

**Development Policy Research Unit  
University of Cape Town**



**Restructuring of the Mauritius  
Clothing Industry in light of New  
Trade Agreements**

DPRU Policy Brief No. 01/P10  
April 2001

## Introduction

Mauritius is an example of a developing country that, over the past 30 years, has experienced dramatic economic progress due to the spectacular development of its clothing industry. However, new trade agreements, and the general change in the trade and business environment have presented threats and opportunities to firms within this sector in Mauritius. This policy brief seeks to highlight the critical success factors of the clothing industry in Mauritius, policy initiatives by government and firm-level responses to these policies, and the prospects for this industry against the background of the rapidly changing trade and investment environment.

### *Change of Strategy*

- Mauritius is a member of the Southern African Development Community (SADC). This trade agreement offers scope for Mauritian business people to relocate production of garments to low-wage sub-Saharan African countries
- Mauritius has to change its strategy - the future of its clothing industry lies in closer integration with the Southern African region.
- ***Mauritius needs neighbouring African countries in much the same way as Hong Kong needed China for its further development.***

## Overview of the Industry

The Mauritian clothing/garment industry is characterised by the following features:

- At the end of 1999, the industry consisted of around 270 clothing enterprises (there are also 48 textile enterprises).
- Firms of over 100 employees account for 54% of the total number of firms, and 91% of total employment in the clothing sector.
- Levels of concentration with respect to ownership, output and employment are quite high – of the 270 enterprises, 39 are owned by the eight leading companies in Mauritius. Between them, these eight companies accounted for just under half of all 1998 exports, and for 53% of total sector employment.
- The industry employs approximately 77 000 persons in the clothing sector, and up to 6000 persons in the small upstream textile sector.

## **Critical Success Factors – *Past Sources of Strength***

The outstanding success of the Mauritian clothing industry can be attributed to a unique combination of internal and external factors.

### **External factors**

#### ***Friendly links***

Mauritius enjoys friendly links with some of the richest countries because of cultural/linguistic affinity and by virtue of its former colonial status.

#### ***International agreements***

Mauritius is a member of various international arrangements/agreements and these have opened up tremendous opportunities for industrial development. The most important of these has been the Lomé Convention<sup>1</sup>.

- The Mauritian private sector has been very successful in taking advantage of the preferential access to European markets.
- The first Lomé Convention was signed in 1975 and the fourth Lomé Convention was in force from 1990 to February 2000. The Lomé Convention has now been replaced by the Bénin/Cotonou Convention, which expires in 2008.
- This Convention bestows considerable advantages to Mauritius over non-ACP countries because the latter's export of textile and garments are liable to a 17% duty on entry into European markets.
- Even businessmen from the Far East relocated to Mauritius in order to take advantage of the easy access to European markets.

#### ***External Economic and Political Factors***

Since the early 1980s, Mauritius took advantage of world economic recovery and capitalised on market opportunities by improving its competitiveness through structural adjustment programmes and through the devaluation of the currency, the rupee. A number of exogenous factors also played a role. These included:

- Falling oil prices.
- The US dollar was over-valued during the 1983-84 period and subsequently depreciated. This combination of lower oil prices and lower debt servicing considerably eased the foreign exchange problem.

---

<sup>1</sup> According to this preferential trade arrangement, exports from African, Caribbean and Pacific (ACP) countries benefit from free access to European markets. ACP countries are exempted from all customs duty, and there are no quantitative restrictions on goods imported from ACP countries.

- After 1984, demand in European as well as in American markets increased sharply during the early phases when the Export Processing Zone (EPZ) was established. Most of the European currencies appreciated vis-à-vis the Mauritian rupee, causing Mauritian goods to be more competitive.
- The appreciation of the Taiwanese dollar meant that Taiwan became less competitive, which in turn, encouraged Taiwanese investors to set up industries in Mauritius.
- During the 1980s, political uncertainty over the future of Hong Kong's re-integration into China encouraged business people to look for a safe haven for their capital and manufacturing operations. Investors brought with them capital, know-how and marketing networks. In return, by relocating to Mauritius, they gained access to European and American markets.

In addition to these external forces, a blend of domestic conditions played a significant role.

## **Internal factors**

### ***Domestic Investment***

- An interesting feature of the Mauritian EPZ is that there was a substantial amount of investment by local entrepreneurs themselves. By contrast, most EPZs around the world rely heavily on foreign investment.
- In addition, there has also been a large number of joint ventures between local and foreign investors. It is true that foreign investment was extremely important for the initial take-off of the clothing industry. However, the measure of success achieved would not have been the possible without the involvement of the local business community.
- Real linkages developed between the activities of foreigners and Mauritians. These linkages have been crucial for Mauritian firms to acquire the know-how. In fact, some of the largest clothing firms are owned by Mauritians who have become industrialists of international calibre.

### ***Domestic Policies***

- Mauritius offers an attractive package of incentives. For example, investors benefit from low corporate tax and foreign investors are free to repatriate funds.
- Government has also supported the EPZ scheme, for example, by investing in infrastructure.
- Mauritius enjoys a favourable business climate. In addition, in the early phases of the development of the EPZ, there was a good combination of cheap, but literate and moderately skilled labour. At that time, labour productivity was also considered satisfactory.

## Obstacles to future growth in the clothing and textile industry in Mauritius

Despite the phenomenal growth that has characterised the clothing and textile industry in Mauritius over the past decade or two, **potential and actual threats** have emerged that may jeopardise Mauritius' export competitiveness in garments.

### *Erosion of Trade Preferences*

- Initially, when foreign investors relocated to Mauritius, they were motivated by the fact that, unlike Asian producers, Mauritius had preferential access to European markets and clothing firms had also succeeded in establishing a foothold in the American market. However, there have been considerable changes in the global trade environment since Mauritius implemented its development strategy. Several other developing countries have entered the arena, with many of the advantages that Mauritius enjoyed.
- Furthermore, there is widespread fear that when trade barriers come down after the phasing out of the Multi-Fibre Agreement, Mauritius will lose preferential treatment and will thus have to face fierce competition from the larger Asian producers.

### *Highly Concentrated Export Structure*

- Mauritius has a highly concentrated export structure: over 80% of its manufactured exports come from one product only, namely clothing.
- This degree of concentration presents two main dangers.
  - *First*, it implies that Mauritius is highly susceptible to demand conditions for garments, in its export markets in the industrialised countries.
  - *Second*, this dependence on clothing also reflects the fact that, over time, there has been a continued and heavy dependence on low skill exports. The danger of producing low skill goods is that entry to new competitors is extremely easy. Normally, for such products, scale economies and technological requirements tend to be low. Therefore, the main competitive advantage lies in low wages.

### *Labour Supply and Wages*

- Mauritius, with a population of just over 1.2 million, is faced with an acute shortage of labour. This shortage of labour has now become a binding constraint on future industrial growth. Faced with this shortage of labour, some companies are even importing labour.
- Furthermore, over the years, wages have risen sharply as a result of full employment. Wages in Mauritius are lower than the Newly Industrialised Economies (NIEs) but are much higher than wages in several Asian countries.

- Between 1985 and 1990, the annual percentage growth in wages in Mauritius amounted to 12.4%, fourth highest after Korea, Taiwan and Hong Kong. Between 1990 and 1993, wages grew by 16.3% per annum, the highest of countries listed.

### ***Productivity***

- A core weakness is that the Mauritian industry is facing increasing wages, which are not being fully compensated for by the rise in productivity.
- Between 1982 and 1986, labour productivity declined constantly in the Mauritian manufacturing sector mainly because of high labour mobility, absenteeism and low levels of efficiency due to the learning gap.
- Since 1986, however, the level of productivity has been picking up. Factors contributing to this favourable situation are: the production of higher value added products, longer working hours due to more shift work and more use of capital-intensive technologies in the clothing sector. However, Mauritian entrepreneurs feel that productivity is not rising fast enough to match the increase in wages.
- In general, productivity problems can be related to worker attitudes in the Mauritian manufacturing industries – high rates of absenteeism, poor work discipline and lack of motivation are common complaints from firms.

### ***Geographical Isolation***

- An additional problem for Mauritius is its unfavourable geographical location, that is, it is isolated from its main markets. Compared to its competitors, Mauritius suffers from long shipping times and high freight costs. For example, the average shipping time from Mauritius to the USA is between 45 and 55 days compared to just 25 days from South East Asia to the USA.
- In addition, given that there are few shipping lines serving exports, sailings are too infrequent. Mauritius does not lie on the main sea routes and maritime transport costs are higher than for countries competing in similar markets.

## Relocation of Mauritian Clothing Firms

*“ In future, if you want to produce in Mauritius, you have to produce quality.”<sup>2</sup>*

In light of the above-mentioned structural constraints that threaten the competitiveness and export performance of the Mauritian clothing and textile sector, the possibility of relocation by firms increases and therefore this is an issue that requires scrutiny.

Some firms have already relocated, and some are planning to. Others are simply not interested in relocation. It is imperative from a policy point of view to understand why firms make the decisions they do: ***what has made relocation an attractive option?***

Factors	Rank
Low wages	1 <sup>st</sup>
Investment incentives	2 <sup>nd</sup>
Government support	3 <sup>rd</sup>
Good Infrastructure	4 <sup>th</sup>
Political stability	5 <sup>th</sup>
Skilled workers	6 <sup>th</sup>

- Firms planning to relocate view low-wage African countries (particularly in the SADC region) as the best location due to lower labour costs.
- However, the point must be made that the strategy of the firms that have already relocated to Madagascar, Mozambique, Botswana and Tanzania has been to use these new locations to produce low cost garments for the lower end of the market<sup>3</sup> while at the same time restructuring the home (Mauritian) operations so

<sup>2</sup> Quote from a leading executive from Floréal Knitwear – which is the biggest clothing enterprise in Mauritius, April 2000.

<sup>3</sup> Such as pullovers and T-shirts that are part of the low range category and are not very high value-added garments.

as to focus solely on producing high quality garments for the upper end of the market.

- This enables firms to service both markets and achieve the cost advantages in the low-wage countries. Their strategy is to complement production, that is, produce medium and high quality garments in Mauritius and mass produce low range garments in low-cost African countries.

***Firms that do not want to relocate have cited various reasons:***

- **Indirect costs.** The actual cost of physically relocating and other transaction costs may be prohibitive.
- **Political and social stability.** Some firms seem to be concerned about labour legislation and socio-political problems that may exist in the planned new locations.
- **Size of the firm.** For the smaller firms, relocation is seen as an enormous investment. As can be expected, for these firms, there is too much risk involved. This is especially so for new firms in the Mauritian EPZ. They also fear that, unlike the larger firms, they would have difficulties accessing finance.
- **Level of skills.** Some Mauritian firms have expressed their concern over the fact that the level of skills in Madagascar and in other African countries is not comparable to what they have in Mauritius.
- **Quality.** Some firms do not want to relocate because they are confident that they can compete on the basis of quality. They believe that producing higher value-added garments is a good enough reason for not relocating.

## Policy Conclusions

- Policy-makers increasingly realise that Mauritius cannot sustain the production of the lower-value segment of the clothing market (that is “basics”) anymore. Since world trade is being increasingly liberalised, in future other countries will have equal access to advanced country markets. Mauritius will simply not be able to compete with low-cost countries like China, India and Bangladesh. Thus, in the basic segment of the clothing market, there is no option but to relocate production to lower-cost countries.
- Neighbouring African countries have large pools of cheap labour. In the 1970s, investors from Hong Kong relocated to Mauritius and gave birth to the Mauritian clothing industry. Today it is Mauritian firms themselves that need to relocate.
- The question that arises is: what role would remain for Mauritius as its importance as a producer of lower range clothing declines? The island has the potential to become a regional hub for clothing, engaging in the following activities:
  - Design and marketing.
  - Sourcing of raw materials.
  - Quality control.
  - Re-export of finished goods – especially since Mauritius has set up a free-port.
- It is also important to note that Mauritius already has a well-established name on the world market. Hence, buyers from its traditional European and US markets will still have confidence in quality and delivery of Mauritian sourced products, irrespective of the fact that they are now being produced in some other African country.
- From a regional point of view, relocation by Mauritian firms will also contribute towards the economic development of the region.
- The other area that needs to be considered is the production of higher-value added garments. So far a few firms have already made the shift towards producing garments for higher segments of the market.

**To sum up, Mauritius can undertake the following steps in its new strategy to restore competitiveness in the clothing industry:**

If firms want to continue producing in Mauritius, they have to shift to the production of higher quality garments. In the low-range segment, however, it will become less possible to produce in Mauritius because of rising costs. However, SADC provides scope for Mauritian firms to relocate production of ‘basics’ to new sites.