

David V. Goliath: Mauritius facing up to China¹

Abstract

Recent studies of the impact of China's rise on the economies of sub-Saharan Africa generally find that the resource-rich countries of the sub-continent will gain while those that compete with China in export markets will invariably lose. Mauritius, with no exploitable natural resources, and facing acute Chinese competition in its traditional markets, is a most likely candidate to suffer China's onslaught.

This paper argues that China's economic rise can benefit Mauritius. Analyzing the impact of China through the channels of trade, aid and investment, we show that preference erosion, not China's emergence, is to blame for the drastic loss of jobs in the clothing industry. This industry, however, has proved resilient since exports are back on a rising trend. On the other hand, Chinese aid to finance construction and infrastructure projects has been a welcome relief, even when it has been tied to the use of Chinese labour and inputs. The most significant benefits of China's engagement are likely to occur in the area of investment as China strategically uses Mauritius as a platform to penetrate the African market.

Keywords: China, Mauritius, trade, aid, investment, EPZ

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1. Introduction

1.1 Background

A number of recent studies have sought to assess the net economic impact of the Asian Drivers – India and/or China – on various countries. Sub-Saharan Africa as a regional grouping has received particular attention given China's quest for natural resources from the sub-continent and the Chinese government's declared policy to forge greater economic ties with its SSA partners. Most of the studies indicate that China's unfolding economic dominance will affect SSA economies differentially depending on their trade complementarity, industrial competitiveness, degree of export diversification and general economic resilience. These effects, as suggested by Jenkins and Edwards (2005) and Kaplinsky and Morris (2006a, b), can be classified into direct or indirect, competitive or complementary along the three main vectors of influence – trade, investment and aid. Zafar (2007) argues that the resource-rich and oil-exporting countries of SSA will be the biggest winners; on the other hand, oil-importing countries that happen to be in direct export competition with China in the textile and clothing (T&C) sector will lose significantly. Mauritius figures prominently in the latter group.

China's rise to economic stardom has coincided with, or was triggered by, several events, the effects of which have proved difficult to isolate. For example, both China's accession to the World Trade Organization in December 2001 and the phasing out of the Multifiber Agreement (MFA) at the end of 2004 paved the way for Chinese exports to flourish. Kaplinsky and Morris (2006a) suggest that the MFA quota removal, which dramatically boosted Chinese clothing exports, has sowed the seed of de-industrialization in many SSA economies. Echoing this prophecy of doom, Rojid and Ancharaz (2008) estimate that the dismantling of the apparel quotas would wipe off some 6 percent from real GDP growth in Mauritius.

However, an important limitation of the above studies has been their static assessment of the China effect, with no consideration for policy response. As the Mauritian case illustrates, effective remedial policies can help avert the adverse economic impact of China while tapping the opportunities for investment and aid that partnership with China entails. Consequently, this paper is founded on the premise that Mauritius stands to gain from the economic emergence of China, this in contrast to the gloomy prediction of several studies.

The paper is organized as follows. The rest of this section presents the features of the Mauritian economy that make it a special case in SSA, reviews the agreements for cooperation between Mauritius and China, and discusses the methodology. Sections 2, 3 and 4 survey the impacts on trade, investment and aid, respectively. Section 5 addresses the Mauritian government's policy response to China. Section 6 concludes.

1.2 Mauritius: A Case of Differential Impact

Mauritius is arguably an outlier among SSA countries and, as such, standard analysis of China's impact on African economies cannot be easily generalized to Mauritius. The distinctive features of the Mauritian economy have generated more opportunities for Mauritius to benefit from the rise of China than challenges to contend with.

As a small island economy, with no natural resources, Mauritius understands that its economic survival rests crucially on an openness strategy pushed to its limits. The country adopted an export-oriented trade strategy back in 1970 with the setting up of an export-processing zone. As a result of sustained trade reforms since 1979, Mauritius boasts a very liberal trade regime, with low or zero tariffs on a broad range of goods and peak tariffs on a select list of sensitive products. Total trade as a percentage of GDP amounted to 132.7 % in 2007 compared to an SSA average of 68.9% (Table 1).

Table 1: Key Differences between Mauritius and SSA, 2007

	<i>Description / Unit</i>	Mauritius	SSA
GDP per capita	Constant 2000 US\$	4700.03	598.30
Trade Openness	Trade as a % of GDP	132.74	68.89
Share of Manufactured exports in Total Exports	% of merchandise exports	68.78 ¹	n/a
Share of value added in Agriculture	% of GDP	4.97	15.11
Share of value added in Manufacturing	% of GDP	18.01	14.61

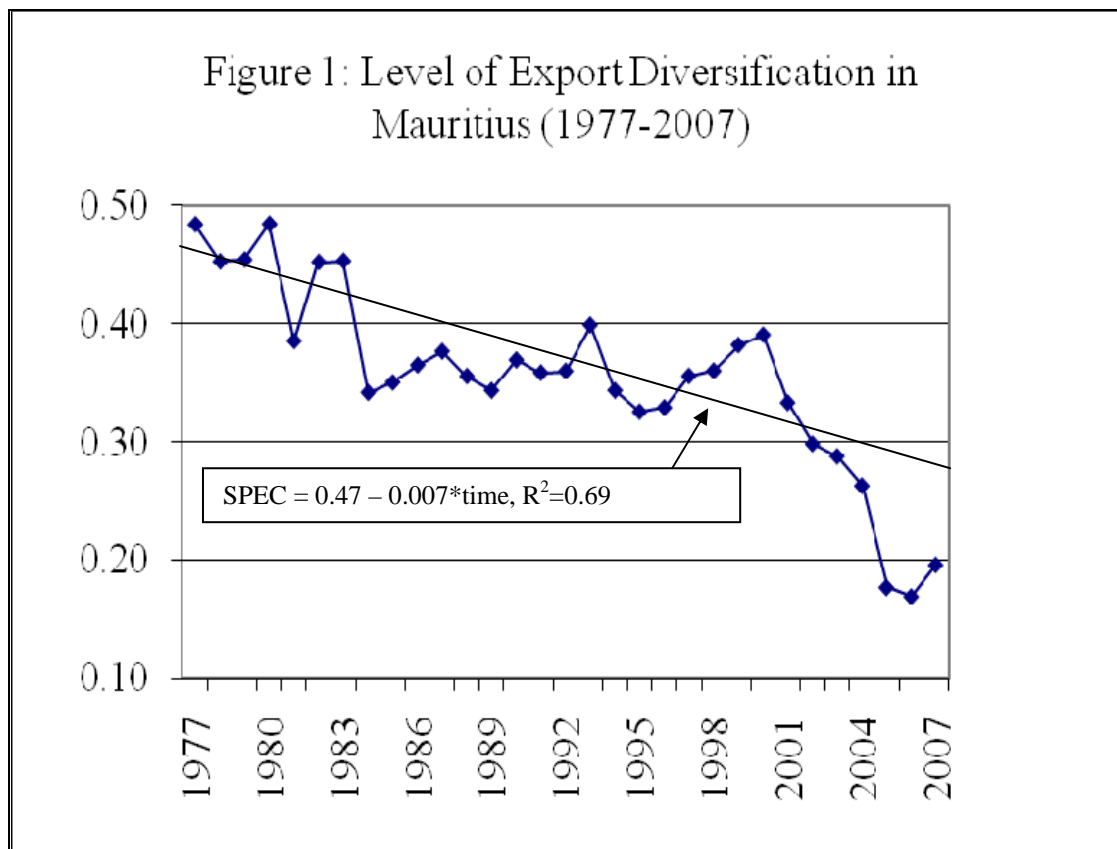
Source: WDI Online (2007).

Note: ¹ Relates to year 2006.

China's quest for oil and other natural resources from SSA has caused an improvement in the terms of trade for resource-rich countries and generated significant gains to them. However, a side effect has been the increased risk of Dutch disease, which could jeopardize export stability and economic prosperity in SSA. Mauritius experienced the damaging consequences of Dutch disease when the sugar boom of 1973-74 led to a real appreciation of the rupee, which eroded the export competitiveness of the nascent EPZ sector and entailed massive fiscal and payments deficits. That episode was not repeated, partly because Mauritius had learned its lessons and undertook a series of structural adjustment measures that helped diversify the export base and build economic resilience. The latter has proved a key weapon in fighting off the onslaught of globalization, the erosion of trade preferences and the rise of China.

Mauritius is essentially a services-oriented economy, with a well developed, yet growing, manufacturing sector that contributed 18 percent to GDP in 2007, compared to 14.6 percent for SSA as a whole. Manufactured exports, while still dominated by textiles and apparel – which represented 72.7 percent of manufactured exports and 47.5 percent of total exports in 2007 –, are nevertheless more diversified than those of the typical SSA economy. The Mauritian EPZ produces a broad range of products, including flowers, footwear and leather products, wood and paper products, jewellery, electric and electronic products, watches and clocks, optical goods, and toys. Figure 1 plots the export specialization index, which is calculated in a manner analogous to the

Herfindahl-Hirschman index used to measure industrial concentration.² The closer the index's value is to zero, the higher is the degree of export diversification. The general downward trend of the specialization index over the period 1977-2007 confirms the extent and depth of export diversification that has occurred since the 1970s, when EPZ activity started to pick up.



The Mauritian experience is a clear rebuttal of the oft-heard claim that “infants never grow”. In fact, a number of non-EPZ enterprises that started out as import-substituting firms in the 1960s have graduated into competitive exporters of a variety of products, including plastic and rubber products, consumer goods (beer, canned foods and juices, cosmetics, yoghurt), wheat flour, refined oil, livestock feed, etc. Since 2005, EPZ incentives that had created and perpetuated a special regime for certain export-oriented enterprises, have been extended to all industries, irrespective of their market orientation. These changes bear witness to the increased dynamism and resilience of the export sector, which has helped it mitigate the adverse effects of external shocks, including Chinese dominance.

1.3 A review of cooperation arrangements between China and Mauritius

Mauritius-China cooperation goes as far back as 1972 when diplomatic relations between the two countries were established. The Mauritian Government has constantly supported the One China Policy. Moreover, the presence of a local Chinese

² The specialization index is calculated based on exports of 10 main products, namely sugar, cut flowers, fish and fish preparations, chemicals, pearls and (semi-) precious stones, machinery and transport equipment, textile and fabrics, wearing apparel, jewelry, and watches and clocks.

community, small in size but economically significant, has helped maintain cultural ties with China, which paved the way for cooperation on the economic front as well.

Both countries maintain full-fledged embassies in their partner's capital; Mauritius, in addition, holds a consulate in Hong Kong, SAR. These diplomatic representations have played a key role in furthering cooperation between the two countries in many areas, including technical, scientific, and economic and cultural. Cooperation between the two countries has been particularly prolific in the cultural domain, culminating in the setting up of a Chinese Cultural Center – entirely funded by China – in 1988.

Mauritius has also benefited from Chinese technical assistance in agriculture and some infrastructure projects. Since 1984, the Chinese government has been regularly offering scholarships to Mauritian students to pursue higher studies in China. In the area of economic cooperation, Mauritius and China have signed treaties to avoid double taxation and to prevent tax evasion. In 1996, the two countries signed an Investment Promotion and Protection Agreement. Cooperation, especially on the economic/technical front, has received added momentum since 2004, with no less than eight agreements signed by the two governments between January 2004 and March 2007.

The year 2007 marked 35 years of diplomatic relations between Mauritius and China. In July 2007, a strong delegation led by the Mauritian Prime Minister and comprising Government ministers and officials, private sector operators and representatives from several organizations engaged in export development and investment promotion visited China to discuss bilateral cooperation on a broad range of areas, including infrastructure, trade, aid and FDI. The Government of Mauritius rejoiced the signing of an Economic and Technical Cooperation Agreement, which, among other things, would result in a tripling of Chinese aid over three years. Much of this aid will be devoted to infrastructure projects. The delegation also finalized an accord with the Tianli Group of industries for the setting up of an economic cooperation zone in Mauritius with investments to the tune of \$ 500 million over the next 5 years, starting October 2007.

Thus, it appears that Mauritius is poised to gain significantly from China's economic prosperity. In fact, existing opportunities for economic cooperation, business and investment between the two countries suggest that both are likely to gain. On the one hand, the Mauritian economy's maturity and resilience will help minimize the adverse effects of China's growing dominance. On the other hand, historical ties with China will ensure a steady flow of Chinese aid on terms unmatched by the international financial institutions while duty-free access of Mauritian goods into the COMESA market and into the SADC-FTA launched in August 2008 will generate a win-win situation for the two countries as China strategically uses Mauritius as a platform to penetrate the African market.

1.4. Assessing the Impact of China on the Mauritian economy: Methodological issues

While the analytical framework used to assess the impact of China on individual economies or regions have distinguished three impact channels – namely, trade, investment and aid – and two dimensions of effects – namely direct v. indirect and

complementary v. competitive –, most empirical studies on Africa, including Zafar (2007), Kaplinsky and Morris (2006a, b), and Jenkins and Edwards (2005), have focused almost exclusively on one vector – trade. This bias reflects not only the prominence of trade in China-Africa relations; it also indicates the paucity of reliable data on Chinese investment and aid. Similarly, IDS (2006), in a major study of the impact of the Asian drivers on the developing world, identified environmental spillovers, and global and regional governance as additional vectors of impact but fell short of providing a detailed analysis along these dimensions due – arguably – to the absence of data.

This paper draws on several data sources to provide a comprehensive analysis of China's effects on the Mauritian economy through trade, FDI and aid. Invariably, the paper has a heavier inclination towards trade and, within this channel, towards one particular sector of economic activity in Mauritius – the EPZ – and, within it, the textile and clothing (T&C) sub-sector.

2. Impact on Trade

It appears that the indirect impacts on trade have been more important than the direct impacts, and these have been generally adverse to the Mauritian economy. The direct impacts relate to the bilateral trade between Mauritius and China. Such trade has traditionally been skewed in China's favor.

2.1 Direct Impacts

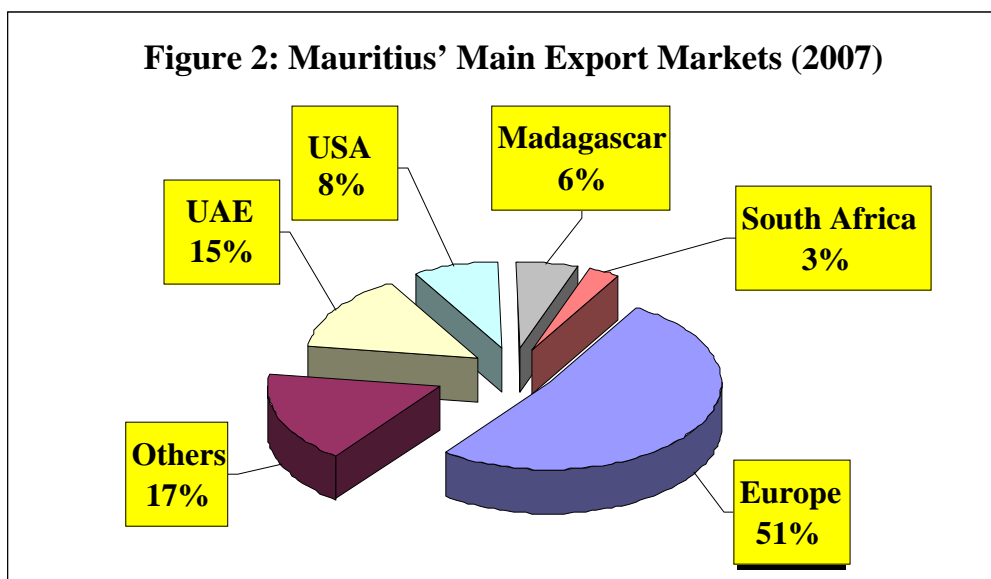
Figure 2 shows the major destinations of Mauritian exports in 2007. Europe and USA have been Mauritius' traditional export markets, absorbing over 60 percent of exports.³ There is no evidence of diversification away from these markets in recent years in spite of the increasing awareness by the exporting community of the dangers of market concentration. Government policy has also stressed the need to diversify export markets – as part of a wider strategy to strengthen economic resilience – but has achieved little so far.

China's absence from **Figure 2** bears witness to the insignificance of Mauritius' exports to China. For example, in 2006, China took in less than a quarter of one percent of Mauritius' exports. China's imports from Mauritius consist mainly of fish and fish preparations, and of manufactured products.

Mauritius' exports to China have remained marginal, and this, despite the dramatic upturn in exports since 2002. From US\$ 40,000 in 1995, exports to China increased to a peak level of US\$ 9.4 million in 2002 (**Table 2**). Ever since, however, exports have been on a downward path, declining by a cumulative 55 percent over the period 2002-2007, with a notable reversal in 2008.⁴ Thus, it appears that the rapid growth of China since the turn of the new millennium has proved disastrous for Mauritian exports.

³ The UAE accounted for 15% of exports in 2007. However, the bulk of this figure comprises of re-exports from the Freeport Zone of machinery and transport equipment, mainly cellular phones.

⁴ The reasons for the reversal are not clear at this stage.



Imports from China have been of even greater consequence for Mauritius. The steady increase in imports from China over the past decade – more so since 2001 – has propelled China into the ranks of Mauritius' main import partners. In 2007, China accounted for over 11 percent of total imports, placing the country into a comfortable third position, ahead of South Africa, which has been a traditional source of imports at the regional level. At current trends, China will soon be competing for first place with France and India.

Table 2: Mauritius-China Trade, 1995-2007 (US\$ Million)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Imports from China	58.00	97.00	97.00	114.00	128.00	158.00	142.00	183.00	200.00	257.00	310.00	315.00	444.00
Of which:													
<i>Textiles</i>	31.00	52.00	57.00	73.00	76.00	97.00	85.00	100.00	94.00	92.00	76.00	77.00	91.00
<i>Clothing and Apparel</i>	0.64	0.52	0.51	0.90	1.40	1.60	3.00	4.50	7.30	10.20	12.70	12.30	14.90
Exports to China	0.39	0.99	1.10	0.87	0.87	1.20	1.50	9.40	7.50	6.40	6.30	5.20	4.20
Of which:													
<i>Textile</i>	0.04	0.07	0.13	0.24	0.59	0.73	1.10	1.40	1.40	0.44	0.79	1.50	0.93
<i>Clothing and Apparel</i>	0.04	..	0.10	0.02	0.04	0.01	0.04	0.12	0.09	0.13	0.07	0.04	0.09
Trade deficit	-57.61	-96.01	-95.90	-113.13	-127.13	-156.80	-140.50	-173.60	-192.50	-250.60	-303.70	-309.80	-439.80

Source: Author's computation using UN COMTRADE data

Table 3 shows Mauritius' imports from China by commodity groups for the years 2000 and 2007. Imports of textiles (SITC 6), of machinery and transport equipment (SITC 7) and of miscellaneous manufactured goods (SITC 8) have made up over 90 percent of total imports from China since 2000. Altogether, China is at the present the biggest supplier of manufactured products (SITC 6 + 8) to Mauritius.

Table 3: Mauritius' imports from China (value and shares) by commodity groups, 2000 and 2007

Section	Description	2000			2007		
		China (US\$ Mn)	Total (US\$ Mn)	China's share of total imports (%)	China (US\$ Mn)	Total (US\$ Mn)	China's share of total imports (%)
0	Food and live animals	12	264	4.55	12	645	1.86
1	Beverages and tobacco	0.06	14	0.43	4	49	8.16
2	Crude materials except fuels	2	63	3.17	6	108	5.56
3	Mineral fuels, lubricants and related materials	0.22	245	0.09	0.12	716	0.02
4	Animal/vegetable oil/fat/wax	0.05	17	0.29	0.04	37	0.11
5	Chemical and related products	5	158	3.16	20	297	6.73
6	Manufactured goods classified chiefly by material	106	668	15.87	195.5	798	24.50
7	Machinery and transport equipment	13	465	2.80	113	881	12.83
8	Miscellaneous manufactured articles	20	185	10.81	79	306	25.82
9	Commodities not elsewhere classified	-	0.18	-	14	49	28.57
	Total imports	158.33	2079.18	7.61	443.66	3886	11.42

Source: Author's computation using UN COMTRADE data

Wearing apparel represented less than 4 percent of imports from China in 2007; yet this product category has posted the highest growth in percentage terms, increasing 5-fold between 2001 and 2007 (Table 2). Thus, Mauritius has been no exception to the global invasion of Chinese clothing. In the textiles sub-sector, however, Mauritius has reduced its dependence on Chinese yarn and textiles as it undertook massive investments in local spinning capacity. Consequently, textile imports from China have fallen from a peak of US\$ 100 million (representing 54.6 percent of Mauritius' imports from China) in 2002 to US\$ 72 million (equivalent to 19 percent of total imports) in 2008. In 2005, imports of machinery and transport equipment displaced textile imports as the singular most important import category from China.

As a result of low and falling exports, on the one hand, and mounting imports, on the other, the trade deficit relative to China has widened sharply over the years, reaching nearly US\$ 375 million in 2006. In 2005, China alone *directly* accounted for 30 percent of the overall trade deficit of Mauritius.

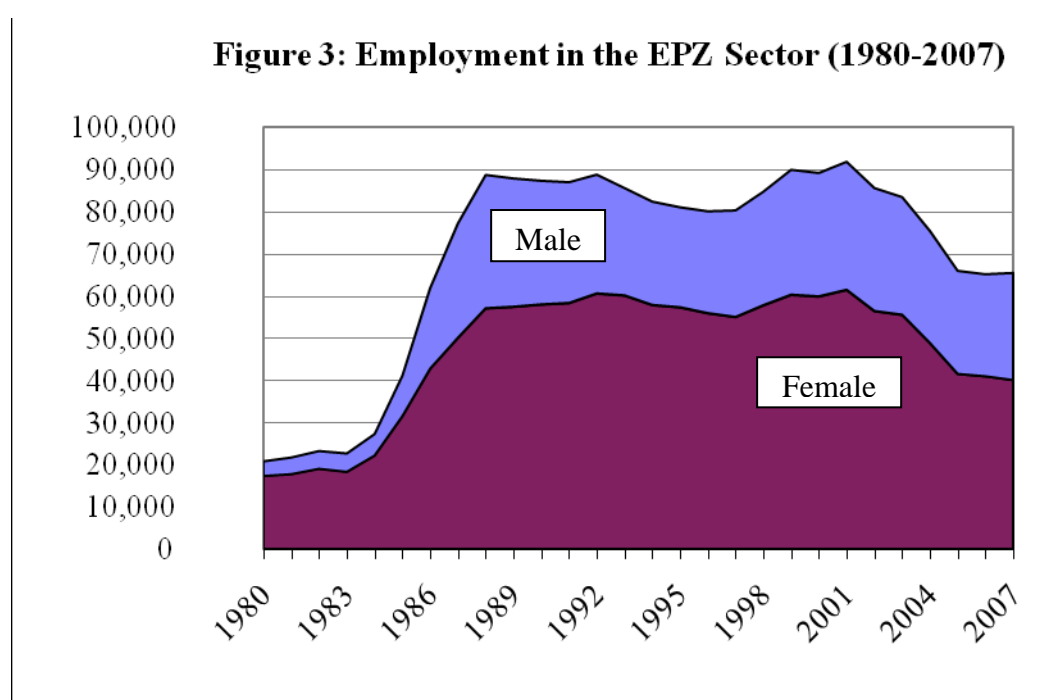
2.2 Indirect Impacts

The main indirect impact of China has arguably been on Mauritius' exports of competing manufactured products into third markets. Nowhere has competition from China been more acute and disrupting than in the clothing sub-sector. Wearing apparel, which represents nearly 90 percent of Mauritius' total manufactured exports, is primarily destined for the EU and the US markets.⁵ Clothing exports have benefited from the MFA quota system, which, by limiting Asian exports into the US market, allowed Mauritian garment exports to flourish. On the EU market, Mauritius has taken good advantage of the Lomé market access privileges, which granted duty-free

⁵ Given the predominant share of textile and clothing in EPZ exports, the latter will henceforth be associated with apparel exports.

access for manufactured goods from Africa-Caribbean-Pacific (ACP) countries while subjecting competing imports from other countries to an *average* 12 percent tariff.

The MFA and the Lomé preferences, along with the Africa Growth and Opportunity Act (AGOA) during 2000-05, combined with domestic conditions and fiscal incentives to attract a wave of foreign investment into the Mauritian EPZ in the early 1970s. The EPZ has been credited for ushering in a period of sustained export-led growth lasting nearly two decades. Ancharaz (2007a) has analyzed the evolution of the EPZ in terms of five distinct phases. The current phase – dubbed ‘post-MFA’ – started off in 2002 when, in the face of the impending expiry of the MFA, a number of enterprises, mostly foreign, had begun to pull out of Mauritius. Between 2001 and 2005, more than 25,000 jobs were lost in the EPZ as 112 factories closed, and this even as new factories started operations (Figure 3). Over the same period, EPZ output contracted by 12.4 percent. The share of EPZ value-added in GDP stood at 7.4 percent in 2005, down from a peak of 12.5 percent in 1999.



2.2.1 Impact on employment

The EPZ has played a key role in women’s economic emancipation in Mauritius. It permitted women with few alternative employment opportunities to enter the formal labour market, to contribute to the country’s economic development and to achieve their own economic independence.⁶ The contribution of the EPZ to female

⁶ Prior to the setting up of the EPZ, female labor force participation was low and employment was male-dominated. For instance, in 1982, on the eve of the EPZ boom years, female employment was barely one-third of male employment. Of those who were formally employed, a significant proportion was working in sugarcane fields, and a smaller number in relatively low-level administrative/clerical jobs in the government (Ancharaz, 2007a).

employment is compelling: the number of women employed in the EPZ increased steadily from 18,400 in 1983 to 61,000 in 2001. Female dominance of EPZ employment is well illustrated by the fact that there were twice as many women as men in the EPZ during the period 1990-2003 (Figure 3) but four times as many men than women in the non-EPZ manufacturing sector.

While the expansion of the EPZ – especially after 1983 – had been particularly beneficial to women, its contraction, and the resulting mass redundancies since 2001, has particularly hit female workers, leading to the ‘feminization’ of poverty in Mauritius (Bunwaree, 2004). A recent survey of redundancies in the Mauritian EPZ by Ancharaz (2007b) reveals that:

1. Many of the unemployed suffered psychological trauma, stress and ill health as a result of losing their job, in addition to financial difficulties. Some respondents reported that they had to discontinue the education of their children of working age, and ask them to look for a job to support the family.
2. The economic plight of the redundant was compounded when both husband and wife lost their job, or when one spouse’s (usually the husband’s) job was irregular or precarious.
3. About 64% of the 400 workers surveyed were able to find another job (typically after several attempts), 6% went into self-employment while the remaining 30% were still unemployed. The age factor and lack of experience/skills were critical barriers to getting another job. Significantly, 85% of those who remained unemployed were women.

2.2.2 Impact on exports

The expiry of the MFA is directly responsible for the current socioeconomic plight of EPZ workers, mainly female, in Mauritius. China contributed indirectly to this situation since the end of the apparel quotas signaled the invasion of industrial country (mainly US) markets by cheap Chinese clothing, which left little hope for small, less efficient producers to maintain their foothold. A number of studies had predicted this ominous outcome. A US International Trade Commission (USITC, 2004) study of global competitiveness in the textiles and clothing industry concluded that China is “expected to become the ‘supplier of choice’ for most U.S. importers (the large apparel companies and retailers) because of its ability to make almost any type of textile and apparel product at any quality level at a competitive price”. Mattoo, Roy and Subramanian (2002) predicted that Africa’s apparel exports would fall by over 30 percent following the dismantling of the MFA. Naumann (2006) argued that even the tariff preference that AGOA beneficiaries enjoyed for clothing exports into the US would offer them little protection against the onslaught of Chinese exports. Some studies (for example, Kaplinsky and Morris, 2006) have been extremely negative about the impact of China on the clothing industry in Africa, going as far as to say: “The industry would be decimated in a very short period of time”.⁷

Most studies have compared the value of exports to the US market between 2004 and 2005 to determine the severity of the impact of the end of quotas and the rise of China on the apparel industry in individual countries. This analysis is objectionable on

⁷ Kaplinsky and Morris (2006), p.6.

several grounds. First, it ignores the dynamic effects on the clothing industry by discounting altogether the impact in earlier years: as the Mauritian experience illustrates, the effects of the impending expiry of the MFA could be felt as early as in 2002. Moreover, because the lifting of quotas caused a global decline in apparel prices, focus on export values, without adjusting for prices, will tend to overestimate the competitive effects of China. Finally, the period of analysis post-MFA is probably too short to allow a meaningful assessment of the long-term impact of China.

Nevertheless, comparing export values from SSA between 2004 and 2005, we note that the steepest declines in clothing exports to the US market have occurred in South Africa (39%), Mauritius (27%), Lesotho (14%) and Madagascar (14%). Kenya and Swaziland have witnessed a modest waning of their exports on the U.S. market. Kaplinsky and Morris (2006) estimate that, for the AGOA beneficiaries as a whole, apparel exports declined by 17 percent between 2004 and 2005.

Thus, in practice, the impact on apparel exports has been milder than was actually feared. The prophecy of doom – that SSA's apparel trade will be swept away by the Chinese tidal wave of cheap exports – was mitigated by a confluence of factors. First, there have been remarkable changes in exports by product category. For example, while Kenya's exports of T-shirts to the US declined, exports of men's and boys' cotton shirts have increased strongly (Brenton and Hoppe, 2006). Secondly, the safeguards imposed by the US (and EU) on Chinese T&C imports have given some breathing space to a number of developing country exporters, including some from SSA, thus helping them avert a further deterioration of their exports to those destinations.

Mauritius started to experience the effects of the MFA phase-out well before the fateful January 1, 2005 and continued to suffer from its sequels till the end of 2005. T&C exports plummeted from an all-time peak of US\$ 1,062 million in 2003 to US\$ 821 million in 2005. Since exports to the EU generally increased over this period, the decline in total exports in 2005 can be attributed primarily to changes on the US market (see [Figure 4](#) below).

[Table 4](#) shows the share of Mauritius' T&C exports to the US under AGOA. A number of observations can be made from this table. First, contrary to many SSA countries that built their clothing industry on the provisions of the Africa Growth and Opportunity Act (AGOA, 2000), Mauritius was already exporting to the U.S. under the GSP regime and, additionally, as a beneficiary of the MFA quota system. Significantly, clothing exports in 1995 were higher than in 2005.

Second, while a major proportion of exports shifted to AGOA after 2000, this shift has been gradual and the overall percentage of exports to the US under AGOA has remained small – 52 percent over the period 2001-2005 compared to over 95 percent for most of the SSA exporters (except South Africa). This means that about half of Mauritius' exports did not enjoy duty-free access to the US market, which exposed them particularly to the threat of China sweeping over the US market upon the expiry of the MFA.

Finally, many apparel exporters had pinned their hopes on Mauritius obtaining an extension of the third-country fabric derogation beyond September 2005 (Darga,

2007). Since this did not happen, a number of Asian companies that exported exclusively to the US exited the Mauritian EPZ *en masse* during 2003-2005.⁸ Thus, while the end of the apparel quotas and the phenomenal rise of China on the global scale have generally been blamed for the plight of the Mauritian clothing industry, the real culprit has been the failure of Mauritius to qualify for the AGOA yarn forward rule.

Table 4: Mauritius' Total Textile and Clothing Exports and US Share

Year	Exports \$ '000	Exports to US	US Share (%)	AGOA as Share of Exports to US (%)
1990	643,900	121,050	18.8	NA
1995	763,600	190,140	24.9	NA
2000	1,652,000	269,280	16.3	NA
2001	1,561,000	259,130	16.6	16.3
2002	1,524,000	278,900	18.3	41.8
2003	1,629,000	291,590	17.9	50.2
2004	1,638,000	245,700	15.0	65.2
2005	1,384,000	171,620	12.4	85.8

Kaplinsky and Morris (2007), and author's calculations

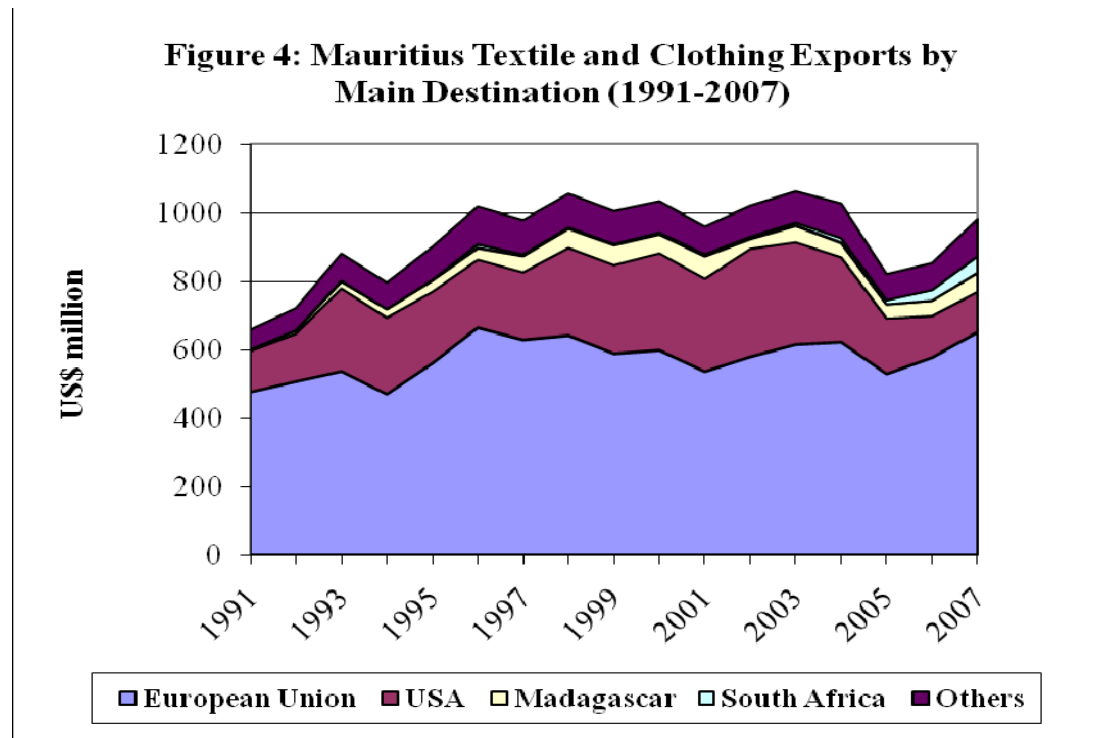
However, a significant reversal of the downward trend is noted for 2006, with total exports *increasing* 4 percent relative to 2005. Recently published data on exports for 2007 confirm this trend: textile and clothing exports expanded by a further 15 percent to reach US\$ 982 million.

Closer analysis of the evolution of T&C exports by major destination throws light on the reasons for the increase in exports since 2005.⁹ **Figure 4** shows that, as the US market waned, Mauritian T&C exporters have diversified their markets. Exports to the EU have increased appreciably – by 23 percent between 2005 and 2007. Even South Africa is gaining importance as a developing country market close to Mauritius, with T&C exports increasing almost ten-fold between 2002 and 2007. Exports to South Africa have benefited from duty-free treatment under the SADC trade protocol, which is a welcome development for the local clothing industry, more so since it represents considerable potential to export to other African markets. Exports to Madagascar increased by 92 percent over the same period. Much of this increase reflects the recovery of intra-firm trade between Mauritian-owned subsidiaries in Madagascar and their parent companies as those firms that had closed down during

⁸ After intense diplomatic efforts, Mauritius finally qualified for the third-country fabric derogation in November 2008. This derogation will last 4 years. The impact of this development on clothing exports to the US and on employment and FDI in the clothing industry is yet to be determined.

⁹ Kaplinsky and Morris (2006) argue that SSA's overall export performance was not as bad as expected because of the degree of effective subsidy implicit in the AGOA, which, according to their calculations, ranges between 27 and 84 percent for representative exported products, substantially higher than the nominal 16-32 percent nominal tariffs. However, this argument is not applicable to Mauritius since it did not qualify for the same more flexible rules of origin as other SSA countries after 2005 (until November 2008).

the political crisis in Madagascar in 2002 re-established operations with the return of political stability in the country.



A key feature of the EU market is the duty-free status accorded to exports originating from ACP countries under the Cotonou Agreement, which have continued to provide some degree of protection against cheaper Asian exports. In the absence of such tariff preferences, it is unlikely that Mauritius could have measured up to China.

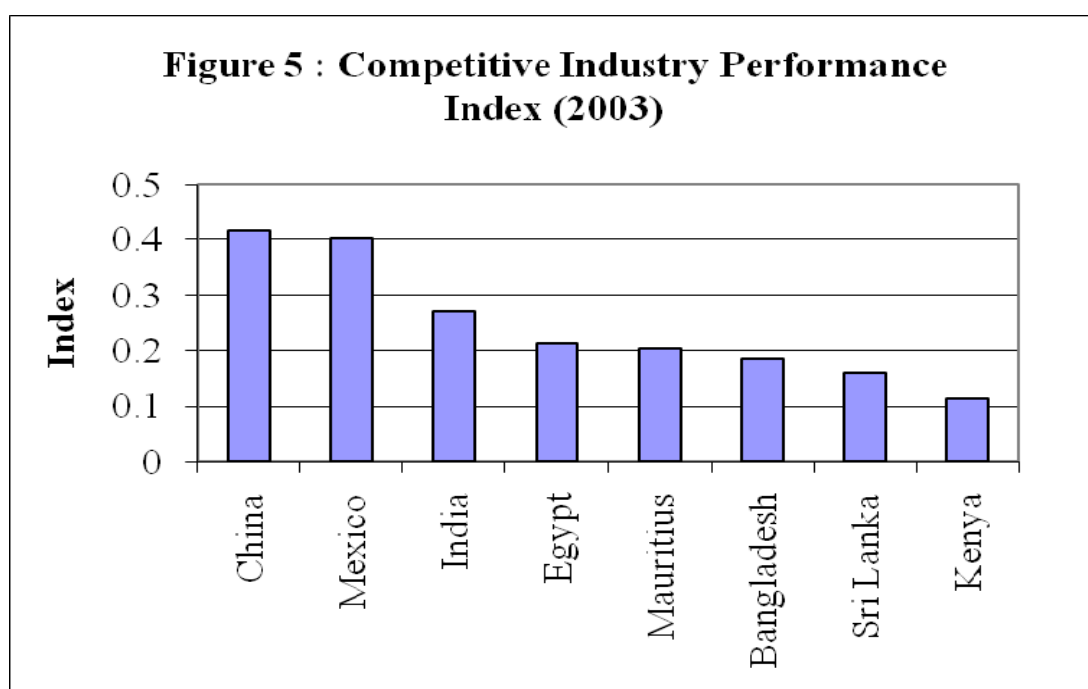
Table 5 shows the estimated labour costs in the clothing industry in Mauritius relative to some of the major apparel exporters. It is clear that Mauritius ranks low in terms of cost competitiveness. Only South Africa and Mexico have higher labour costs per hour than Mauritius. Tagg (2002) has estimated labour productivity in the apparel sector in terms of pieces per operator per day and noted the following results: 18 in Mauritius, 18.2 in Taiwan, 19.8 in Thailand and 20 in China. The combination of low productivity and high labour costs means that the unit labour cost of producing a garment is among the highest in Mauritius. Figure 5 confirms that Mauritius ranks low relative to its main competitors in terms of overall cost competitiveness. This leaves very little chance for Mauritius to compete against China.

Or does it? Calculations of unit labour cost in the clothing industry generally do not make an allowance for quality differences even within the same product category. The price-quality relation implies that the cost of producing a higher-end product will be higher than that of basic garments. Clothing is a differentiated product and, so, firms need not compete on price. A number of non-price factors, including lead times, service and quality, reliability and flexibility, knowledge of specific markets and cultures, social compliance and environmental standards also determine the competitive advantage of firms.

Table 5: Labour costs (hourly compensation) in the clothing industry in selected countries (US\$/hour, 2002)

Country	Labor cost (US\$/hour)
Bangladesh	0.39
China	0.68-0.88
Egypt	0.77
India	0.38
Kenya	0.38
Madagascar	0.33
Mauritius	1.25
Mexico	2.45
South Africa	1.38
Sri Lanka	0.48

Source: Economist Intelligence Unit (2004)



Source: UNIDO Industrial Development Scoreboard (2007)

Table 6 presents product-specific revealed comparative advantage (RCA) indices for Mauritius and China for the years 2000 and 2007 for Mauritius' top 10 apparel categories at the 4-digit SITC level.¹⁰ Product-wise comparisons between Mauritius and China over the two years serve to identify the areas in which competition from China has been particularly severe. The following observations can be made from **Table 6**.

¹⁰ The RCA is defined as the ratio of the share of a country's exports of product *i* in its total clothing exports to the world's share. Ratios greater than 1 indicate a RCA in the product; ratios less than 1 indicate a revealed comparative disadvantage.

1. Mauritius' biggest comparative advantage is in knitted T-shirts (SITC 8454) and non-knitted shirts (8415), and between 2000 and 2007, this advantage has been consolidated. Up till now, China has not presented a direct threat to Mauritius in these products. In fact, in the case of blouses and shirt blouses (SITC 8427), Mauritius seems to have out-competed China. However, the sharp increase in China' RCA, especially in knitted shirts (SITC 8437), does not augur well for Mauritian clothing exports.
2. Chinese competition has been acute in jerseys, pullovers, suits and jackets (SITC 8453) and in trousers (SITC 8426). Mauritius has generally witnessed a decline in RCA in these products, while China's comparative advantage has increased.
3. There appears to be certain products, such as ladies' undergarments (SITC 8455), in which Mauritius has recently carved a comparative advantage and has successfully competed with China. These emerging products are promising for the local clothing industry and need to be further exploited.

Table 6 : Reveal Comparative Advantage Index for the 10 Main Exports of Mauritius

RANK	SITC CODE	DESCRIPTION	MAURITIUS		CHINA	
			2000	2007	2000	2007
1	8454	<i>T-shirts, singlets and other vests, knitted or crocheted</i>	67.99	86.20	2.81	3.06
2	8415	<i>Shirts, not knitted</i>	60.55	76.15	3.33	3.06
3	8414	<i>Trousers, bib and brace overalls</i>	31.01	20.85	2.84	2.54
4	8437	<i>Shirts, knitted</i>	17.95	69.53	0.43	2.55
5	8453	<i>Jerseys, pullovers and similar articles, knitted or crocheted</i>	20.22	11.22	3.80	4.40
6	8442	<i>Suits, ensembles, jackets, blazers, skirts, divided skirts, trousers</i>	8.54	7.47	4.66	6.35
7	8426	<i>Trousers, bib and brace overalls, breeches and shorts</i>	21.17	5.74	2.32	3.16
8	8427	<i>Blouses, shirts and shirt blouses</i>	7.11	11.68	2.95	2.21
9	8448	<i>Nightwear</i>	0.73	9.67	3.57	4.50
10	8455	<i>Ladies' undergarments</i>	6.32	9.71	2.29	2.62

Source: Author's computation using UN COMTRADE data

The Mauritian T&C industry has used its 35 years of experience to strategically position itself as a reliable supplier of quality clothing. Over the years, Mauritian apparel companies have moved up-market where the competition is less ruthless. Those that failed to make this transition, including the many Asian firms that produced basic articles of apparel, clinging to the tariff preferences offered by AGOA or to the market access opportunities available under the MFA, have closed down in the run up to January 1, 2005. However, the more than 200 textile and clothing companies, the majority of which locally owned, have (so far) survived the end of quotas and the rise of China. Several of these companies have moved their low-end production to Madagascar to take advantage of its cheap labour – as much as one-third of wage levels in Mauritius (see [Table 5](#)) – while they concentrated the more sophisticated, higher value-added and shorter-lead-time activities locally (Gibbon, 2008).

Clothing retailers prefer sourcing from countries that can supply a critical mass and a wide range of products in a timely manner. This view is supported by the USITC (2004) study, which estimates that the number of countries from which US buyers will source major items will fall to 25 percent of current levels by 2010. Mauritius, despite its physical smallness, boasts a large, vertically integrated textile and clothing industry that spans all the stages of the value chain – from product design through to the final product, including additional services such as design assistance and logistical solutions (Darga, 2007). Thus, Mauritian exporters are well placed to benefit from the changing configuration of buyer behaviour.

However, a few threats hang over the future of the clothing industry in Mauritius. First, the tariff preference that Mauritian exporters enjoy in the EU market will be eroded by the Non-agricultural Market Access (NAMA) proposals, which call for a reduction to 6 percent (from the current 12-14 percent) of the tariff applied to articles of wearing apparel. It is not clear whether the ongoing Economic Partnership Agreement (EPA) negotiations will further enhance market access for textile and clothing products from ACP countries. While ACP clothing exporters would certainly benefit from a softening of the EU rules of origin, which, by virtue of their restrictiveness, have so far limited the value of the Lomé (now Cotonou) preferences,

Moreover, the observation that exports in the EPZ have picked up in 2006 even though employment has continued to decline (Figure 3) suggests that the textile and clothing sector in Mauritius is consolidating itself through investment in capital-intensive spinning (and weaving) activities aimed at better integration of the supply chain, this with a view to improving response to clients. In this regard, the proposed shift to a “single transformation” rule for clothing under the current EPA negotiations could be detrimental for the local, vertically integrated T&C industry.

3. Impact on (Foreign Direct) Investment

The export-led growth of the Mauritian economy that started in the mid-1980s and continued over more than a decade, and which earned the country the envious label of an “economic miracle”, was largely driven by EPZ exports. The EPZ boom years 1983-88 coincided with a significant increase in both domestic and foreign investment in the zone. Nath and Madhoo (2004) have dubbed this period “FDI-led growth” on the basis of their finding that FDI played a key role in steering the growth process during 1983-88. Subramanian and Roy (2001) have tried to explain the Mauritian growth miracle through various hypotheses, each of which, they claim, tells only part of the story. They argue that Paul Romer’s emphasis on technology and ideas as drivers of endogenous growth is well corroborated by the Mauritian growth experience: high rates of growth have been associated with spurts of FDI (in and out of the EPZ).

There is a wide empirical literature that examines the causal links between FDI and growth. The accumulated evidence seems to suggest that FDI, if properly harnessed, can be an important portent of growth. Against this background, it is pertinent to ask what has been the magnitude of Chinese FDI in Mauritius and how the emergence of China as a global player has affected FDI flows to Mauritius.

Table 7 presents data on FDI in Mauritius by country of origin for selected countries during 1990-2006. The figures clearly illustrate the volatility of FDI flows during the period under consideration. Excluding France in 2000 when France Telecom acquired a 40 percent equity stake – amounting to Rs. 7,204 million – in its local counterpart, Mauritius Telecom, it appears that the biggest foreign investor in Mauritius has historically been the UK, followed far behind by South Africa, France and India. The banking sector and the tourism industry have been the main beneficiaries of FDI.

Chinese FDI in Mauritius has, to date, remained very small, although there are clear signs of an increase in inflows in recent years. For example, from 2002 to 2006, China invested some \$ 3.4 million in Mauritius, which is more than twice the amount invested over the preceding decade. Significantly, no Chinese FDI was recorded during 7 years in a row (1995-2001).

Table 7: FDI Inflows in Mauritius by selected country of origin, 1990-2007 (US\$ Million)

	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007
Total	40.98	18.69	10.54	32.13	32.68	70.47	65.31	95.15	227.75	408.06
Of which:										
China	1.14	..	..	..	0.60	1.18	..	0.20	..	2.76
France	5.05	0.98	274.82	0.86	7.74	5.63	17.89	14.47	16.49	41.68
Hong Kong	3.70	1.09	..	..	0.30	..	0.15	0.24	0.95	0.64
India	5.25	9.03	..	..	0.07	5.13	5.45	22.71	5.05	21.62
South Africa	0.13	..	0.04	20.60	11.11	36.63	0.69	0.88	1.20	17.65
Switzerland	3.03	0.69	0.19	9.41	..	0.07	1.53	5.02	18.42	45.61
UK	0.54	1.67	..	..	5.24	6.16	5.20	19.59	120.50	99.30
USA	7.67	..	0.11	0.10	0.97	1.33	18.84	2.54	5.14	84.35
<i>Memo item:</i>										
China's share	2.80%	-	-	-	1.80%	1.70%	-	0.20%	-	0.68%

Source: Bank of Mauritius (2008)

Much of the Chinese FDI since 2002 has flowed into the textile industry, more precisely into spinning operations. In 2004, for example, a major investment project by the Chinese aimed at producing 18,000 tons of yarn a year, thus contributing to building a vertically integrated supply chain in the textile and clothing industry.

In recent years, both the government and the private sector have solicited Chinese investors to invest in emerging industries such as light processing, pharmaceuticals, and the seafood hub. It seems that these efforts have finally paid off. During an official visit to China in March 2007, the Mauritian Prime Minister signed an investment agreement with the Tianli Group for the setting up of an economic and trade zone in Mauritius later during the year. The Chinese conglomerate would inject investments of \$500 million over 5 years into such sectors as light engineering, ICT, electronics, pharmaceuticals, food processing, textile and clothing, and handicrafts. It is estimated that the zone would create some 5000 jobs directly and generate export revenues of Rs. 200 million annually.

The Tianli case is likely to have positive spin-offs since China's strategy is to use Mauritius as a platform to penetrate the African market. Mauritius offers the right set

of conditions, including fiscal incentives, a pool of semi-skilled labor, good infrastructure, and above all duty-free access to the African market through regional trading agreements, especially SADC and COMESA. Thus, while China has kept a low profile up till now, it is likely to emerge as a major investor in Mauritius in the near future.

4. Impact on Aid

An interesting development that has occurred as a result of China's emergence as a global economic power is the change in the direction and configuration of aid flows. Traditionally, the OECD has been the main donor; part of this aid was given bilaterally (e.g., the European Development Fund) on a constituency basis while part was channeled through international financial institutions. However, over the past decade or so, China has joined the very select club of aid donors.

China has considerably scaled up its aid to Africa. Much of this aid has been in the form of technical assistance – with emphasis on advanced training in Chinese institutions –, grants, interest-free loans, preferential loans and debt relief. It is estimated that China's financial assistance to Africa amounted to some \$19 billion at the end of 2006. Most of this assistance has been for major projects in energy, telecommunications and transportation. Aid has also been channeled for infrastructure development and for the social sector: China has helped build roads, houses, and hospitals.

Invariably, the biggest beneficiaries have been the oil-rich countries of Sub-Saharan Africa, namely Angola, Equatorial Guinea, Gabon, Republic of Congo, and Nigeria. Although the Chinese have shown their generosity by canceling debt for some of the poorest African countries – including DRC, Ethiopia, Mali, Senegal, Togo, Rwanda, Guinea and Uganda – the general perception is that the Chinese mean business when it comes to aid-giving. This belief is supported by the fact that most infrastructure projects use Chinese inputs (including labor) and are often accompanied by deals to develop mining and energy resources (Jacoby, 2007).

China's aid policy with respect to SSA is evident in the pledge by the Chinese President at the Beijing Summit to double assistance to Africa by 2009. China also announced the creation of a \$5 billion development fund to encourage investment by Chinese companies in Africa and to cancel government loans owed by African LDCs with diplomatic relations with China.

Chinese aid to Mauritius is not new. By virtue of its historical and cultural ties with China, Mauritius has been receiving aid from China since 1972 when the two countries established diplomatic relations. On the whole, however, Chinese aid has been small relative to total ODA.

Chinese aid has been largely project-based and, as such, irregular; the amount given in aid has varied considerably over the years and across projects. Most of the projects financed have been in the areas of construction and social services, including extension to the airport terminal, building of a football stadium, a marketplace, and a recreational center, upgrading of a hospital, and various low-cost housing projects. Significantly, China loaned RMB Yuan 95 million to finance the acquisition of a

passenger-cum-cargo vessel – the second of its kind – in 1999. The Chinese government is currently financing the construction of the new headquarters of the Mauritius Broadcasting Corporation, the national radio/TV station.

Mauritius has also benefited from Chinese technical assistance for agricultural projects, customs upgrading and human resource development. China has, since 1981, regularly provided a quota of scholarships for advanced training in a Chinese institution.

A key feature of Chinese aid to Mauritius is that most of the loans provided have been on concessional terms, with generous grace periods and repayment schedules. Grants have been few, generally limited to capacity building – both human and technical – and much smaller in amounts. Casual evidence suggests that many of the construction and infrastructure projects have been on a turnkey basis; they have extensively used Chinese materials and labor inputs. More significantly, virtually no conditions have been attached to Chinese aid to Mauritius (as elsewhere). This lack of conditionality has often been criticized on the grounds that it could delay reforms in the recipient countries (Zafar, 2007). Such concerns, however, have little relevance for Mauritius given the country's long-standing tradition of democracy and the current government's commitment to macroeconomic reforms.

While Chinese assistance to Mauritius has so far been sketchy, it is likely to increase significantly in the future, as China emerges as an important development partner of Mauritius.

6. Policy Response to the China Phenomenon

The Mauritian government's response to the end of apparel quotas and the dramatic rise of China has been critical to the survival of the textile and clothing industry. Although the government has always urged the clothing industry to consider its strategy in the face of the changing global realities well before the demise of the MFA, local producers have postponed restructuring until it had become absolutely necessary. This delay made the process more painful: a number of firms – mostly foreign-owned – could not eventually make it and had to shut down, leading to mass redundancies over a very short period.

Government has been usually very sympathetic to the clothing industry given that it employed a large number of women. In 2005, the government set up a Textile Emergency Support Team to advise struggling firms on the structural measures that they should take to survive the erosion of trade preferences. A Clothing Technology Center had been established earlier to provide EPZ firms up-to-date knowledge on technology choices with a view to upgrading technology in the textile and clothing industry.

In February 2006, government and key stakeholders gathered to reflect on the challenges facing the textile and clothing industry and to chart out a survival strategy for the sector. The strategy rested on restructuring to address factory and ex-factory competitiveness factors. Enterprise Mauritius, set up in 2005 as a collaborative partnership between industry and government to help local enterprises develop

competitive capacity and evolve into regional or global exporters, was given added impetus through greater budgetary support. It would develop value chain models and undertake market analysis and diagnostic tests using benchmarking tools to identify structural weaknesses at the firm level and propose appropriate remedial measures.

To deal with Chinese competition specifically, Mauritian enterprises had to do as the Chinese firms did: offer value for money by providing the buyer an integrated range of products and services in a hassle-free manner. For this, the Mauritian clothing industry needed to achieve ‘full-package’ supply capacity – including a more diversified portfolio of products – and focus on quality at the higher end of the market (Darga, 2007). Further investment is needed in spinning to fill the country’s fabric gap.

In the 2006/07 Budget, the government proposed several measures to encourage vertical integration in the textile sector. In particular, the special 60-percent tax credit on equity investment in spinning introduced in 2003, and extended to weaving and dyeing companies in 2005 was further extended to companies engaged in knitting of fabrics. Moreover, far-reaching measures were announced to overhaul investment facilitation and promotion. An Empowerment Fund was set up to support entrepreneurship by SMEs, and unemployed women, in particular. This helped a number of women made redundant by closures in the EPZ sector to start businesses of their own or re-skill themselves so that they could find an alternative job in the emerging sectors of the economy. The Empowerment Fund boasts many achievements to date: more importantly, it has helped cushion the socioeconomic impact of the EPZ layoffs.

The government has laid special emphasis on opening up the economy and on embracing globalization.¹¹ The underlying philosophy, neatly summarized by the subtitle of the 2006/07 program – “From Trade Preferences to Global Competition” – is that Mauritius can no longer rely on preferential market access to sell its products. Local firms needed to be more competitive to survive and prosper in the globalized world. In this spirit, the government abolished the differential incentive scheme for non-EPZ firms by abrogating the Industrial Expansion Act. Henceforth, the EPZ concept would no longer be relevant since all export-oriented firms, including SMEs, as well as enterprises producing for the local market but with some potential to export to the region, would be treated at par.¹²

These measures have enhanced the economic resilience of the country against external shocks. They have enabled the clothing industry to restructure and re-orient itself to meet the challenges posed by globalization generally, and by China, in particular. Moreover, by opening up new options for unemployed workers, they have helped avert a large-scale socioeconomic crisis.

¹¹ An interesting anti-globalization policy move by the government occurred in 2005 shortly after it had come to power. The outgoing government had presented a program to make Mauritius a duty-free island, and to that end, a number of imported items, including clothing, were substantially liberalized. This measure attracted the indignation of local SMEs competing against cheap Chinese products. The new government re-introduced customs duties on various apparel products to protect the local import-competing sector.

¹² This change has prompted the rebaptizing of the Mauritius Export-Processing Zones Association (MEPZA) into the Mauritius Export Association (MEXA) earlier in 2007.

7. Summary and Conclusion

The Asian drivers, especially China, have altered the dynamics of development in sub-Saharan Africa in important and irreversible ways. The empirical literature has focused on three key channels through which China could have impacted African economies – trade, FDI and aid. Most of the studies have concluded that while the resource-rich countries stand to gain from China's demand for oil and minerals, economies like Mauritius, with no commodity base and which compete with China in export markets, are likely to lose. However, this paper argues that the economic impact of China in Mauritius has not been as negative. This is due to a number of factors: the Mauritian economy's resilience to globalization, structural upgrading in the clothing industry, which has shielded it from Chinese competition in third markets, and export market diversification, which has partly made up for the loss of share in the US market, where Chinese competition has been most acute.

On the other hand, Mauritius stands to gain from Chinese FDI as China uses the country's strategic geographical location as a platform to penetrate the expanding African market. Moreover, aid flows to Mauritius are likely to rise as China's presence in the local economy grows, backed by over three decades of friendly, diplomatic and cultural ties with China.

There are at least two other vectors of China's impact that have not received much attention in the literature, presumably because of their limited relevance to SSA. Nevertheless, these additional effects do matter for Mauritius, and they can potentially be beneficial. The first is services trade, more particularly tourism, which is a key pillar of the Mauritian economy. This industry has traditionally focused on Europe, but potential exists to tap China's emerging class of *nouveau riche*. Current evidence seems to indicate that Mauritius is well set on this task: while total arrivals rose 19.4 percent between 2001 and 2006, arrivals from China increased 34.8 percent over the same period.

The second vector is Chinese expatriate employment in Mauritius. China has been the largest supplier of temporary migrant workers since the early 1990s when the clothing industry started to source out labor from Asia in the face of growing labor shortages locally. In 2000, Chinese workers represented 63 percent of expatriate employment in Mauritius. However, as the Hong Kong-based clothing firms in Mauritius closed in anticipation of the MFA phase-out, Chinese expatriate employment shrunk significantly – by 44 percent between 2002 and 2006 – since these firms relied most on Chinese workers in a bid to keep labor cost down. It thus appears that the Chinese workers have themselves been victims of the rise of China! This is a rather positive development for Mauritius since recent evidence (e.g., CASR, 2001) indicates that expatriates in the clothing industry have been competing jobs away from Mauritian workers.

Table 8 summarizes the main impacts of China on the Mauritian economy using the framework of Kaplinsky and Morris (2006a, b), and Jenkins and Edwards (2005).

The Mauritian government's response to globalization and the parallel rise of China has been critical to sustaining industry, especially the EPZ. Macroeconomic reforms and trade liberalization are the right policy mix to build economic resilience, integrate the global market and benefit from it. Regional integration has opened up new markets and allowed Mauritian manufacturers to diversify their exports and, thus, cushion the loss of market share in traditional markets, especially the U.S., where China has been most disruptive. Ironical as it may sound, the best way to meet the challenges of globalization is by embracing globalization.

Table 8: Summary of China's impact on Mauritius

		Direct	Indirect
Trade	Complementary	Cheaper inputs and consumption goods	<ul style="list-style-type: none"> ▪ Increase in number of Chinese tourists in Mauritius
	Competitive	<ul style="list-style-type: none"> ▪ Injury to local industry caused by cheap imports ▪ Growing bilateral trade deficits 	<ul style="list-style-type: none"> ▪ Competition in Mauritius' traditional export markets. Evidence of loss of market share in the U.S. ▪ Higher degree of imported inflation due to China's impact of global energy prices
FDI	Complementary	<ul style="list-style-type: none"> ▪ Significant increase in Chinese FDI expected as China uses Mauritius as an export platform to penetrate SSA. ▪ Job creation 	
	Competitive	Displacement of actual and potential local producers	Flying geese pattern of FDI can be detrimental to local economy (as the case in the EPZ illustrates)
Aid	Complementary	Greater aid, technical assistance and more grants are expected as China increases its aid to SSA	
	Competitive		Large inflows of aid could result in Dutch disease (unlikely)
Migration	Complementary	Cheap Chinese labor supported the export drive in Mauritius	
	Competitive	Chinese labor displaced local workers in the EPZ	The exit of Asian firms has reduced the availability of Chinese labor

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