use as a guide for exchange rate management, and results indicators like the evolving share of export in the various key markets by products, share of direct foreign investment inflows relative to other relevant competitive countries.

These competitive indicators could also act as targets. The whole economy and the various government agencies and statutory boards could be measured against these benchmarks.

By focusing on competitive indices, pockets of weakness and inefficiency within the system could become more transparent and less hidden. Care should be taken on making comparisons, as the devil is often in the details. As such, feedback from end-users would serve as an effective checking mechanism, apart from hard statistical data. Agencies responsible for each of the component of the business costs would need to defend their performance periodically and discrepancy would be addressed or explained in an objective manner e.g. trade-offs against social political objectives or other non-economic national priority. In addition, these indicators as well as the system of vigilance could become a very powerful marketing tool for promoting foreign investment. Moreover, any emerging deviation from competitive benchmarks could be spotted and addressed earlier, rather than allowed to deteriorate.

Promotional agencies, notably BOI and MOBAA are in the frontline of international competition. They require different mindset and temperament among the leadership and staff members. It is imperative that such agencies are dynamic and innovative at all times. Specific incentives may be designed to energize these institutions and staff members and sustain dynamism. These could include special performance bonuses or national day awards for recognition in national development. In addition, foreign investors would need to be treated as partners. Specific awards like partners in national development could be instituted. Singapore has found such awards to be enormously low cost and effective in energizing agencies and cultivating foreign investors over the past decade.

1. Skills and human resource development

Mauritius' relatively well-educated labour force is easily trainable. While enrolment ratios in primary and secondary schools in Mauritius compare well with the dynamic Asian economies, tertiary education in Mauritius lags behind. The tertiary education enrolment ratio is 6 per cent in Mauritius compared with 17 per cent in the dynamic Asian economies.[33] It is lower also than in the non-LDCs African countries, which have an average of 9 per cent (see table 12). More seriously, the secondary and tertiary institutions in Mauritius have under-emphasised technical subjects that are crucial for success in the new economy.[34] Mauritius also has had no polytechnics (until very recently).

Table 12. Gross school enrolment ratios, 1996

	Primary education	Secondary education	Tertiary education
Mauritius	107	62	6
Dynamic Asian economies	101[(a)]	64[(a)]	17[(b)]
Non-LDC African countries	104	46	9

Source: World Bank, World Development Indicators 1998.

Note: Gross enrolment ratio is the ratio of total enrolment, regardless of age, to the population of the age group that officially corresponds to the level of education based on UNESCO's classification of education levels. (a) 1990 (b) 1985

To sustain the competitive edge, Mauritius needs not only to bridge the gap in meeting the needs of industry for skilled labour, but also to adapt quickly in a growing knowledge-based economy. Placing a premium on manpower development will necessarily require that technical and tertiary institutes and worker training programmes are put in place. One way to put human development on a faster track is to mobilize the private sector (foreign investors as well as local industry) to participate in university training and short-term upgrading programmes. Drawing on the experience of developed and developing countries, the relevant issues are:

1. Education and training must be responsive to the skill requirements of the business sector. Training institutions run by the private sector are invariably more responsive to latest industry and commercial developments and should, therefore, be encouraged to take a greater role in human resource development. China, for example, has since 1999, sanctioned the establishment of private schools and training institutions, including private universities. Computer training institutions and vocational training institutes have mushroomed even in rural areas. These private institutions will provide the competitive pressure for staid state schools to improve and update their curricula and be relevant to investors.

[33] Data on tertiary enrolment is underestimated somewhat, since there is also a large proportion of education taken abroad.
[34] There is insufficient general and specialized education and training. World Bank, *Mauritius, Country Economic Memorandum: Sharpening the Competitive Edge*, 12 April 1995

2. Private tertiary institutions should be encouraged. Twinning with overseas universities (e.g. in the United Kingdom and Australia) as in the model of Malaysia, could be an additional channel for effective human resource development. Foreign universities can help develop and upgrade curricula, teaching materials as well as provide teaching staff. The first two to three years of training could be done in Mauritius to save costs while the last one to two years could be done in overseas universities, to provide exposure as well as training that is more extensive. This will expand the pool of skilled workers while energizing the University of Mauritius.

3. Polytechnics provide practical training in engineering, business, accounting, information technology and marketing, as these areas are important in a service-oriented economy. Polytechnic graduates fill an important gap in the economy. This could be looked into, using Singapore as a model.

4. The training programmes of the Industrial and Vocational Training Board (IVTB) should be more closely integrated with latest industry needs and trends. It could draw upon the private sector to contribute inputs to the curriculum, as well as providing the instructors. By bringing in the private sector, it gives them a greater stake as they will directly benefit from the output of graduates.

Another crucial policy measure includes attracting foreign talents into Mauritius to supplement the limited pool of skilled workers. Increasingly, the main scarce commodity for economic development is not land, pure labour or capital but human skill and entrepreneurial drive. A foreign talent policy is valuable in filling manpower requirements in higher value added services like fund management, private banking, insurance, health care, educational services and other ancillary business services.

The high technology boom of Taiwan, Province of China, in particular, was driven significantly by an infusion of expertise, entrepreneurial drive and a network of returnees from Silicon Valley. Mauritius could start with attracting the return of overseas Mauritians who have done well in various professional, managerial and technical positions. This would also reduce any nationalist backlash.

2. Deregulation and liberalization of telecommunication services

In moving towards high value services, Mauritius has for many years needed to be more aggressive in its liberalization policy toward utilities which provide critical services to business. This is most critical in the telecommunications sector. In most countries, telecommunications usually represents only 1-2 per cent of GDP. However, it is central to the efficient operation of the rest of the economy. In banking and international finance, logistics, trading, tourism and travel, commodity exchange, and in all export-oriented manufacturing, economic competitiveness is increasingly dependent on global information and efficient exchange generated by electronic means. In a global information economy, characterized by intense competition for investments and new markets, telecommunications reform has become a vital component of national economic policy in many countries. Many developed and developing countries have liberalized this critical sector beginning with privatization under conditions of restricted competition, but with the ultimate aim of generating competition to induce expanded services, new products, greater efficiency and lower prices.

For example, liberalization of the telecommunications regime in the UK was intended to support and augment London's role as an international financial centre. In the Netherlands, national telecommunications policy was designed to stimulate the development of electronic publishing and to promote Amsterdam as a point of access to Europe for international networks. The recent privatization of the telecommunication sector in Hong Kong and Singapore were part of a strategic vision to maintain and augment their strengths in providing regional financial and business services. Over the past five years, countries as diverse as Malaysia, Philippines, Hungary and China have all moved towards greater liberalization to create competition.

From a strategic perspective, to become a vibrant business and financial services centre, Mauritius must be able to deliver an efficient, competitive and cost effective telecommunications system. Mauritius late start in the privatization of the telecommunications sector has important consequences, both for Mauritian competitiveness and in forming a platform for outward FDI to the region. Presently, Mauritius telecommunications costs are relatively high, and it badly needs the technology, expertise and the enhanced network that foreign investors can bring to this sector, which will benefit both corporations and consumers and enhance overall economic competitiveness.

The recent announcement that France Telecom will acquire 40 per cent of Mauritius Telecom for a consideration of $ 261 million is a welcome indication that liberalization is beginning and that FDI can play a part in delivering competitive services to the business sector. It is understood that competition in fixed line telephony will be restricted until 31 December 2003 but the goal of a liberalized telecommunications sector has taken a major step forward.

3. Forging greater regional links

Mauritian companies seeking to expand into the region will find it a significant advantage to establish partnerships with major international operators, and, where necessary to leverage off this relationship in order to penetrate more effectively into the regional markets.This role will help build an external economy linked to, and enhancing the domestic economy.

Moreover, by relocating low end, labour-intensive industries like textile and garments to other countries in the region, Mauritius can help jump-start the industrialization process of regional economies. Singapore has assumed this role in Southeast Asia and has benefited in being a service hub to a rapidly growing region. This is a win-win formula. Care, however, should be taken that this is not seen as "dumping" of low-end industries which can offend larger neighbours. It should also be noted that too rapid a pace in the regional relocation of labour-intensive products could result in a hollowing out of the economy. In particular, given the low education and skills profile of the Mauritian labour force, structural unemployment could result, giving rise to serious social and political implications. From this perspective, adjustment policies will require greater efforts, and subsidies earmarked for training and re-training by IVTB.

The establishment of more extensive links by sea, air and in telecommunications with the regional economies is important to consolidate the regional services hub strategy.

In addition, serious and sincere diplomatic efforts on regional trading agreements like SADC, COMESA, IOC, IOR-ARC would become more important. The US Africa Trade and Development Act and the extension of the terms of Lomé V Agreement, will also facilitate the labour-intensive manufacturing industrialization of African countries, which in turn will improve the development prospect of Mauritius' hinterland. It will facilitate relocation of low end manufacturing output to the region.

D. Key Findings and Recommendations

Mauritius has arrived again at a strategic crossroad. The rate of economic progress, which Mauritius has hitherto enjoyed, cannot be taken for granted in looking ahead the next 20 years. It is argued that Mauritian business must undergo a profound shift towards higher value activities. The experience of fast growing Asian economies gives a perspective on the challenges and responses that are required in order to make this shift.

Government can and should assist business to meet the challenges. It can:

- Accelerate skills development and return of talented Mauritians;
- Improve telecommunications;
- Ensure access to regional markets and forge better links to it;
- Monitor the competitiveness of Mauritius and use the findings pro-actively to implement reforms.

FDI has an important role to play in facilitating the core strategy in which Mauritius positions itself as a regional hub for business and financial services. FDI is needed to bring new capital and advanced skills to support the regional thrust. Mauritius already has strengths as a preferred regional location but these must be enhanced by the measures set out above and the "high growth" reforms in the policy and operational framework recommended in Chapter II. Unlike regional competitors, as hub locations, Mauritius has a small domestic market to offer – although, even here, more could be done to structure domestic opportunities in support of the regional market strategy.

Reforms which have the drive to competitiveness at their heart, are bound to cause pressures in the domestic economy. Mauritius has shown great skill in the past in managing the pressures of change and will again need to exercise sound judgement as to the pace of reform that is socially viable. Nevertheless, there can be little doubt that slow or hesitant reform would bring its own pressures through a debilitating erosion of competitiveness.

IV. INVESTMENT POTENTIAL IN SELECTED SECTORS

Mauritius has the potential to attract FDI of a higher quantity and quality commensurate with the fundamental strengths and opportunities that its economy offers. It ranks second among the African countries on the Africa Competitiveness Index[35] and first on Country Credit Rating by Institutional Investor. Among its many strengths, are a record of political stability, good law and order, developed physical infrastructure, a bilingual workforce, strong legal institutions, modern company laws and a liberal and pro-business environment. It is also a signatory to numerous bilateral and multilateral tax and investment treaties.

This chapter examines potential in three selected sectors – regional financial services, information technology and the marine sector. It provides an assessment of the potential for expanded FDI as well as the pertinent policy issues, which can influence the attraction of FDI to these sectors.

It is no accident that the themes of greater human resource development and greater efficiency in key business services recur often as identified weaknesses in the enabling conditions for investment in the high value added sectors.

A. Regional Financial Services

1. Background

Over the last decade, Mauritius has been shaping its policies to establish itself as a financial and business services hub in the Indian Ocean Rim and Africa. The financial sector has witnessed progressive changes, marked by deregulation, liberalization and globalization of the financial market. The business and financial services sector has gradually expanded to reach about 16 per cent of GDP in 1999. Presently, the banking sector comprises 10 commercial banks, which include, Mauritius Commercial Bank, Banque Nationale de Paris, Barclays Bank, HSBC, and State Bank of Mauritius. The Mauritius Commercial Bank and the State Bank of Mauritius are the two largest, controlling about 75 per cent of the market. Progressively, they are also establishing foreign subsidiaries in the region.

The offshore sector has made notable progress since its inception in 1989. The sector is managed by the MOBAA, a regulatory body established to act as a one-stop-shop. Service providers licensed by the MOBAA consist essentially of offshore management companies (OMCs) and corporate trustees. These companies provide a range of administrative, advisory and trusteeship services to offshore companies set up in Mauritius. Other service providers include captive insurance managers, international traders, aircraft management companies, investment managers, investment advisors, asset managers and nominee shareholding companies. As at November 1999, the total number of offshore entities on the register was 10,561, and this included 4,691 offshore companies, 5,536 international companies, and 157 offshore trusts.

There are eleven registered offshore banks today. Major offshore banking units include Banque Nationale de Paris Intercontinentale, Barclays Bank, Bank of Baroda, Hong Kong and Shanghai Banking Corporation, State Bank of Mauritius, Nedbank International and Deutsche Bank. As at August 1999, total assets of offshore banks stood at $ 2.6 billion, while non-bank deposits amounted to $ 1.1 billion.

[35] World Economic Forum. *Africa Competitiveness Report 2000*, Geneva

India remains the dominant market targeted by investors using the Mauritius offshore jurisdiction. There is increasing diversification of outward investments into South Africa, and other sub-Sahara African countries from Mauritius. Mauritian offshore companies are also used as conduits for investment into the Indian Ocean islands, especially Madagascar and Réunion. The origin of investors using the Mauritius offshore sector as a conduit for outward investment have diversified, to include those from Hong Kong, China, India, Indonesia, Singapore, South Africa, United Arab Emirates, the United Kingdom and the United States.

2. Findings

(a) Strengths

- Political Stability

Among countries in the African region, Mauritius has an outstanding record of sustained political stability. This remarkable achievement has been underpinned by the institutions of its strong, well-tested parliamentary democracy based on the Westminster Model.

- Strong Legal Institutions

Mauritius has a hybrid legal system based on English and French laws with the United Kingdom Privy Council as the highest Court of Appeal. In addition, it is a member of the International Court of Justice, the International Centre for the Settlement of Investment Disputes and the Multilateral Investment Guarantee Agency (MIGA). Mauritius is also committed to the anti-money laundering work of the Financial Action Task Force. The Economic Crime and Anti-money Laundering Bill was recently introduced in the National Assembly.

- Bilingual Workforce

Mauritius is a young multicultural society, open and adaptive to change, much like Singapore and the United States. It traces its cultural heritage from the Netherlands, France and United Kingdom and has a resident population with ethnic background from India, Africa and China. It has a pool of legal, accounting and business professionals proficient in both English and French.

- Headstart in regional services and Regional Integration

Mauritius presently belongs to four regional groupings, namely the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA), the Indian Ocean Commission (IOC) and the Indian Ocean Rim-Association for Regional Cooperation (IOR-ARC). In addition, implementation of the Cross Border Initiative (CBI) reform agenda may enhance the strategic importance of Mauritius' role in trade and financial services of eastern and southern Africa[36].

[36] The member countries of the CBI, comprises Burundi, Comoros, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Swaziland, United Republic of Tanzania, Uganda, Zambia and Zimbabwe. At its Fourth Ministerial Meeting in October 1999, a Road Map on a framework to encourage and facilitate investment from within and from outside the CBI countries was presented.

In addition, the US Africa Trade and Development Act of May 2000, which grants special access of African exports to the US markets, and the extension of Lomé V terms on non-reciprocal treatment for ACP countries up to 2010, may help to jump-start the location of labour-intensive, export-oriented manufacturing industries to African countries. This will improve the development prospects of Mauritius' hinterland. On the one hand, it would facilitate relocation of low-end manufacturing production to the region, and on the other, Mauritius could go on to upgrade itself to service the industrial development of countries in the region.

Mauritius has a strong comparative advantage to become a regional hub for Africa. It has a good reputation for law and order, is small, and hence is considered less threatening to countries in the region. Singapore has taken similar advantage of its small size to expand into Southeast Asia, in a way that was perceived as less threatening compared to a bigger country like Japan. It also has the advantage of being in a time zone where it is able to conduct business transactions with East Asia in the morning, with Europe around mid-day and with the United States in the late afternoon. Having a headstart in building an offshore sector, it can use its experience to develop valuable capabilities. Furthermore, its expanding tax treaty network facilitates Mauritius as a gateway for regional investments. This include a strong network of Avoidance of Double Taxation Treaties with countries in Europe (see table 6).

◆ Quality of life and pro-business environment

Mauritius has one of the highest living standards in the Indian Ocean Rim and Africa. It offers a good and secure living environment, a relatively strong pro-business regulatory environment, as well as well-developed physical infrastructures. All these are important considerations for attracting professionals in the financial and business services sector to Mauritius.

◆ Mauritian Diaspora

Over the years, there have been a fair number of Mauritians who have established themselves in major financial and business centres in Europe and North America. They represent a very important pool of expertise that can be attracted back to work in the country to help jump-start the financial and business services sector and the IT sector. In the case of Taiwan, Province of China, its high technology industries were substantially built on the expertise of returned Taiwanese from the Silicon Valley. India also employed the same strategy to build up the IT industries in Bangalore and Hyderabad. Similarly countries like China, Singapore and Malaysia are actively employing the same "returned brain-drain" strategy to move into the high technology and IT industries.

(b) Weaknesses

- Small Pool of Skilled Professionals

With a small population base, Mauritius suffers from a limited pool of skilled professionals which is compounded by historical neglect in the teaching of technical subjects at higher secondary and tertiary levels.

- Relatively Underdeveloped Domestic Capital Market

Presently, large institutions, including the state and private pension funds, insurance companies and mutual funds, have a large pool of funds which are not actively used in the capital markets. Fund management is still at an early stage of development: the level of expertise is weak, and the range of financial products is limited. The equity market is reasonably active with 41 listed counters, and a total market capitalization of $1.5 billion, accounting for approximately 40 per cent of GDP. It is noteworthy, however, that there is no on-market equity raising in four years. On the other hand, the stock market has witnessed an increasing number of debenture issues as a means of raising cheaper finance. The fixed-income market is also underdeveloped with no benchmark yield curve. While Treasury Bills issued by the Bank of Mauritius are popular with banks, they are used mostly to control money supply and have little appeal to other investors.

One major constraint hindering the development of a capital market is the low level of participation by the local institutions. This could be due to the fact that, state-controlled institutions manage the largest funds. For example, it is estimated that the National Pension Fund, which has around MR15 billion under management, has invested only 2 per cent in listed equities. In addition, shareholding remains very much family controlled in Mauritius. Such a corporate governance structure tends not only to limit the float of shares, but also reduces the motivation to uphold shareholders' value and returns. In fact, these companies have largely made use of the stock market as a tax savings vehicle rather than a capital-raising vehicle. Thus, the local fund management industry is relatively complacent due to the fact that the performance of managers is not fully scrutinized or subject to international competition and benchmarking. With progressive economic liberalization and increasing competition from international players, however, this structure could gradually be transformed

- High Telecommunications Charges

A competitive telecommunications industry with competitive charges is important to the functioning of a regional financial and business services hub. It is not an accident that both Hong Kong, China and Singapore, significantly liberalized their telecommunications sector in the past year in order to lower telecommunication charges to sustain their positions as regional trading and financial centres. As was emphasized in Chapter III, a rapid liberalization and privatization of the telecommunications industry is critical to an efficient and cost-effective telecommunications sector. It is of vital importance to quickly address this, in order to facilitate, the first mover advantage for Mauritius over other countries in the region to become the regional service hub. The recent privatization of Mauritius Telecom is a step forward and substantial liberalization of fixed line telephony can get underway, once the non-competition covenants unwind from 2004.

◆ Lack of International Players

There is a dearth of major international players in Mauritius owing to the small relatively underdeveloped domestic capital market. The African emerging market is covered by some major international investment banks from London or South Africa rather than from Mauritius. This is not an unusual phenomenon. Before Singapore established itself as a regional financial centre, Southeast Asia was covered from New York or Tokyo. However, as Southeast Asia became increasingly important with expanded businesses in offshore banking, project financing, private banking, corporate finance, securities trading, and coupled with the progressive liberalization in Singapore's financial sector, the major international players invariably expanded their presence in Singapore.

(c) Opportunities

Unlike manufacturing, which has to contend with intense competitive pressure at the global level, the development of financial and business services activities has different requirements. It requires an intimate understanding of local and regional political dynamics, business culture and the key players. This partially "protected "nature of financial and business services activities can give Mauritius an edge in servicing the African region provided it maintains competitive advantages over regional competitors. The following activities could offer potential key opportunities over the next two decades. They, collectively, and in synergy, could help to develop the financial and business services sector and promote Mauritius as financial hub in the region.

◆ The "African Dollar" Market

With progressive liberalization of countries Africa in the 1990s, the economic development process in the African region has taken on some features similar to the conditions in Southeast Asia in the 1970s. The Asian Dollar Market (ADM) that emerged in Singapore in 1968 had derived its initial impetus from the increased rate of industrial development in the region, entailing a need for funds for development. At the same time, there was a pool of funds ready to be tapped from the increased numbers of multinational corporations (MNCs) and wealthy individuals in the region.

The Asian Dollar Market eventually took off in Singapore in 1968 and reached a total asset size of over $ 480 billion by early 2000. Its growth was spawned largely, on the one hand by the Hong Kong Government's unwillingness then, to exempt withholding tax on interest income from offshore currency transactions, and the Japanese Government insistence on maintaining its exchange control regulations. On the other hand, the Singapore Government was willing to grant the then Bank of America and other local and foreign banks permission to set up an Asian Currency Unit (ACU) to attract Asian non-resident dollar deposits to fund their Asian lending activities. To stimulate the development of the ACU, tax laws were amended. Interest derived from non-resident deposits in the Asian Dollar Market were exempted from tax. This headstart, and subsequent expansion of the Asian Dollar Market eventually laid the foundation for Singapore to become the regional financial centre in Asia.

There is a relevant parallel here. For the "African Dollar" Market, Mauritius can play the equivalent role of Singapore, drawing on Singapore's past thirty years of experience and its policies on the ADM.[37] Mauritius,

[37] See Tan Chwee Huat "Financial Markets and Institutions in Singapore" Singapore University Press (latest edition).

in comparison with other countries in Africa, is well positioned to play this role. Its tax law is conducive to nurturing a dollar market (interest on non-resident deposits are exempted from tax in the offshore banking sector). For Mauritius significant sources of funds are expected to come from the Middle East, South Asia and South Africa, from central banks, commercial banks, large companies and wealthy individuals from the region. The demand for funds will come from the African countries for infrastructural development, as well as industrial project financing. Mauritius, with its many strengths is in a unique position to develop itself as the centre for the "African Dollar" Market. The key conditions for the successful establishment of such an offshore centre are the free movement of funds in the offshore market and minimal taxes on these operations. Eventually, with critical mass and increasing level of expertise, activities could be expanded to include loan syndication.

◆ Private Banking

The good quality of life and a reputation for law and order, are attractive conditions to lure high net worth individuals from South Africa, East Africa, South Asia and the Middle East to set up retirement homes in Mauritius. This is being promoted under the Permanent Resident's Scheme. Attracting high net worth individuals to set up retirement homes will also stimulate its development as a regional medical services centre. This will lead to significant spin-off benefits private banking. The competitive advantages of Mauritius in developing private banking businesses lie in the free convertibility of its currency, a strong economy, political stability, advantageous tax treatment and tax treaties with investor countries, a strong legal institutions and its location in a favourable time zone. Development of private banking activities would help to strengthen the development of the "African Dollar" Market as well as nurture the asset management industry.

◆ Asset Management

Presently, investment funds in Mauritius are largely established as branches or subsidiaries of entities with the parent funds normally registered in other jurisdictions such as United Kingdom, Singapore, Luxembourg or the Cayman Islands. Consequently, the core expertise in fund management does not reside in Mauritius. Over time, Mauritius needs to move up the value-added chain in this high value activity.

It is not easy to develop an asset management industry. Prerequisites include availability of funds and availability of highly trained and skilled expertise. Even Singapore has fallen short on this, despite years of efforts coupled with government incentives to support the sector.

With the global pool of institutional funds looking for diversification on a global basis, asset allocation to the African emerging markets will become increasingly important. This is because, unlike emerging markets in Asia or Latin America, which are very heavily dependent on the United States for export markets, the correlation between African emerging markets and the OECD market is likely to be lower. This would result in a diversified portfolio with a superior risk-return profile.

For Mauritius, development of the "African Dollar" Market as well as private banking industry can help to catalyze development of the asset management sector. The National Pension Fund is a potential source of funds, and could initially provide the seed money to attract major international players to locate in Mauritius. More importantly, is the need to provide trained local expertise, especially in asset management, for emerging markets in Africa and South Asia. The experience of ABN-AMRO securities in Mauritius is instructive. It shows how local expertise can be built through learning from the foreign company (see box 2). The office started initially with an expatriate reporting on listed companies in Mauritius. His responsibility was to ensure that the reports and analysis were of international quality. Gradually, after a year or two, the same job was undertaken by local analysts who have acquired the skills to produce reports of comparable quality.

The Mauritian diaspora and liberal immigration policy on foreign expertise are critical for the success of this activity. Steps have been taken under the Regional Headquarters Scheme, which grants income tax incentives for expatriate staff and non-resident Mauritian employees. The experiences of Hong Kong, China and Singapore in developing the asset management industry testify to the importance of the expatriate community and foreign financial institutions in sustaining critical mass and maintaining international linkages and standards.

◆ Offshore Regional Stock Exchange

Taking advantage of its headstart in offshore businesses and the country's numerous strengths, Mauritius has the potential to develop an offshore regional stock exchange, [38] where securities of companies in the region would be listed and traded in Mauritius. To position itself strategically for this, there must be confidence in Mauritius regulation, supervisory institutions as well as international benchmarking on rules of listing, disclosure standards, trading systems, settlement and clearing mechanisms. This is somewhat analogous to the role the Hong Kong Stock Exchange (HKSE) play in serving companies from China, or that of the Stock Exchange of Singapore, in serving regional companies in Asia. For example, Chinese companies like China Everbright, China Telecom and Citic Pacific are listed in the HKSE to gain international exposure and credibility with international investors. The same applies to Asian Pulp and Paper from Indonesia, and Want Want from Taiwan, Province of China which are listed on the Singapore Stock Exchange.

The development of an offshore regional stock exchange will add depth and liquidity to the regional equity markets. It will also complement the development of asset management and private banking activities in Mauritius.

◆ Asset Securitization

Presently, most of the African countries have low savings rates but need funds for investment in infrastructural development and other industrial projects. However, because of the perceived political, country and company-specific risks of these countries, the financing costs from external capital tend to be high.

This can hinder development in these countries. At the same time, several African countries have rich mineral and energy resources for which a regular stream of hard currency royalties are paid by the MNCs over a long period. This source of funds can be mobilized. The potential lies in converting these mineral and energy resources into a regular stream of income (from mining concessions paid by MNCs) and to issue debt instruments backed by them to offshore investors. The funds raised can then be used for financing development. This concept of asset securitization is common, and operates like a mortgage-backed security.

[38] An offshore regional stock exchange refers to listing of "offshore" or non-Mauritian companies in the Mauritius Stock Exchange. Listing of a critical core group of regional companies, which could engage in active trading would help to build up the Stock Exchange and the fund management sector.

Mauritius could attract FDI, into its offshore financial centre and engage in asset securization. This can be done through packaging royalty receivables from African countries and issuing debt instruments to offshore investors. Mauritius can thus assume the role of helping African countries raise funds for development at a more attractive cost of financing, while providing foreign investors with a secure and sufficiently attractive rate of return. This arrangement will also be advantageous to borrowers in African countries, as they can avoid paying the inevitably high sovereign and commercial risk cover premiums.

(d) Threats

- Competition from the region

Mauritius would have to compete with more developed economies in the region like South Africa which has a far larger economy, a bigger and more mature capital market, a stronger industrial base and a more sophisticated regulatory system. However, Mauritius could, capitalize, in particular, on its strong law and order environment, good governance as well as its small size and non-threatening posture to make gradual progress becoming the regional financial and business services hub in Africa.

- Nationalist Sentiment from Larger Regional Countries

It is inevitable that larger countries in the region would look upon Mauritius' development as a regional financial and services centre with envy, and perhaps, with some resentment because it implies their dependence on Mauritius. More significantly, it may be perceived that a large segment of the skilled and high-value added activities are "unfairly" taken away from them, and will require skilful diplomatic efforts to assuage such sentiments.

3. Policy Recommendations

Mauritius should take advantage of its unique strengths to tap regional opportunities in financial services. The key policy recommendations to help Mauritius to take on this role are the following:

1. Actively promote Mauritius as a regional centre for the "African Dollar Market", and publicize the fiscal and other incentives given under the Regional Headquarters Scheme.

2. Selectively channel national funds like the National Pension Fund as seed money, to nurture an asset management industry.

3. Actively promote asset securitization and sell it as a win-win strategy to regional countries.

4. Actively promote Mauritius as a private banking jurisdiction, and the Permanent Resident's scheme to attract high net worth individuals.

5. Allow a very liberal immigration policy for expatriate business and financial professionals, supplemented by an active foreign talent attraction policy.

6. Set up an Institute of Banking and Finance, that should preferably be private sector driven. Train and upgrade finance related professionals, with funding support from the Government[39]. It should also establish links with reputable foreign institutions strong in banking.

7. Actively attract back Mauritian business and financial professionals presently located in Europe, North America and Asia.

8. Benchmark the Mauritian Stock Exchange on international standards and strategically position itself as the offshore regional stock exchange.

B. Information technology

1. Background

Mauritius has identified information technology (IT) as a potential growth sector. Recent notable initiatives in the IT sector include:

- The implementation of the National Information Technology Strategy Plan (NITSP) for 1998-2005;
- The Government's partial privatization of Mauritius Telecom during 2000, and
- The 1999/2000 Budget Speech indicating government initiatives designed to reshape Mauritius as an Intelligent Island.

The debate on information technology has focused primarily on issues of human resource capacity and the cost and access to telecommunications and Internet services. There has been little discussion on how to develop an IT industry in Mauritius. This sector would be an ideal one for industrial development as it is a high value sector that creates high wage jobs and is not overly sensitive to issues of domestic market size or geographic proximity. This section examines issues in how FDI can contribute to the development of a vibrant IT sector in Mauritius.

2. Findings

Mauritius has the potential to develop an IT sector, in large part with the impetus of foreign direct investment. It can build on its key strengths and move to a fully-fledged IT industry.

[39] Singapore has a similar Institute of Banking and Finance that provides specialized training.

(a) Strengths

The rapid expansion of the Internet and other information technologies has opened up entirely new industries, created unique opportunities for entrepreneurs and allowed new entrants to participate alongside established players. As new firms have been able to capitalize on growth opportunities brought about by the information and communications technology revolution, so can countries. There is presently a unique opportunity for countries that are able to make strategic investments in human resource development and communications technologies to use the explosion in demand for IT products, to rapidly build IT industries.

There are five key strengths that can be used to advantage in building a dynamic IT sector in Mauritius:

- Labour force potential – Mauritius presently has some 1,500 IT professionals. However, this number needs to increase rapidly for an IT industry to fully develop. The quality of existing IT workers, the demand for IT training among youths, and a trainable Mauritian work force all bode well for Mauritian IT sector development. If national initiatives to coordinate human resource development and rapidly expand the pool of IT professionals are identified as top Government priorities, then Mauritius can expect a competent IT labour pool.

- Bilingual workforce – The ability to work professionally in both English and French is a quality that Mauritius can use to its advantage in building the IT sector. Mauritian firms can work with both English and French partners, in terms of collaborative programming or providing technical support services.

- Time zone – Mauritius' geographic location is an advantage. The reasonably close alignment to European time means that Mauritian firms can work in direct partnership with European firms, for example in providing technical support. The +9 to +12 hour difference with the prominent IT centres in North America means that Mauritian firms can work in collaboration with partner firms on a round-the-clock production schedule. The Atlanta-based CAPS Logistics (recently acquired by the Dutch software company, Baan) uses its Mauritian office to perform quality assurance on the work that American software engineers have performed during the day. When the engineers come into work the next day, the quality assurance is done – helping the company get its software products faster to market than if all functions were performed in a single time zone. The Mauritius office also provides technical support to European clients.

- Mauritian diaspora – Skilled Mauritian professionals working around the world are untapped assets, which if lured back, can be instrumental in building the IT sector. Some of the international firms that have set up IT operations in Mauritius, including MR Services and CAPS Logisitics, did so because of a personal connection to Mauritius among a decision maker at the parent company. Few international IT managers responsible for international site selection are aware of the potential of Mauritius. The Government must determine how best it can reach out to individuals in the diaspora to solicit their help in promoting Mauritius as an IT centre.

- Democratic development, the rule of law and intellectual property enforcement – The track record of Mauritius in political pluralism, freedom of expression, stability, law and order, contract enforcement and intellectual property rights is attractive to foreign investors and a competitive advantage for Mauritius in developing an IT industry.

(b) Weaknesses

There are four central weaknesses that Mauritius must overcome in building an IT industry:

- Small existing pool of IT professionals – The existing 1,500 IT professionals in Mauritius is insufficient to build a vibrant IT sector. According to the NITSP, Mauritius needs to produce a pool of close to 6,000 IT professionals by 2005. However, without a concrete plan of action and the full backing of the Government for human resource development of IT professionals, the development of a vibrant IT sector in Mauritius will be constrained.

- High telecommunications costs – The cost of local and international telephone services and Internet access is high by world standards and is a weakness for Mauritius in trying to attract foreign investment (table 13). Telecommunications is a lifeline for IT firms, and countries with sub-standard service or high costs will be penalized. One international company stated that their telephone charges for one month in Mauritius were higher than they would be for the entire year if they were located to the United Kingdom.

- Lack of international players – Multinational firms watch where competitors, and indeed firms from other industries, are investing internationally, assuming that these companies have done their due diligence as to the investment suitability of the country. Mauritius suffers from the fact that there are relatively few major foreign industrial players with operations in the country.

- Small domestic market – The size of the Mauritius market is too small to serve as a primary reason for firms to invest. Access to the SADC and COMESA markets is of some value, however domestic or regional market access will only ever be a secondary reason for firms to invest in Mauritius.

Table 13. Indicative International Telecommunications Costs, 1999
(Cost of 3 minute call to United States ($))

Country	Cost per 3 minutes
Mauritius	4.20
SUB-SAHARAN AFRICA	
Botswana	3.55
South Africa	2.49
Zimbabwe	2.81
EAST/CENTRAL EUROPE	
Czech Republic	2.14
Hungary	1.55
Poland	3.65
Latin America/Caribbean	
Argentina	2.77
Chile	2.86**
Mexico	2.96
East Asia & Pacific	
China	6.65**
Indonesia	3.28
Singapore	1.44
South Asia	
India	4.36
Sri Lanka	4.14
HIGH-INCOME COUNTRIES	
Australia	0.62
France	1.02
United Kingdom	1.18

Source: International Telecommunications Union, Mauritius
*: 1997
**: 1998

Note:

International calling charges in Mauritius are lower than in most of Sub-Saharan Africa, but, higher than in many other parts of the world. To be internationally competitive countries like Singapore have even brought down its telecom charges to OECD country levels. The international dialing costs have dropped considerably in OECD countries since 1997; but are not reflected in this table. Up-to-date data on comparative Internet access costs are not available. However, in much of Europe and North America, consumers can now get free Internet access.

(c) Opportunities

The information technology sector covers a wide range of sub-sectors and Mauritius will need to focus on selected areas for IT development. Information technology covers a diversity of products from hardware to software to support services in a range of industries: computers, satellites, telephones, smart appliances, networking devices – to name just a few. Mauritius needs to be more focused in terms of the specific IT sub-sectors that it can realistically develop.

Three key IT sub-sectors which represent the greatest potential for expansion were identified based upon the strengths offered by Mauritius, the specific needs of firms within those sub-sectors and the proven track record of IT development in Mauritius.

The three sub-sectors for IT development are:

- Regional IT consulting services – Mauritius has the potential to provide IT consulting services throughout much of Africa. State Informatics Ltd. (SIL) has been the leader in Mauritius in providing IT consulting services to Botswana, South Africa and elsewhere. Du Chazal Du Mee (DCDM), through its partnership with Arthur Anderson, provides accounting, business and IT services in roughly half a dozen African countries. The experience of these two firms could be replicated on a wider scale, with Mauritian enterprises building and servicing many of the computer systems throughout Africa.

- Outsourced Internet and software development – A highly compressed production cycle is standard for most international Internet and software development firms. In an attempt to get their products to market faster, international firms seek to outsource specific tasks in software development (e.g. quality control) – ideally to have these functions performed when their own developers have stopped working for the day. Mauritius can use its geographic location to advantage, allowing North American firms to essentially work around the clock, or allowing European firms to extend their business day.

- Call centres – Mauritius could develop a call centre industry, primarily servicing European end users. Call centres require highly trained workers able to function effectively in the chosen language(s) and low-cost, highly reliable telecommunication systems. Mauritius can partially deliver on the work force, although it is not yet able to deliver on the cost-effective communications. Bowman International Sports Ltd. has located an international call centre in Mauritius. Taking the Bowman experience as a guide, Mauritius will be in a position to offset and rectify any difficulties in developing a call centre industry. Notably, improving on the elevated price and limited reliability of telecommunications services, the constraints on the expatriate lifestyle and the poor quality of industrial support services.

Mauritius could also focus on providing data entry services. However, data entry, tends to be lower skill and lower value and is best seen as an intermediate step in providing the higher value IT services outlined above.

There is a need for Mauritius to focus its efforts on IT development on the three key sub-sectors outlined above. These are areas where Mauritius has some proven experience and a potential comparative advantage. These sub-sectors, particularly the outsourced Internet/software development and the call centres, simply will not grow without the participation of foreign investors who bring in the international contacts, networks and technology required.

(d) Threats

There are two major threats to the development of an IT sector in Mauritius, both of which are within the control of the Government:

- Telecommunications services – IT firms require absolute solid performance from their telecommunications products at an affordable price. As long as Mauritius continues to have telecommunications costs that are significantly higher than world prices, the country will be penalized in terms of foreign investment. Most Mauritian firms presently find it too costly to have a permanent Internet connection. This is a major detriment to foreign investors in the IT sector. Competition, within the correct regulatory framework, is the best way ultimately to ensure that telecommunications services are of the highest quality at an affordable price.

- Human resource development – Foreign firms will not invest in Mauritius in any meaningful way until there are more trained workers to hire. There seems to be reservations among policy makers as to whether there would be jobs for an expanded number of IT professionals. This should not be a major issue as the demand for IT professionals is so great that most qualified graduates would find relevant work upon completion of a credible programme.

Competition from information technology firms in India, South Africa and other low cost centres should be viewed as a minor rather than a major threat. The explosion in global demand for IT services, in large part driven by the Internet and the opportunity for a new electronic business model, means that there will be room for new IT players, providing they meet international quality standards. While Indian or South African firms may out beat Mauritian firms for specific contracts, the existence of other low cost IT providers should be viewed positively. This competition will keep Mauritian firms sharp in providing a top quality service at a competitive world price.

3. Recommendations

There are six strategic recommendations for the development of an IT industry in Mauritius:

1. Designate information technology as a strategic focus for development policy of Mauritius, focused on realistic sub-sectors: regional IT consulting services; outsourced Internet and software development; and call centres. Recognize that FDI is needed to build these sub-sectors into internationally competitive industries.

2. Recognize that the IT industry in Mauritius will not develop until the constraints of high telecommunications costs are removed and the limited labour pool is rectified.

- Begin planning to encourage greater competition in the provision of fixed line telecommunications services once the non-competition provision in the Mauritius Telecom sale expires.

- Advance the Human Resource Development Council Initiative, ensuring that it has a specific mandate to outline how both the public and private sector will contribute to creating the required pool of IT professionals.

3. Identify opportunities for expanded telecommunications service provision, including next generation wireless voice and data services. Given that the cost of landline telecommunications is unlikely to drop significantly in the next few years, it is important to consider alternative telecommunications services. Wireless data services (Internet and fax via cellular and satellite telephones) are rapidly emerging technologies that have the potential to provide low-cost alternatives. Government regulation is critical to ensure that there are favourable "internetworking" terms, allowing wireless companies to access the Mauritius Telecom network at reasonable rates.

4. Market and promote Mauritius as an IT centre among relevant international firms in IT consulting, Internet and software development, and call centres. Focus marketing efforts on the specific firms active in these three sub-sectors and not on IT firms in other sub-sectors, such as hardware.

5. Solicit the participation of the Mauritian diaspora in promoting the island as an IT centre. Government should take advantage of overseas Mauritians and their networks within international high technology firms, to foster private sector linkages. Three potential ways on soliciting this participation are: (i) Government hosts a conference in Port Louis, inviting expatriates home to provide their inputs; (ii) Government conducts road shows in major cities where expatriate Mauritians reside and hold dialogue on the country's development goals in IT and solicit their participation; (iii) Government promote the strategy and involve overseas Mauritians through its Internet site.

6. Consult international experts in designing the Riche Terre business park and bring the facilities up to global standards in order to attract world-class electronic business companies.

C. MARINE SECTOR

1. Background

The marine sector, which includes fisheries, ocean transport and tourism, is an important sector in the economy. The fisheries subsector, though small in terms of its contribution to GDP (about 1 per cent of GDP), is important in contributing to employment, the tourist sector and also, as a source of foreign exchange.

Within the marine sector, the fisheries subsector offers by far the best prospects for future development. It consists of large-scale commercial fishing, small-scale artisanal fishing, sport or recreational fishing, aquaculture and fish processing and marketing. The inshore artisanal fisheries, where the majority of fishermen operate, are overexploited, and the banks and tuna fisheries are highly exploited. Consequently, commercial fish landings, mainly from the sea fisheries, declined from 21,200 tonnes in 1993 to 11,300 tonnes, in 1998.[40] As the total catch does not sufficiently meet demand, fish product imports have increased. In 1998, Mauritius imported over twice as much fish and fish products as it produced – about 39,900 tonnes live weight equivalent, valued at $ 48.3 million – and exported 13,000 tonnes valued at $ 32.4 million. The domestic market for fish and fish products in 1998 amounted to 48,000 tonnes valued at $ 42.1 million.

In 1998, small-scale artisanal fisheries employed 8,785 fishermen (permanent, part-time and occasional). The commercial banks and tuna fisheries employed approximately 600 (full-time), while aquaculture employed 85 (permanent and part-time). The secondary manufacturing sub-sector of the fishing industry consists of a large tuna canning plant, Princes Tuna (Mauritius) Limited, and a number of small plants for freezing, holding, salting and smoking of fish. This sub-sector employs about 1,300 people, the majority of whom are employed by Princes Tuna (Mauritius) Limited.

A number of incentives are given for encouraging fisheries development under the Development Incentive Act of 1974, which was subsequently amended. Under this Act, foreign investors could qualify for Fisheries Development certificates as joint venture partners with Mauritian companies or in promoting outer lagoon fisheries, aquaculture or the processing of fish and/or other marine resources. The certificates currently provide for the following incentives:

- Duty remissions on all machinery, equipment, materials, and spare parts;
- Duty remissions on office equipment;
- Payment of only 15 per cent corporate income tax;
- Loans from the Development Bank of Mauritius;
- Training facilities for fishermen.

Since the inception of the Act, Mauritius has not attracted significant FDI into the fishing sector, with the exception of Princes Tuna.

Princes Tuna (Mauritius) Limited is a joint venture between Princes Food (United Kingdom) and three Mauritian shareholders, namely, Ireland Blyth Ltd., Mauritius Commercial Bank, and the State Investment Corporation. Princes Food (United Kingdom), has a 65 per cent controlling interest. Princes Food has invested $ 25 million and a new plant will become operational in 2000. The new tuna processing plant will increase processing capacity from 25,000 tonnes to 35,000 tonnes per year. The company, which operated one purse seiner prior to 1998, produces mainly canned tuna and pet food. Through an alliance with a foreign investor, Princes Tuna (Mauritius) Limited has gained market access to the United Kingdom and the European Union for its canned tuna products. Princes Foods (United Kingdom) is the largest importer of canned food products in the United Kingdom, and this could have implications for access of other canned fish and canned agricultural products of Mauritius to that market.

[40] The data in this and the following paragraph were obtained from: Ministry of Agriculture, Fisheries and Co-operatives, Annual Report 1997, Fisheries, Port Louis, Republic of Mauritius; and The Albion Research Centre (1999), Incentives and Facilities for Fisheries Production,(Incentives, facilities and services in the Mauritius fisheries sector) Ministry of Fisheries and Co-operatives, Albion, Republic of Mauritius.

A Ten-Year Plan was established in 1998 for the development of the fisheries sector. The following opportunities with high returns on investment were identified in the plan:

- Deluxe sport fishing;
- Longline tuna fishery;
- Chilled fish requiring high standards of control.

The Plan also identified other opportunities in new and unexploited fisheries, including swordfish, trawl fishery for small pelagics, and deepwater shrimps. The Plan also noted that the growing deficit between fish production and demand offered opportunities across a range of technologies in developing mariculture.

2. Findings

(a) Strengths

- Exclusive Economic Zone (EEZ) - Mauritius has an extensive EEZ of 1.9 million square kilometres. However, the living marine resources within this area are not considered abundant. The continental shelf area within the EEZ, which is the most productive area for demersal and shellfish (bottom feeders), is only about 75,000 square kilometres, or 4.4 per cent of the total area. About two-thirds of the shelf extends beyond the 200 nautical mile EEZ limit.[41] The continental shelf is also important for its oil and gas deposits, and ocean minerals, but feasibility studies on their exploitation have not been undertaken.

- Developed port infrastructure, including transshipment facilities and a customs free zone for re-export. Port Louis Harbour is a modern port with five deep-water quays. The port is also equipped with a large container park of 8 hectares with a one-half million square foot area of covered space. A Freeport Zone, created in 1992, facilitates transshipment operations, through support services such as storage, warehousing, banking, insurance and other ancillary services.

(b) Weaknesses

- Over exploitation of some fisheries: The local fishing industry has concentrated on artisanal and bank fisheries. This concentration has resulted in the overexploitation of the inshore fisheries of the lagoons and reefs. In some areas the bank fisheries are highly exploited and under quota restrictions, but in other areas they are not. The other areas, i.e., the smaller banks, are intensively exploited and subject to limited entry even though catch quotas have not been imposed. The local fisheries are categorized by a traditional approach to fisheries, where traditional technology is utilized and where the domestic market for fresh and frozen fish is the primary focus. The high level of fishing effort has resulted in economic conditions that do not attract new entrants or the use of more appropriate technology.

[41] This is based on a rough estimate to provide some relative order of magnitude of the shelf area outside the EEZ by Dr. H. Leven of the Mauritius Oceanography Institute. Some countries such as Canada are extending their EEZ areas to cover the shelf areas that extend beyond the 200 nautical mile limit

- Weak knowledge of the resources within the EEZ: The fisheries resources are the only resources of Mauritius's EEZ that have been subjected to scientific assessment. No extensive scientific work on the non-living and seabed resources of this area has been carried out. The result has been little or no interest by Government or private enterprise in marine resources other than fisheries.

- Market penetration and niches: There is a lack of awareness of market potential for marine products and market requirements. This is apparent in fisheries where Mauritian fishery products have had trouble meeting quality standards in some markets, such as South Africa. However, some exporters are adhering to the European norms. A significant factor affecting the development of new fisheries is the lack of awareness concerning the market potential.

- Lack of agreement among regional countries. Member countries of the Indian Ocean Commission (IOC), comprising Comoros, Madagascar, Mauritius, Seychelles and France, representing the French Overseas Department of Réunion, have competed with each other for licensing fees that foreign fleets pay to fish within the country's EEZ. Lack of cooperation has resulted in foreign fleets playing one country against another. Moreover, existing arrangements, where countries enter into bilateral agreements on access to tuna fisheries, is unsatisfactory because of the different surveillance capabilities and conditionalities by countries. Negotiations on a regional basis helps consolidate strength in bargaining for best terms applicable to royalties and for technical assistance, from countries exploiting resources in their waters.

  Thus, it would be advantageous for Mauritius, together with the other IOC members to negotiate access agreements at the regional level. In the case of tuna fishery in the Indian Ocean,[42] the Indian Ocean Tuna Commission (IOTC), collects scientific data for analysis through the annual scientific meetings of all member states for an eventual stock assessment.

  Currently, Mauritius enters into arrangements with the EU, under an Agreement covering a three-year period, 1996-1999. To operate in Mauritius's EEZ, EU paid royalties totalling 1,218,750 ECU, based on an annual catch of 7,500 tonnes of tuna. In addition, the EU also provided financial support for scientific and technical programmes, which includes a grant for education and training, as well as support for equipment and infrastructure. For the licence fees, each vessel is charged 20 ECU per tonne. Purse seiners pay an annual licence fee of 1000 ECU and tuna longliners 500 ECU. The total package amounted to $ 2.6 million (1 ECU = $ 1.12 in 1998). The EU has similar types of arrangements or protocols with Comoros, Seychelles and Madagascar. Seychelles accounted for 70 per cent of the overall EU tuna catch allocation while Mauritius, about 10 per cent. Arrangements are also made with Japan and other countries on a bilateral basis.

[42] Indian Ocean Website. The Indian Ocean accounts for 24per cent of the world's tuna catch. In 1996, the ocean yielded a catch of around 1.1 million tonnes valued at between 2 and 3 billion dollars.

The effectiveness of regional agreements over bilateral ones is exemplified by the South Pacific Tuna Treaty (SPTT). This Treaty was signed in 1987 by the United States and the Forum Fisheries Agency (FFA) representing the 16 member states, 14 of which are small island developing states. In 1991, the SPTT was extended for 10 years. As is the case in the Indian Ocean, tuna resources in the Pacific Ocean are exploited primarily by international rather than by national fleets. Among the agreed terms under the SPTT, are payment of annual licence fees amounting to $ 14 million a year by 55 United States vessels, and development assistance payments by the United States Government of $ 4 million a year, and technical assistance contribution of $ 250,000 from the United States tuna industry.[43] This amounts to an annual total of over $ 18 million.

The IOC could, therefore, learn from the experience of the FFA and conduct regional negotiations between its members as a group with foreign countries seeking to fish in their waters. A new agreement with the European Union, based on higher licence and royalties fees, including funds for development (e.g. similar to the South Pacific model), would ensure that the region would benefit more from the activities of foreign fleets. It is important that the Government take unilateral action in revising its whole licence fee structure, particularly with respect to foreign fleet operations and in imposing royalties in lucrative fisheries (exceptions being the artisanal fisheries and new and developing fisheries).

(c) Opportunities

There is scope for investment in developing fisheries and the processing of fish products in view of rising fish consumption by both the national population and the tourist sector. Presently, Mauritius fish exports are depicted in chart 5 as an "underachiever", that is, growth of Mauritius exports of tuna, skipjack and bonito (prepared and processed) is slower than the growth of world demand for these products. The fishing industry can therefore, be exploited for import substitution, to reduce the fish import bill and for its value-added through increased processing. Under-exploited species and mariculture provide the scope for import substitution and will increase the fish landing in Mauritius, as well as create employment. The opportunities occur mainly in these areas:

- Small pelagics fishing: Small-scale pelagics are the most abundant resources available, with a maximum sustainable yield of 26,000 tonnes. Mauritius imports a considerable amount of canned pelagics (constituting nearly 100 per cent of canned imports of 3,000 tonnes a year). Therefore, small pelagics can provide the raw material for the development of a canning and fish product industry (fishmeal, animal feed and fish oil). An integrated primary fishery with secondary processing operations for small pelagics would remove the concerns expressed in the Ten-Year Plan about the viability of the fishery for small pelagics and would contribute to value-added in the fishing industry.

- Under-exploitation of tuna fisheries: At present there is only one Mauritian vessel operating in the offshore tuna fisheries, with a total catch of 4,000 tonnes. In 1997, this vessel supplied only 19 per cent of the raw material throughput of Princes Tuna (Mauritius) Limited, and therefore, there is room for further exploitation of tuna fisheries. Tuna fisheries development can benefit from foreign participation. Foreign investors can bring in capital to an industry that requires high capital investment in tuna vessels, new technology and skilled personnel such as qualified skippers and master fisherman.[44]

[43] Herrick, S.F., Rader. Band D. Squires, "Access fees and economic benefits in the Western Pacific, January 1997.
[44] Phoolchund, R. Study of the Mauritian Industry for Fish and Fish Products, a study for the International Trade Centre of SADC

A modern tuna purse seiner, costing over $ 20 million, is among the most costly fishing vessels and has to be manned by highly trained crew. These vessels usually constitute the primary fishing segment of a large integrated operation as their costs are recouped from other high value operations, in particular, processing operations. The most effective way for maximizing benefits of international tuna fisheries to Mauritius, is by encouraging foreign companies to help develop the primary tuna fisheries, including on–shore processing of tuna. However, the Government should ensure that good access agreements are negotiated so that maximum benefits go to the country.

In terms of value-added, secondary processing has the highest contribution in the fishing industry. The tuna industry offers the best opportunity for on-shore processing considering that at present, there is transshipment of tuna catch through Mauritius to Puerto Rico for processing and also transshipment of frozen tuna to Japan. In 1997, ninety-three longliners were licensed to operate in the EEZ. These vessels trans-shipped their tuna catch at Port Louis Harbour to large fleets of tuna longliners. Mauritius could attract additional investment in processing canned tuna. What is trans-shipped to Puerto Rico could be processed in Mauritius given the lower wage rates in Mauritius.

- Mariculture: As an island, Mauritius could exploit its water for developing mariculture. The range of possibilities under mariculture includes sea ranching, cage and pen culture, alternative species such as seaweed and sea cucumber farming and barachois (a traditional fish production system). A study to investigate the potential of seaweed farming in Rodrigues is in the pipeline.

(d) Threats

- Regional and international competition: Mauritius fisheries has to contend with regional and international competition. With the exception of South Africa and the Seychelles, regional countries have lower wage rates and larger markets than Mauritius. Mauritius will have to compete actively with other countries, even within the ambit of regional trading arrangements. Existing processing operations have been hampered by high wage rates and the reluctance of domestic workers to undertake overtime and night shift duty. In the tuna processing plant, this reluctance resulted in reliance on foreign workers more willing to work long or odd-hour shifts.

Overcoming these obstacles would require a new focus in Mauritius, together with a more accommodating stance with respect to FDI, particularly since it is obvious that the fisheries and marine sector will require considerable outside intervention for its development.

3. Recommendations

The above discussion suggests that there are specific investment opportunities in the marine sector especially in a number of areas of the fisheries sub-sector. These have been adequately identified in the Ten-Year Plan.

These opportunities should be presented in a sectoral profile for investors along with a more pro-active approach on investment promotion. The establishment and expansion of the Princes Tuna operation has been an encouraging start.

In respect of the tuna fishery the Government should take the lead in the future in fostering regional negotiations with foreign countries for access agreements on international and regional tuna fisheries. This would enable member countries in the region to consolidate their strengths and bargain for better terms, especially on royalties and technical assistance programmes, with foreign fleets in return for the exploitation of their resources.

V. MAIN CONCLUSIONS

FDI has supported past initiatives of Mauritius to achieve economic diversification. FDI is even more crucial today as a tool to support strategic objectives and help move Mauritius to the next stage of development. Mauritius is well poised to take advantage of growing opportunities in the region and has identified potential in regional business and high value financial services. FDI can bring with it the capital, products, and upgraded technical and financial management skills needed to achieve this.

To become a successful business hub for Africa, Mauritius must be internationally competitive, and be viewed as the most open, investor-friendly and progressive business environment in the world – that is, not just in Africa. Leadership will be necessary to change people's mindset towards becoming the most competitive provider of financial and business services in the region and to the region.

The key findings of the report are:

The policy and operational framework for FDI is substandard in several areas. It should be overhauled to align it to standards of best practice. The challenges are to:

- Adopt a more open stance to FDI - publish a policy statement and bring transparency to FDI regime including the admission process.

- Put the privatization on a fast track, through a published programme and open it up to bring world-class standards, "name" investors and enhanced capacity and credibility to the regional investment and business services strategy.

- Consolidate and extend the role of the new BOI as a super agency with a central mandate for investment promotion and facilitation including the execution of privatization and concession programmes, the development of investment strategy and to take the lead in sensitising public opinion.

- Remove expensive piece-meal tax give-aways, which have poor strategic rationale and replace with a more coherent, attractive regime based on strategic goals.

- Acknowledge that implementation of a new investment strategy entails a break from past practices and mount an awareness campaign to inform and sensitize the public to the need for these changes.

Mauritius must shift more forcefully into higher value sectors and tap growing opportunities in the region. To enhance its first mover advantage as a regional financial centre, it needs to attract major international players to move the financial sector up the value chain. The main challenge is to improve on international competitiveness and to sustain it. Key actions required are to:

- Implement strategies for rapid upgrading of the human capital base, and mobilize participation of major stakeholders – public and private education sectors, private business sector and foreign investors.

- Bring down costs of goods and services to business to internationally "competitive" levels. Deregulate the telecommunications and open it to competition.

- Improve air, sea and telecommunications links with countries in the region. Reorientate the mind-set of public and private sectors to doing businesses with the region. Carry out serious and sincere diplomatic efforts in regional trading arrangements.

- Monitor benchmarks on international competitiveness, and make agencies accountable for the performance of each business cost component, i.e., to address or explain discrepancies in an objective manner on a periodical basis.

The opportunities and constraints in attracting FDI into each of the following three sectors are highlighted below. The challenges are to :

(a) Regional Financial Services sector

- Nurture the development of Mauritius as a regional centre for the "African Dollar" Market, and encourage private banking and asset management activities.

- Facilitate entry of highly qualified personnel. This may entail a combination of policies: a very liberal immigration policy on expatriate business and financial professionals supplemented by an active foreign talent attraction policy; and attracting back Mauritian business and financial professionals.

- Set up an Institute of Banking and Finance to train and upgrade finance-related professionals and establish links with reputable foreign institutions.

- Benchmark the Mauritian Stock Exchange against international standards and promote a regional offshore stock exchange as a component of the regional financial services strategy.

(b) Information Technology

- Bring down the high costs of telecommunications to international competitive levels.
- Build up the required pool of skilled personnel.
- Market Mauritius as an IT servicing centre among international firms in IT consulting, Internet and software development, and call centres.
- Solicit the participation of the Mauritian diaspora, and using their overseas networks within international high technology firms, to foster private sector linkages.

(c) Marine Resources sector

- Promote the commercial possibilities of the fisheries sector to outside investors.
- Review and rationalize existing licence fees and royalty payments from tuna fishing by foreign vessels in Mauritian waters. Take a lead in fostering regional negotiations with foreign countries for access agreements in regional tuna fishery.

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