

Breakdown of the Trade liberalisation-Development Linkage in Africa: The exceptional Mauritian case

Abstract

The trade liberalisation-welfare link tends to be complex not only because poverty covers multidimensional aspects but also due to the fact that trade liberalisation covers a range of possible policy actions and there are multi-faceted channels through which trade liberalisation can impact on poverty. This paper gauges into the causes of the breakdown of the trade liberalisation-development linkage in Africa, a continent which embarked on the trade liberalization path with full swing in the 1990s. It further extends the analysis by considering the specific case of Mauritius, an African island economy highly dependent on trade, with special focus on the labour market channel. It adds to the literature by focussing on trade liberalisation episodes and not trade performance and openness.

Key words: Africa, Trade Liberalisation Episodes, Welfare, Mauritius

1.0 Introduction

Very soon after the GATT the linkages between trade and development and the perception that export earnings from trade can help achieve development, were acknowledged. New

development theorists contend that trade liberalisation kindles technological change through competition which in turn spur growth. As such the emphasis on trade liberalization and export orientation to achieve growth and development in the past decade has led to a phenomenal growth in world merchandise trade, which has consistently grown faster than output (UNCTAD, 2003a.). Following the international trend, many African countries also have embarked on the route towards trade liberalization. For instance the once widespread quantitative restrictions on imports have been decreased or substituted by tariffs in many cases and average tariffs in sub-Saharan Africa were nearly halved between 1995 and 2006. Despite these reforms there seem to be a breakdown of the trade liberalisation-development linkage in Africa, as noted by the fact that although worldwide absolute poverty has been declining, in Africa it has been on the rise. Moreover Sub Saharan Africa (SSA) is off-track on all the Millennium Development Goals (MDGs), with a rising incidence of poverty and the world's highest share in working poverty. Over 313 million people living below the \$1/day poverty line in the region.

This paper thus gauges into the possible causes of this breakdown and also draws attention to the case of an exceptional small island African economy, Mauritius, where the linkage is visible. The rest of the paper is structured as follows:

2.0 Trade Policy and Trade Performance in Africa

The doctrine of import-substitution industrialization dictated the trade policies of many countries in Africa, in the period from the 1960s to the 1980s since it was viewed as a viable policy package lessen dependency on primary products and it supported the protection of domestic firms from foreign competition. As a result tariff structures were often highly complex, with a large number of tariff rates, and tariffs were high. However the import substitution strategy proved to be a failure as the gross domestic product (GDP) growth rate of the region declined from 4.3 per cent per annum in the period 1971–1975 to 1.1 per cent in 1981–1985. In response to such a situation, the international financial institutions advocated a policy package of market-oriented reforms, of which trade liberalization was an integral part. As of the mid-1980s, and often as part of the programmes, these countries gradually started to liberalize their trade policies. By the second half of the 1980s, about 60 per cent of African countries were undergoing

or had gone through a structural adjustment programme designed in collaboration with the World Bank and the International Monetary Fund (IMF) (World Bank, 1994). By the mid-1990s, most African countries had undertaken such programmes.

The fact that tariff rates have declined significantly in Africa as shown in table 1.1 is therefore a testimony to the magnitude of trade liberalization in the continent. More specifically, average tariffs in sub-Saharan Africa were nearly halved between 1995 and 2006.

Table: 1.1**Unweighted average tariff changes in African countries**

Country	Year	Average scheduled tariff	Year	Average scheduled tariff
Africa	1995	21.71	2006	13.06
Algeria	1993	21.44	2006	15.81
Angola	2002	8.15	2006	7.55
Benin	2001	14.03	2006	13.42
Botswana	2001	5.95	2006	8.74
Burkina Faso	1993	25.06	2006	12.20
Burundi	2002	21.90	2006	14.65
Cameroon	1995	18.10	2005	19.16
Cape Verde	2005	15.42	2005	15.42
Central African Republic	1995	17.24	2005	18.79
Chad	1995	17.08	2005	17.91
Congo	1994	20.49	2005	19.27
Côte d'Ivoire	1996	19.43	2006	13.45
Dem. Republic of the Congo	2003	13.08	2006	13.05
Djibouti	2002	30.95	2006	30.23
Egypt	1995	24.30	2005	19.09
Equatorial Guinea	1998	19.45	2005	19.00
Eritrea	2002	10.10	2006	9.56
Ethiopia	1995	29.41	2006	16.44
Gabon	1995	20.29	2005	20.05
Ghana	1993	13.64	2004	13.15
Guinea	2005	14.16	2005	14.16
Guinea-Bissau	2001	13.58	2006	12.73
Kenya	1994	31.24	2006	11.91
Lesotho	2001	10.55	2006	9.86
Libyan Arab Jamahiriya	1996	22.87	2006	0.00
Madagascar	1995	7.49	2006	13.26
Malawi	1994	31.42	2006	12.88
Mali	1995	15.98	2006	12.58
Mauritania	2001	12.83	2006	11.58
Mauritius	1995	34.70	2006	4.21
Morocco	1993	64.07	2006	15.53
Mozambique	1994	5.00	2006	12.69
Namibia	2001	5.75	2006	5.81
Niger	2001	14.38	2006	13.07
Nigeria	1995	22.07	2006	11.68
Rwanda	1993	38.69	2006	19.71
Senegal	2001	13.86	2006	13.49
Seychelles	2000	27.31	2006	6.33
South Africa	1996	15.02	2006	8.31
Sudan	1996	5.03	2006	17.14
Swaziland	2001	3.06	2006	10.33
Togo	2001	14.26	2006	14.00
Tunisia	1995	29.67	2006	22.87
Uganda	1994	16.61	2006	12.00
United Republic of Tanzania	1993	15.54	2006	12.52
Zambia	1993	25.34	2005	14.59
Zimbabwe	1996	40.64	2003	16.66

Source: UNCTAD 2008c.

Recognizing that trade liberalization through the removal of import restrictions would only be effective with a competitive exchange rate, by the early 1990s, overvaluation had been greatly reduced in many African countries. For instance in Ghana, the parallel market premium was only 3 per cent for the period 1991–1995, while the figures in Mozambique and the United Republic of Tanzania were 17 per cent and 22 per cent respectively.

As far as trade performance is concerned, comparing export performance prior to and following trade liberalization, table 1.2 shows only a limited response in Africa and at the same time the trade deficit worsen from –6.6 per cent of GDP to –7.7. This implied that the effect of trade liberalization on imports prevailed, that is imports rose faster than exports. Yet it must be borne in mind that while African countries have reduced their NTMs considerably, their exports are now restricted by NTMs in their partners’ economies and this may be reflected on the trade performance of the continent.

Table: 1. 2

Trade performance before and after liberalization <i>(Median values as a percentage of GDP)</i>				
		Before	After	% change
All developing countries	Imports	28.1	37.0	32
	Exports	22.4	29.5	32
	Trade balance	-4.3	-5.9	-37
Africa	Imports	31.0	34.0	10
	Exports	23.2	25.7	11
	Trade balance	-6.6	-7.7	-17
Non-African developing countries	Imports	24.0	38.9	62
	Exports	21.1	31.6	50
	Trade balance	-2.7	-4.9	-81

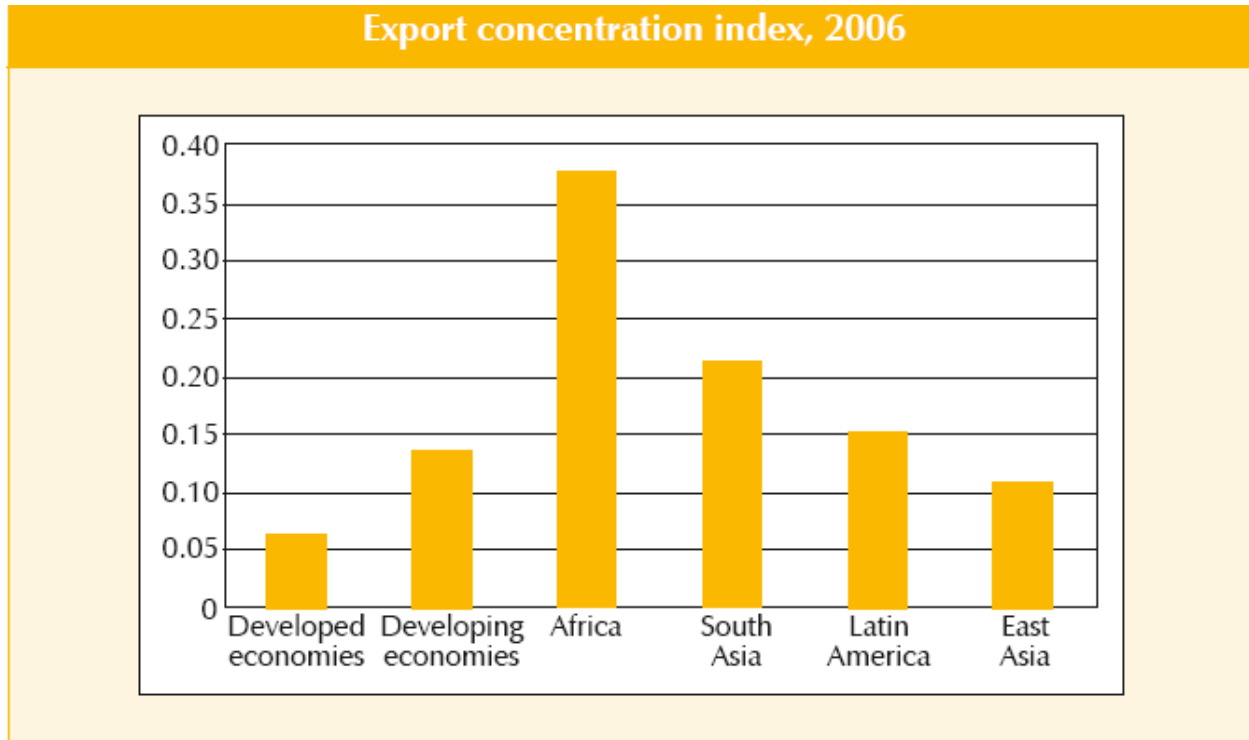
Source: UNCTAD, 2008a

3.0 The Possible Causes of the Breakdown

Even though Africa did embark on the path of trade liberalisation, it did not experience the resulting benefits as advocated by the new development theorists. This can be partly explained by the following arguments. First given that in the early stages trade liberalization led to significant closures of the previously protected import competing sectors, many countries started reconsidering their new policies to protect their traditional sectors, even in the presence of evidence that exports were growing. The temptation to save jobs in the traditional import competing sectors in the urban centers was more attractive than the long-term transition of their economies to self sustaining strong exporters, leading to significant policy reversal. A World Bank report (1994), for example, indicates that in many African countries, either trade restrictions, which were removed, were reinstated, or some existing barriers were reinforced to offset reductions elsewhere. Some countries, for example, which had eliminated most quantitative restrictions, at a later stage increased import bans significantly. Some cited example in the report are that of: Nigeria, which after eliminating most of its import restrictions and quotas, dramatically increased import bans; Ghana, that made significant strides in trade reforms and tariff reductions, reversed some of the reforms with the implementation of special taxes on imports and Cote d' Ivoire which raised tariffs substantially after have reduced or eliminated quantitative restrictions.

Second, the trade structure of African countries did not change much following trade liberalisation. The main exporting product was still the primary product, with only a handful of countries (such as Lesotho, Mauritius and Tunisia) drawing a significant part of their export revenue from manufactured products as shown by the high export concentration index of Africa compared to other regions, in table 1.3. As such the majority of the African countries depend on volatile commodity markets. The relationship between poverty and dependency on primary commodity is not only through trade, but also through the way in which weak trade performance is related to external indebtedness, and how external indebtedness in turn is related to access to external private capital and aid effectiveness (World Bank, 2004). External debt in many African countries has been on the rise given the low export growth coupled with commodity price instability and trade balance deficit, which in turn has led to a build-up of unsustainable external debt and leading to capital flight and thus increasing dependence on official capital inflows.

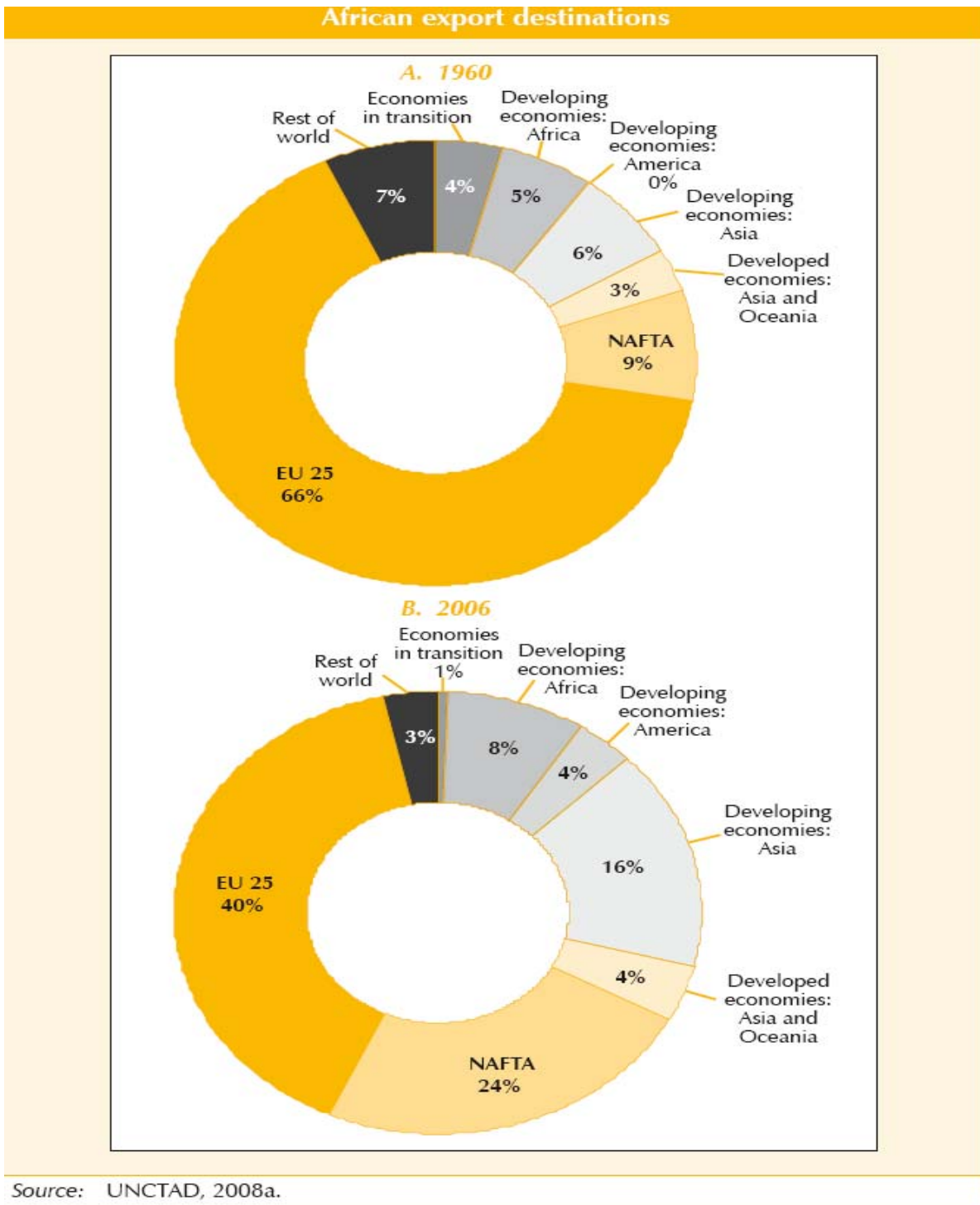
Figure: 1. 1



Source: UNCTAD, 2008a.

This situation is worsened by the fact that even their export market tends to be concentrated. The principal destination for African countries' exports is Europe, followed by North America, especially the United States (the importance of North America as an export market for African countries has grown considerably since 2002, mainly as a result of increased sourcing of oil from Africa, and the implementation of the African Growth and Opportunity Act of 2000).

Figure : 1.2



In terms of intra-African trade, trade liberalization has had little effect, mainly because African countries tend to export similar products, thereby limiting the complementarity of exports. Second, due to poor infrastructure for intra-African trade transaction costs tend to be high. Third, the implementation of the regional agreements tends to be slow and such agreements are

characterized by low involvement of private sector unlike in the cases of Europe, Latin America or Asia.

Finally, though the countries in the continent have experienced increases in exports, it must be noted that exports values rose faster than export volumes, signaling that the increase export values were due to rising export prices rather than export volumes. The low volume effect indicates the weak export response of the countries following trade liberalization and it is well known that it is very difficult to reduce poverty if exports are not growing or growing very slowly.

The above arguments thus give some highlights concerning why there was the breakdown of the linkage between trade liberalization and development in Africa. Yet it must be noted that among the African countries there is a certain extent of heterogeneity in terms of their experiences and as such the following sections consider the case of a small island African economy where the linkage was still maintained to some extent.

4.0 The Mauritian Context

Mauritius, a small island state located in the south west region of the Indian Ocean, has been transformed from a poor, state dominated and a mono-crop economy, entirely dependent on sugar, into a private sector led upper-middle income country, built around four pillars namely sugar, tourism, EPZ and financial services, particularly in offshore enterprises. ICT has now been added as the fifth pillar of development. The 2001/02 Household Budget Survey (HBS) shows that, after the deterioration in the distribution of income as measured by the Gini coefficient, from 0.379 in 1991/92 to 0.387 in 1996/97, 2001/02 recorded an improvement to 0.371. It also reveals that the average household nominal income has gone up by 40%. Only 11% of the households earn less than Rs5, 000 a month (equivalent to about US\$192) compared to 24% in 1996/97. In the 2008 Human Development Report (HDR) prepared by the UNDP, Mauritius was ranked 74th among 179 countries with a Human Development Index (HDI) of 0.802, a life expectancy at birth of 72.6 years (based on 2006 data) compared to 63 years in 1970, and an adult literacy rate of 87% (based on 2006 data).

Among many other factors on which the success story of the Mauritian economy had been largely based, are its trade policy and strategy and that of its trading partners as well as other complimentary policies which has boosted exports and hence growth. For instance, inputs were imported without any duty and this maintained the competitiveness of the export sector on the international market and resulted in high returns to the sector. Exports were subsidised through various tax incentives and the EPZ sector was segmented from the rest of the economy so that it had greater flexibility to discharge workers and enjoyed more flexible conditions for overtime work. Moreover the export sector was also implicitly subsidised by preferential access provided by the islands' trading partners in the sugar, textile, and clothing sectors and helped in overcoming the anti-export bias of the import regime. For example, the high ratio of merchandise trade to GDP (around 90% on average since 1995) indicates the importance of external trade to the country (WTO, Trade Policy Review 2001).

However in the recent years and currently Mauritius has been facing major constraints due to increasing competition, falling product prices, and erosion of market access preferences such as the phasing out of the MFA 2004, impacting negatively on the textile sector; the reform of the EU Common Agriculture Policy (CAP) leading to significant reduction in the guaranteed sugar prices enjoyed from the EU market; the expiry of the Cotonou agreement in 2007 and the ongoing ACP-EU EPA negotiations intensifying the existing fierce international competition from the Asian tigers. All these changes following trade liberalisation have put much pressure on the budget of the government as well as the provision of a social safety net given that taxes on international trade provide a major share of government revenue.

Though the island has achieved much in terms of development, it still has its share of poor people and poverty in the country goes much beyond going to bed hungry, it reflects more the lack of opportunity to undertake economic and human development and as such the provision of a social safety is crucial. There are also concerns over emerging social challenges facing the country such as drug addiction and drug trafficking, alcoholism, sexual assaults of females, muggings and attacks on the aged, burglaries, prostitution, domestic violence, divorce, suicides, child battering and sexual abuse. Most of these problems are associated with poverty and

deprivation. If poverty hits particular groups within a small multiethnic society, the country runs the risk of having to face diverse forms of conflicts and inter-culturality becomes threatened.

In addition Mauritius is a compelling choice as a case study because most poor people work in the tradable sector (Central Statistics Office, CSO, 2006). Furthermore, manufacturing, where most poor people work, is also the most important trade sector. Manufacturing accounts for some 75 per cent of merchandise exports (with textiles and clothing accounting for more than 40 per cent of manufacturing output) and also provides the livelihoods of over 73% of households. This combination of poverty and trade makes Mauritius a revealing case study, which suggests a close relationship between trade performance and poverty. Moreover, the island has achieved growth with poverty reduction through a highly interventionist trade regime, which remained protectionist as the rest of Africa liberalised in the 1980s. The IMF ranked Mauritius as one of the most protected economies in the world in the 1990s (Subramanian and Roy, 2001). The key has been targeted trade policy – giving incentives to exporters while protecting the labour force in the domestic sector from competition and providing a safety net for the population.

Manufacturing industry has been protected from competition for relatively long periods, using both tariff and non-tariff measures. By the 1990s, Mauritian industry was almost twice as protected as that of the rest of Africa. Local producers were treated preferentially to foreign producers, so that tariffs for inputs to local processing operations were reduced to increase the competitiveness of local products. Alongside various export subsidies were provided for firms operating in the Export Processing Zone. These included tax breaks and some weakening of labour legislation – though not all of Mauritius' very progressive labour legislation was suspended in the EPZs. Trade policy was also used to ensure food security for the population and protection to local farmers.

Although efforts are being made to address poverty in Mauritius, there is no coherent holistic policy which has been developed. A number of programmes have been introduced such as the Marshall Plan, the Trust Fund for the social integration of vulnerable groups and a poverty alleviation programme. Devising programmes such as these are laudable and indicate

Government's willingness to address the problems of the marginalised and the vulnerable. However given the smallness of the economy and capacity of the labour market to generate employment, the effect of the trade liberalisation policies on the labour market should not be ignored in all planning exercises.

4.1.1 Measurement Issues

As far as trade liberalisation is concerned, there are diverse ways of interpreting trade liberalisation and how it should be measured. However, it must be noted that we are interested in the effects of trade liberalisation episodes on poverty rather than on the performance of trade, that is how trade policies of Mauritius affect poverty. The traditional openness index (trade share in GDP) is not good at identifying liberalisation episodes in Mauritius given that it could be affected by international economic activity and trade policy of other countries rather than trade liberalisation process of the country itself. Consequently the next step consists of choosing appropriate year(s) to capture trade liberalisation episodes of the country.

Mauritius has adopted a gradualist approach as far as trade liberalisation process is concerned. At the same time though some steps were taken towards greater openness in some years, in following years more restrictive measures were again adopted so that it becomes very difficult to trace out the pattern governing trade reforms (except for the period 1979-1983, where it is clear that given macroeconomic stabilisation and exchange rate adjustment were the focal point, trade policy was used in a more restrictive manner). For instance though the period of 1983-87-period was associated with substantial import liberalisation and in 1984 and 1985 quantitative restrictions were completely dismantled, yet since mid 1980s many firms in the IS sector still retained duty free exemptions on raw material and intermediate goods (Milner et al., 2001). Moreover, according to the IMF's Trade Restrictiveness Index, Mauritius was a highly restricted economy based on average tariffs and quantitative restrictions during much of the 19870s, 1980s and early 1990s. During 1994 till mid 1990s the focus was on tariff liberalisation (mainly in the structure) with the average nominal tariff was reduced to about half its 1989 level (Ancharaz, 2003). Nevertheless, Nash (1993) argues that the intensity of the trade reform in 1994-98 was much less compared to that of 1984-90. In June 2000, tariffs were removed on an additional

1,300 items, but at the same time the number of categories of prohibited goods has increased from 13 in 1995 to 24 in 2001. From 2003-2007 several steps have also been taken to accelerate customs clearance. Moreover based on WTO Trade Policy Review, 2008 data, simple average MFN tariff (including AVEs) has declined from 19.9% in 2001 to 6.6% in 2007 following the government's announcement in its budget speech of 2005/06, to transform Mauritius into a duty-free island. Yet, even today, many companies that are producing for the domestic market are still fairly highly protected.

Given the above setting it becomes very difficult to choose a year or period to capture the timing of trade liberalisation. As confirmed by Borgatti (2007), it is difficult to determine the exact date at which trade liberalization takes place in a country and when it can be said to have a liberalized trade regime, as liberalization is a gradual process. To tackle this difficult task we have had recourse to trade policies adopted during budget speeches. In other words we have analysed all the major trade policies from the period 1973-2008 (as per appendix A1) and came up with two trade liberalisation episodes namely 1984-1987 and 1997-2000.

4.1.2 The Labour Market during the two Phases of Trade Liberalisation

In Mauritius with a highly regulated labour market, wages and conditions of employment are determined centrally rather than at the firm level and as such wages and conditions are not linked to productivity and tend to be compressed. However, in the EPZ sector the situation is different in the sense that workers are paid on a piecework basis so that wages are directly linked to productivity and firms are not subject to laws and regulations which reduce their freedom from laying off workers.

Coming to the exporting sector, Table 1.1 shows that over the period 1983-2008, the share of the exporting sector employment in total labour force decreased from 24% to 20%. During the first episode of trade liberalisation the share of both the traditional and non-traditional exporting sector rose, though the latter exhibited a higher rise, while throughout the period 1997-2000, the second phase of trade liberalisation, the share of the exporting remained more or less constant.

Table 1.3: Share of Exporting Sector Employment in Total Labour Force

Year	Traditional Exporting Sector (Agriculture)	Non-Traditional Exporting Sector (Manufacturing)	Total Share of Exporting Sector
1983	0.14	0.10	0.24
1984	0.13	0.11	0.25
1985	0.13	0.15	0.27
1986	0.12	0.19	0.31
1987	0.12	0.23	0.35
1988	0.11	0.26	0.37
1989	0.11	0.25	0.36
1990	0.10	0.25	0.36
1991	0.08	0.27	0.35
1992	0.08	0.26	0.34
1993	0.08	0.25	0.32
1994	0.07	0.24	0.31
1995	0.07	0.23	0.30
1996	0.07	0.22	0.29
1997	0.06	0.21	0.27
1998	0.06	0.22	0.28
1999	0.06	0.22	0.28
2000	0.06	0.22	0.28
2001	0.06	0.22	0.28
2002	0.05	0.21	0.26
2003	0.04	0.20	0.24
2004	0.04	0.19	0.23
2005	0.04	0.17	0.21
2006	0.04	0.16	0.20
2007	0.04	0.16	0.20
2008	0.03	0.16	0.20

Source: C.S.O. Digest of Labour Statistics, various issues.

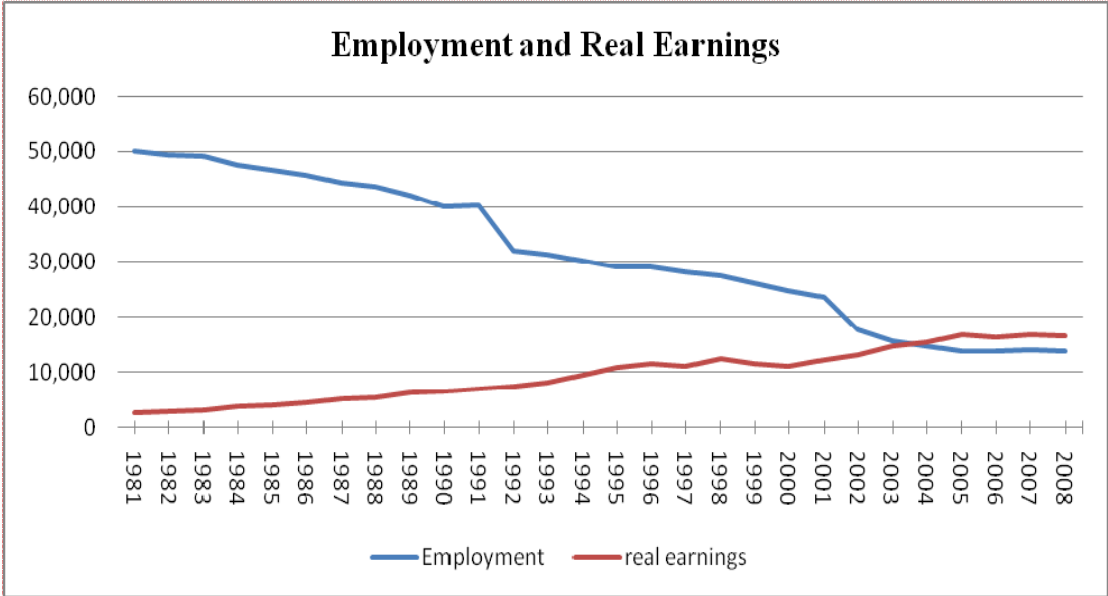
While disaggregating the exporting sector into traditional (mainly sugar sector) and non-traditional exportables (manufacturing sector) it can be further noted that there was a constant fall in the share of the traditional sector employment as from mid 1980s, while that of the manufacturing sector kept rising in the 1980s and early 1990s and then started to show a downward trend. This in turn implies that though in the 1970s and 1980s the agriculture and manufacturing sectors have turn by turn contributed significantly to employment creation, in the 1990s the services sector took the lead with an average growth rate of 3.3 percent per annum. Total trade in services in fact grew much faster than total trade in goods given the rapid expansion of the tourist sector. The country made specific commitments in the context of GATS in the services sector but the commitments made simply reflected the measures and policies already in force and therefore trade policies mainly trade liberalisation is not expected to have major impact on this sector and on its contribution to the labour market and as such the following paragraphs concentrate mainly on agriculture and manufacturing sectors, more precisely the sugar and EPZ sectors respectively.

3.1 The Sugar Sector

To a large extent the agriculture sector in Mauritius is made up of sugar production. In the sugar sector employment has been constantly decreasing throughout 1981-2008, starting with a figure of approximately 50,000 and ending with nearly 12,000 people employed (inclusive of the two phases of trade liberalisation) as shown in figure 1.3. However the most significant decrease in employment occurred from 1991 to 1992 with employment falling by nearly 9,000 and this did not coincide with any of the two trade liberalisation episodes. This in turn implies that the loss in jobs in the sugar sector was not due to trade reforms given that this sector is not mainly affected by the Mauritian trade policy but changes brought predominantly by world prices and other countries policies as well as due to technology (which in turn maybe a result of the globalisation process). The sugar industry by its nature itself was more capital rather than labour intensive.

Alongside the new generation of workers was not willing to work in sugar cane fields under the suffocating heat so that producers had no choice but to replace workers by machines which were also more efficient in terms of reducing costs.

Figure 1.3: Employment and Earnings in Sugar Sector



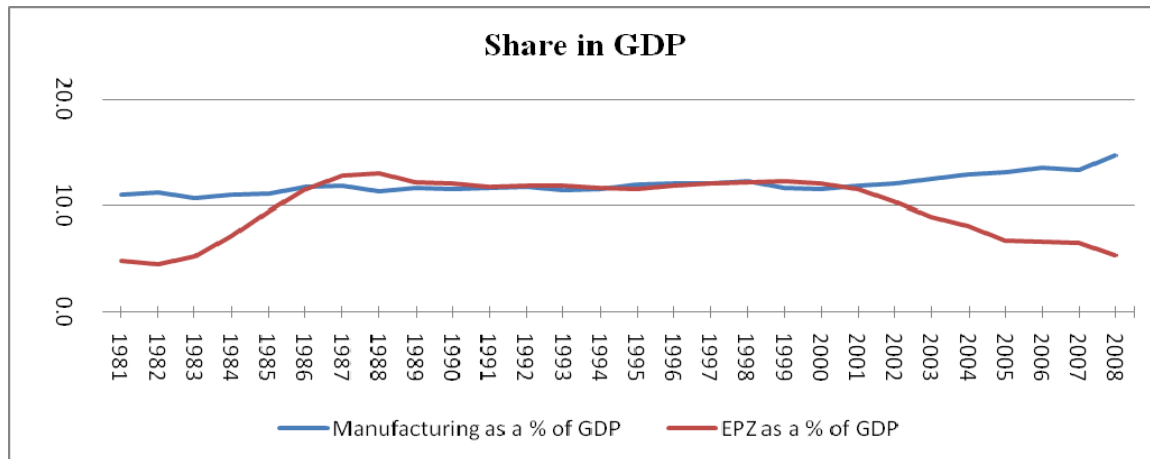
Source: C.S.O

As far as real earnings are concerned, they have been on the rise on overall and this represents an increase in the return to capital given that the sugar sector is capital intensive. It must be further noted that this rise was mainly due to guaranteed price that has been above the market price by about 90 % on average between 1977 and 2000. Nevertheless, this does not reflect an impact on the earnings of the poor since sugar producers (capital owners) in the country tend to be non-poor.

3.2 The Manufacturing Sector

The manufacturing sector has been very influential in the success of the economy. An important proportion of this sector is represented by the EPZ sector (80%) and by extension the textile and clothing sector (the EPZ sector also includes jewellery, leather products, footwear, electronic goods, pharmaceuticals and wood).

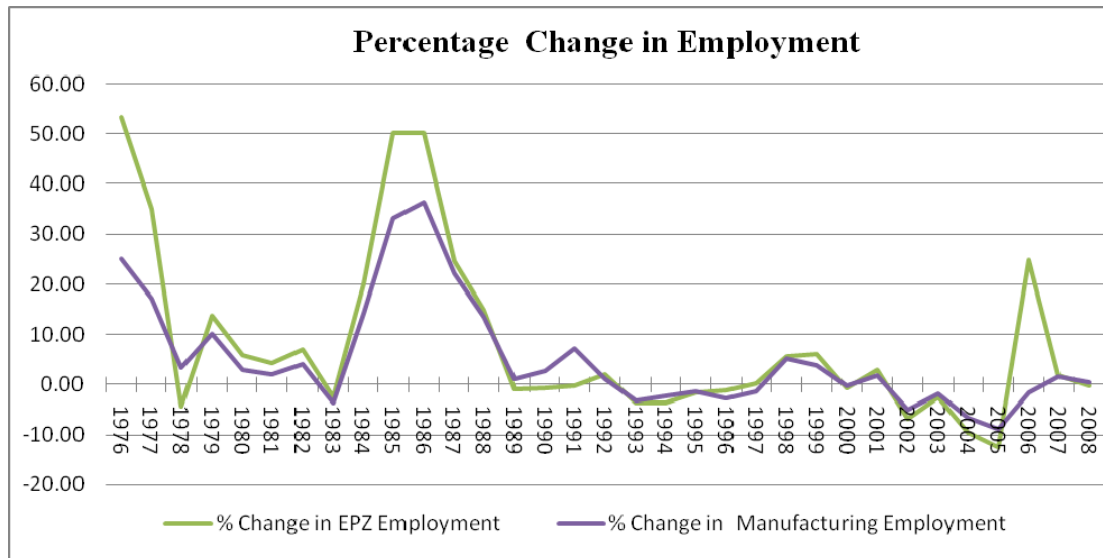
Figure 1.4: Share of Manufacturing and Epz in GDP



Source: C.S.O

A brief look at figure 1.4 reveals that the share of manufacturing sector as a whole as well that of EPZ in GDP, experienced a rise during the first episode of trade liberalisation, though in the latter case the rise was much more significant. The rising share of EPZ in GDP however cannot be attributed mainly to trade liberalisation policies as during that period several other domestic economic policies were taking place simultaneously. For instance, the sugar boom due to high sugar prices in the period 1980-86, generated resources which were invested in the EPZ. Alongside the country allowed a gradual depreciation of the Mauritian rupee over 1982-86, this in turn, made exports more competitive and hence favoured the EPZ sector. At the same time Gulhati and Nallari (1990) state Mauritius exhibited good domestic institutions in terms of freedom of expression, judiciary independence and tradition of democracy which attracted investors in the EPZ sector in the early 1980s. In the second episode the share in GDP of manufacturing and that of the EPZ subsector almost coincide, indicating that the manufacturing sector was predominated by the EPZ subsector. The share of the manufacturing and the EPZ subsector remained fairly stagnant during the second episode of trade liberalisation.

Figure 1.5 % Change in Employment



Source: C.S.O

As far as employment is concerned figure 1.5 shows that during the first phase of trade liberalisation both the manufacturing and EPZ sectors experienced significant rise in employment, with the latter sector experiencing the higher % change in employment. However during the second phase, employment fell in both sectors and this fall in employment is expected to have a major impact on the poor since most of them are employed in this sector due to low-skill requirement. Moreover, given the low mobility of workers who are employed in the EPZ sector due to low level of skills, the duration of unemployment tends to be long thereby impacting more on the poor.

The above trend should nevertheless not mean that the first episode of trade liberalisation was favourable for job creation while the second phase had the reverse effect, since during the 1980s though the country had an available of cheap unskilled workers, the latter were very versatile and so could easily adapt to the working environment prevailing in the manufacturing sector, more precisely the EPZ subsector, while in the 1990s the workforce in the textile and clothing sector became more expensive and as such many industrialists began to turn to foreign workers mainly from China, India, Bangladesh and Sri Lanka. At the same time locals and especially the young

generation lost interest in textile factories as a viable career option given the long working hours and low salary from the youngsters' perspectives as well as given the fact that the young generation tends to be more educated and has better options in ICT and tourism sectors.

Table 1.4: Employment and number of Enterprises in the EPZ Sector

Years	No enterprises in EPZ	New Firms	Number of Closures
1973	32	n.a	n.a
1974	54	n.a	n.a
1975	64	n.a	n.a
1976	85	n.a	n.a
1977	88	7	3
1978	85	12	15
1979	94	16	7
1980	100	10	4
1981	107	18	11
1982	118	19	7
1983	146	44	17
1984	195	55	5
1985	290	101	6
1986	408	139	21
1987	531	141	18
1988	591	95	35
1989	563	79	107
1990	568	62	57
1991	586	52	34
1992	558	33	61
1993	536	38	60
1994	494	27	69
1995	481	25	38
1996	481	43	43
1997	480	26	27
1998	495	48	33
1999	512	37	20
2000	518	34	28

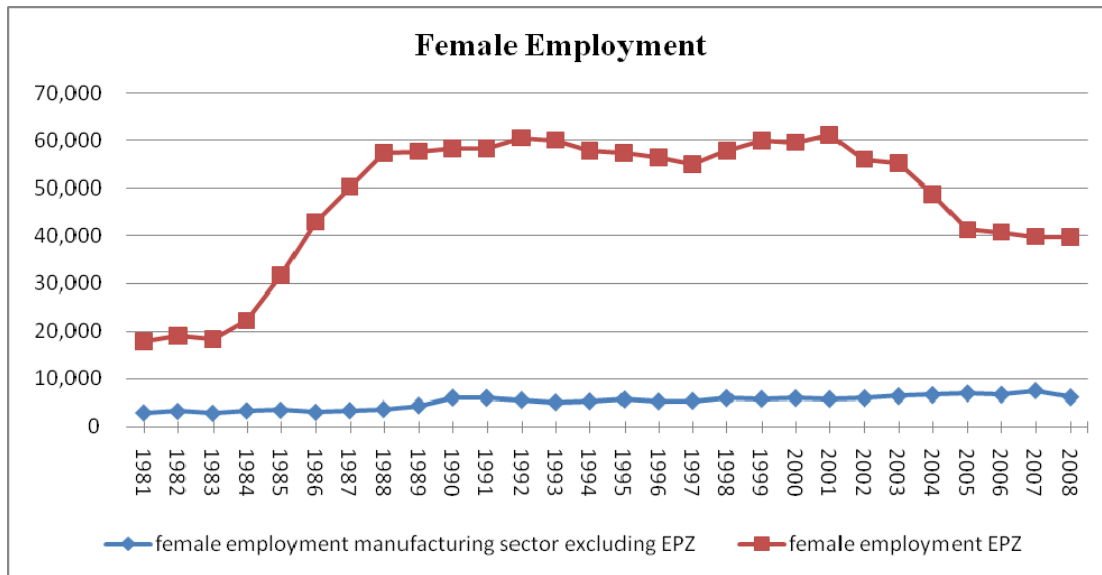
2001	522	24	20
2002	506	9	25
2003	506	23	23
2004	501	20	25
2005	506	24	19
2006	441	17	82
2007	404	18	55
2008	412	43	35

Source: C.S.O

Alongside as shown in table 1.4 though many new firms join the industry (entry outweighed closure by far) during the period 1984-1987, yet it must be noted that the reasons for enterprise shut-downs and smaller scale layoffs are often complicated and involve several contributing factors, other than trade liberalisation. Trade liberalisation may have weakened markets for locally produced goods particularly given our market concentration in EU, but poor productivity, deficient management skills and other factors often play a more significant role in an enterprise's performance. These causes also may be intertwined, rendering discrimination between trade-related structural changes and those provoked by technological developments or shifts in consumer preferences.

Additionally during the course of first phase of trade liberalisation the EPZ Act of 1970 created a special regime including duty-free imports of machinery, raw materials and other inputs, substantial tax holidays, subsidised power rates and factory space, free and unlimited repatriation of profits and dividends, and access to concessional credit for firms catering exclusively to the export market, which in turn attracted foreign direct investment into the zone. It must be further noted that the country embarked on two structural adjustments programmes between 1979 and 1986, which in turn may have contributed to the creation of employment.

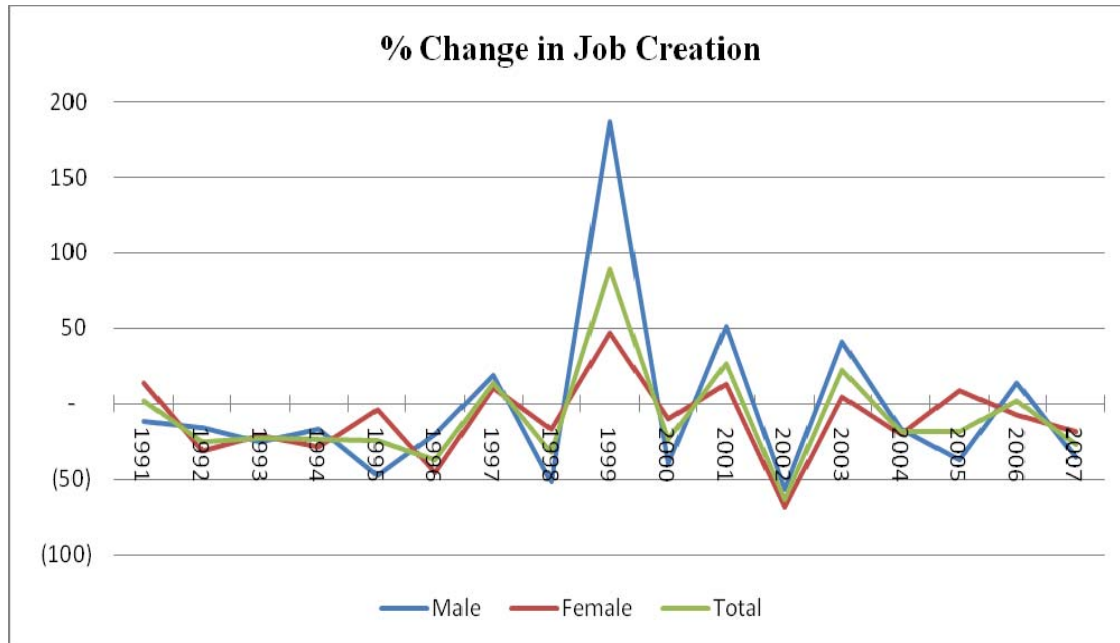
Figure 1.6 Female Employment



Source: C.S.O

From a gender perspective it must be noted that the workforce in the EPZ sector comprises mainly of women (which fits the world-wide trend), as they represented an important pool of cheap unskilled but versatile pool of labour to textile firms operating in the sector. Another worth noting point is that even if due to precarious conditions and weak enforcement of international labour standards, the work environment in the sector often leaves a great deal to be desired, employment in this sector represents an important source of income in particular for women. By itself this means that women are the worst victims of the fall in employment in the EPZ sector Moreover many of the women who are losing their jobs are well below 60 and therefore not yet entitled to the old age universal non-contributory pension (Bunwaree, 2005), and as such are more prone to poverty.

Figure 1.7 % Change in Job Creation in the EPZ



Source: C.S.O

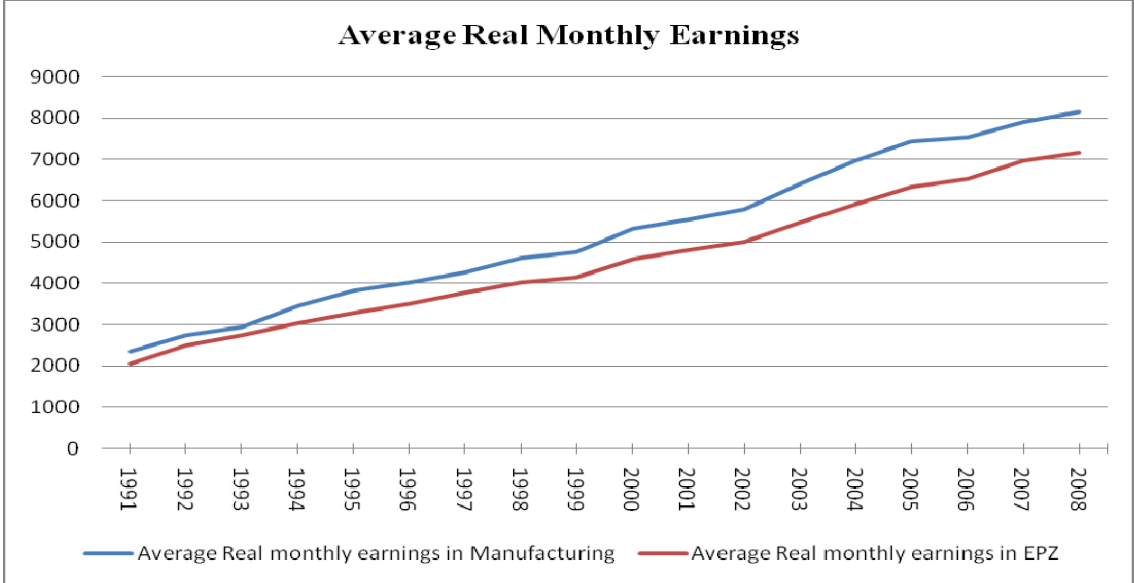
Figure 1.7 shows the signs of adjustment taking place in the EPZ sector during the second episode of trade liberalisation as % change in job creation fluctuated extensively from 1997-2000¹ both for male and female workers, though male workers experienced the higher adjustment in terms of % change in job creation. It must be further noted that in 1990 job vacancies for female amounted to 3283 in the EPZ sector while in 2007 this figure came to only 229, showing the fall in demand for unskilled workers. This is a worrying issue since as pointed out by Porter (2004), in Mauritius given the relatively low rates of job flows (compared to the unregulated U.S. labour market), the unemployed face an average unemployment duration of 20 months, which is a relatively long spell. This is even more pronounced in the case of women given that they do not have opportunities and time to acquire new skills to become easily employable as they spend around 10 hours in the factories including overtime and once at home, they become busy with household chores. At the same time it must be noted that the impact of

¹ Due to unavailability of data on job vacancies before the period 1991, % change in job creation could be not calculated for the first phase of trade liberalisation.

women’s employment loss are felt beyond the individual worker who loses her job. For instance, Momsen (2001) demonstrated that in developing countries working women are vital for the sustenance of livelihoods in poor families. Alongside studies (see for instance, ESSET, 2003) have shown that when the female worker loses her job, the brunt is mostly borne by herself and the children while that of the male working partner is frequently not that much affected.

Even though the if government through the new economy comprising of activities such as ICT, BPO and seafood, is trying to create new jobs, these opportunities at least in the short run is likely to circumvent much of the island’s low-skilled workers.

Figure 1.8: Real Average Monthly Earnings

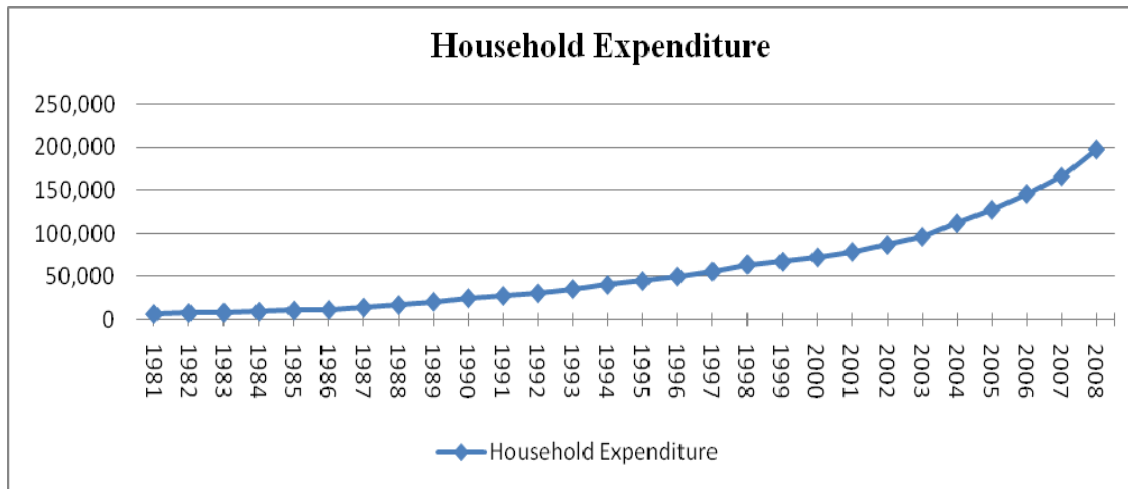


Source: C.S.O

In the case of real average monthly earnings, it can be observed that from 1991 till 2008 they have been on the rise in the manufacturing sector as a whole as well as in the EPZ sector, though in the former they have been rising faster and the gap between the manufacturing sector as a whole and the EPZ subsector is getting wider. This shows that those who have been able to secure their jobs have not experienced fall in real incomes. The presence of rising real earnings

despite fall in employment can be partly explained by the fact that the increasing importance of the service sector, which tends to be a relatively high-wage sector, has increased the impact of cross-market wage (Porter, 2004).

Figure 1.9: Real Household Expenditure



Source: C.S.O

A glance at figure 3.7 discloses that over the whole period 1981- 2008 real household expenditure has been rising. This gives an indication that the common view that growth solely concentrated in an export-oriented enclave will not be inclusive, was not experienced by the country although initially EPZ was concentrated in a specific area known as Plaine Lauzun (however by the end of the 1980's, in fact, export-manufacturing firms could be encountered all over the country). EPZ was never felt as an enclave separate from the rest of the economy or the country and in fact had a certain number of both backward and forward linkages with the rest of the economy.

As such this exporting sector has not lead to an economic growth which was not inclusive and benefitted only some part of the population or regions.

A more careful examination of figure 3.7 also exposes the piece of information that the highest percentage increase (22.42%) in real household consumption expenditure occurred in 1986 (that

is during the first phase of trade liberalisation), while the lowest percentage increase (5%) took place in 1998, the second episode of trade liberalisation. This again gives some signal that the first episode of trade liberalisation was more beneficial to households and given that household consumption is often used as proxy to measure the incidence of being poor, this in turn implies that the first episode contributed more favorably to poverty reduction than the second episode. Yet care must be taken in arriving at such conclusion since as mentioned in earlier paragraphs the period 1984-1987 was also characterised by a set of other policies (for instance Mauritius is one of the countries that has been receiving major source of foreign aid from IFAD since the early mid 80s) rather than just trade policies and hence the impact on household consumption cannot be attributed solely to trade policies during that interval.

4.0 Concluding Remarks

The main results from analysing the African continent as a whole point out that trade liberalisation will not automatically contribute towards development and certain complementary factors such as conducive national and international environment, support infrastructure and appropriate human and institutional capacities are required. In the specific case of the island economy it was found that some of these complementary factors were present so that some benefits could be enjoyed, though different episodes of liberalisation are expected to have different impacts.

To have deeper insights into the issue in the Mauritian case, regression analysis may be helpful provided we have the required data and given that the CSO only provides a relative poverty line based on the half-median income poverty line, further steps need to be undertaken towards the derivation of a national absolute poverty line before impacts of trade liberalisation on poverty can be further scrutinised.

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