

An Enabling Environment and Economic Zones for Private Sector Development in Bangladesh

Best Practices in Public Free Zones:
The Mauritian Free Zone Model

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1 Introduction

The object of this ‘Aide Mémoire’ is to provide an overview of the Mauritian Free Zone Model from a “learning perspective” highlighting essentially, policy, institutional and regulatory issues. Accordingly, this Paper addresses the following key areas:-

- (i) the broad economic context in which the Mauritian Free Zone emerged;
- (ii) the Mauritian Free Zone Model;
- (iii) the factors of success of the Free Zone Model;
- (iv) Policy Impact of the Mauritian Free Zone Regime; and
- (v) the challenges facing the Mauritian Textile and Clothing sectors and the Free Zone Regime, and how they are being addressed.

2 The Economic Context in which the Regime was launched

In the late 1960s, the overall business environment of Mauritius was characterized by high taxes (both corporate and income tax), high customs duties, very rigid labor laws and heavy bureaucracy. Mauritius had just become independent in 1968 and the sugar sector was the engine of the economy benefiting from high price and quota, under the Commonwealth Sugar Agreement. Non sugar manufacturing was limited to an “import substitution” industrial policy focusing very much on the local market. The tourism sector was almost “non-existent”. Economic performance was modest and unemployment, very high.

3 The Mauritian EPZ Model

Following joint Government/Private Sector missions and consultations, an ‘Export Processing Zone’, inspired, to a large extent by the Taiwanese model was set up in Mauritius. In 1971, legislation was passed and the Development Bank of Mauritius built the first Industrial Estate at Plaine Lauzun. With the support of the World Bank, a second Industrial Estate was built at Coromandel. Private companies were allowed to operate within their ‘own premises’ if they wanted. The key feature of the Mauritius model was that the EPZ was not restricted to one ‘physical location’. The whole island was an EPZ in terms of “approved activities”.

The ‘EPZ regime’ was one essentially geared towards separating the EPZ activities from the rest of the economy by reducing the cost of doing business in Mauritius; through the following measures:

- (i) tax holiday;
- (ii) duty free entry of raw materials and equipment;
- (iii) concessionary access to finance;
- (iv) flexible labor regime with minimum cost and delays in the “hiring and firing” processes;
- (v) fast track approvals for all administrative procedures;
- (vi) preferential market access agreements; and
- (vii) institutional support for marketing EPZ products.

4 Factors of success for of the Mauritian Free Zone Model

The major impact of the EPZ was the consistent GDP growth for a period of almost 15 years and the dramatic fall in unemployment, contributing significantly to poverty reduction.

The Mauritian EPZ really picked up as from 1984 and performed extremely well until the mid 1990s. The reasons of this success could be summarized as follows:

- (i) the strong “ownership factor” by all stakeholders in the country, namely policy makers, local business leaders and labor;
- (ii) the preferential market access;
- (iii) the cumulative impact of the right macro economic environment and the micro business environment that was already in place through the EPZ regime;
- (iv) the synergy between foreign investors (largely from Hong-Kong) and local operators;
- (v) the institutional support provided by Mauritius Export Development and Investment Authority (MEDIA), Export Processing Zone Authority (EPZDA) and Development Bank of Mauritius (DBM).

5 Policy Impact of the Free Zone Regime

The EPZ regime’s economic impact has triggered a greater awareness for moving towards integration between the EPZ and non-EPZ economies. Some of the key decisions to be taken in connection with the movement toward integration are as to the possibility of:

- (i) one single corporate tax for the manufacturing sector, EPZ and non-EPZ;
- (ii) replacement of the Sales Tax by the Value Added Tax;
- (iii) streamlining administrative procedures for all sectors; (exercise being carried out now)

- (iv) bringing more dynamism in the corporate culture.

The labor regime, however, remains a major issue and is being tackled at present. A 'White Paper' was presented by Government in November 2004.

6 Challenges to the Mauritian Free Zone Model

The EPZ of Mauritius has been over dependent on the textile and garment sector and, as such, the challenge to EPZ regime is essentially one of these sectors. With the dismantling of the Multi-fiber Agreement (MFA), the EU's Every but Arms (EBA) initiative (on access of LDCs to the EU) and NAMA, there is need for restructuring the textile and garment sector.

Given that garments represent 77% of total EPZ exports and 83% of total EPZ employment, a "Textile Emergency Support Team" (TEST), co-chaired by the Government and the Joint Economic Council (JEC) to address the problems of increasing number of closures was set up in July 2003. The approach operates on the micro-economy, at firm level, measuring productivity of various factors and devising restructuring programmes which are implemented immediately. The TEST reports to the Policy Implementation Committee on Textile (PICT), which is chaired by the Prime Minister, for *policy changes*, whenever necessary. The EPZDA acts as the Secretariat of TEST. The restructuring programmes, on the basis of quantitative findings, are addressing the following issues:-

- (i) productivity processes;
- (ii) financial management and debt restructuring;
- (iii) international marketing;
- (iv) productivity planning and budgeting; and
- (v) technical skills upgrading

A Corporate Debt Restructuring Committee (CDRC) comprising the Managing Director of the Central Bank and the two co-Chairmen of TEST, approves 'work outs' agreed between the companies and banks. A team of consultants is providing technical assistance to the CDRC in negotiating these 'work outs'.

Furthermore, the institutions which were providing support to the EPZ sector, namely EPZDA and MIDA, are being revamped into a new body known as "Enterprise Mauritius." Enterprise Mauritius is a company with Government and private sector shareholders, with the following main objectives:-

- (i) to act as "technology watch" and as focal point for technology diffusion;
- (ii) to provide market information, develop competitive intelligence and assist companies in export promotion;

- (iii) to identify, track and coordinate enterprise skills needs and trends;
- (iv) to provide start-up and infrastructure facilities to entrepreneurs;
- (v) to facilitate strategic partnerships and networking;
- (vi) to provide advisory services on enterprise development; and
- (vii) to provide consultancy services to enterprise.

Enterprise Mauritius will also take over the activities of TEST as from January 2005.