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BEST PRACTICES IN PUBLIC FREE ZONES

Mauritian Freezone Model

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BEST PRACTICES IN PUBLIC FREE ZONES

Mauritian Freezone Model

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1. The economic context – (late 1960's-early 1970's)
2. Mauritian EPZ Model
3. Factors of success
4. The challenges facing the EPZ
5. What next ?

The Economic Context at the Time of the Introduction of the Regime

1. Sugar – Main engine of the economy
2. Import substitution
3. High unemployment
4. Low economic growth

The Economic Context (Cont'd)

1. High corporate and income tax
2. High customs duties
3. Rigid labour laws
4. Heavy bureaucracy

- Joint Government/Private Sector initiative to study an EPZ Solution to economic challenges
- Taiwanese inspiration
- Legal framework for segregating export sector from the economy (20% domestic sales cap –now de facto abolished)
- Not restricted to one physical location –so *integrated to a degree in the domestic economy*

- No Corporate tax
- Duty free
- Flexible Labour regime
- Fast track (administrative procedures)
- Industrial estate option (public & private)
- Concessionary loans

- Development Bank of Mauritius (Industrial estate)
- MEDIA (Promotion)
- EPZDA (Production & process – Technology Support)

- EPZ Model
- Appropriate macro-economic environment (SAP 1979–84)
- Business friendly micro-economic climate within the EPZ regime
- Preferential trade arrangements
- Institutional support
- Foreign Direct Investment

1. Annual GDP grow around 6% between 1980's and 2000
2. Unemployment fell from 21% in early 1980's to 4% in early 1990's
3. Macroeconomic stability
4. Significant improvement in poverty reduction
5. Seeds of integration into national policy framework laid

Challenges Facing EPZ Sector Today: Textile and Clothing Sector Decline

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<u>Contribution to GDP (%)</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
-EPZ	12.5	12.0	11.6	11.1	11.0
-Textile & Clothing	11.05	10.5	10.2	9.5	8.5

Challenges (Cont'd)

<u>Employment</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
-EPZ	91,374	90,682	87,607	87,204	77,623
-Textile & Clothing	80,960	80,001	77,003	76,570	67,251
<u>% of total employment</u>					
-Textile & Clothing	16.8	16.5	15.7	15.6	13.5
-Unemployment rate	7.7	8.8	9.1	9.7	10.2

Challenges (Cont'd): Phasing out MFA in 2005

- First indications available both in US and EU (Mauritius already feeling the indirect impact)
- Actual impact for some products/producers could be worse than expected
- Producers with limited range of products most exposed

NAMA Proposal Challenges

- Rapid elimination of duties
- Most emerging small producers worst hit
- Combination of MFA+NAMA proposals
=unsustainable for most textile producers

Challenges (Cont'd)

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- New trade arrangement (EPA) with EU
- AGOA – Mauritius-third country fabric

In spite of the EPZ Regime's Success, there are questions as to its long-term sustainability

What next ?

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Restructure EPZ ? Restructuring textile !

	Exports	Employment
Textile	3%	5%
Apparel & Clothing	77%	83%

- Background
 - Government/Private Sector consultations in July 2003
- Context
 - Increasing number of closures

- Enterprise, management, production process
- Reporting to PICT (Policy Implementation Committee on Textile) for policy changes

Two levels of TEST intervention

- Level 1: Enterprise Assessment
- Level 2: Restructuring

Health Check of Enterprises ("NPCC" Quantitative model)

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1. Sick
2. Vulnerable
3. Promising
4. Healthy

TEST initiates restructuring programs based on level 1 findings

- Productivity Improvement
- Financial Management
- International Marketing
- Productivity Planning and Budgeting
- Technical skills upgrading

Corporate Debt Restructuring Committee

- Committee on debt restructuring chaired by Central Bank
- Firm-level Financial Re-engineering

Major upcoming challenge

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International Marketing in a competitive environment

Re-engineering Institutional Support:
Merger of EPZDA and MIDA (Ex-MEDIA)
into “Enterprise Mauritius” on basis of
international best practice

- New national VAT has already replaced Sales Tax
- 15% CIT
- Enterprise Mauritius offering services to the whole country
- Procedures to be streamlined for all sectors, throughout the economy
- White Paper on Labour Reforms