

# **The Mauritian Textile and Clothing Industry: Facing the Challenges Associated with Globalisation**

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## **Abstract**

*The Mauritian economy grew rapidly during the early 1990's as the country embraced trade liberalisation and became increasingly integrated in the world economy. For most of the 1990's, annual growth was of the order of 5% to 6% due to the strong export performance of the textile and clothing industry aided by preferential access to the European Union. Despite this remarkable achievement, Mauritius now faces an economic slowdown due to a number of factors, both internal and external. In early 2000, the country was poised to take advantage of the Africa Growth and Opportunity Act (AGOA) but up to now Mauritian manufacturers have been unable to make a significant impact in the huge American market. The textile and apparel quota system will be eliminated on January 1, 2005 as agreed by the 'Uruguay Round' of trade talks. Currently, Mauritian manufacturers are witnessing the adverse effects of competition from low cost producers on the domestic industry with quotas; what will be the outcome without quotas? This paper also outlines the strategies being implemented to sustain the industry's competitiveness.*

## **1.0 Introduction**

Over the past three decades, the textile and clothing industry has been an engine of economic growth, generated thousands of new jobs and propelled this island-nation towards prosperity. The industry accounts for 12% of gross domestic product (GDP), employs nearly 77,000 people out of a workforce of 550,000 and generates about 65% of export earnings (USD 1.1 billion). Employment in this sector increased by about 13% from 1995 to 1999 but it has now stabilised mainly through gains in productivity [1].

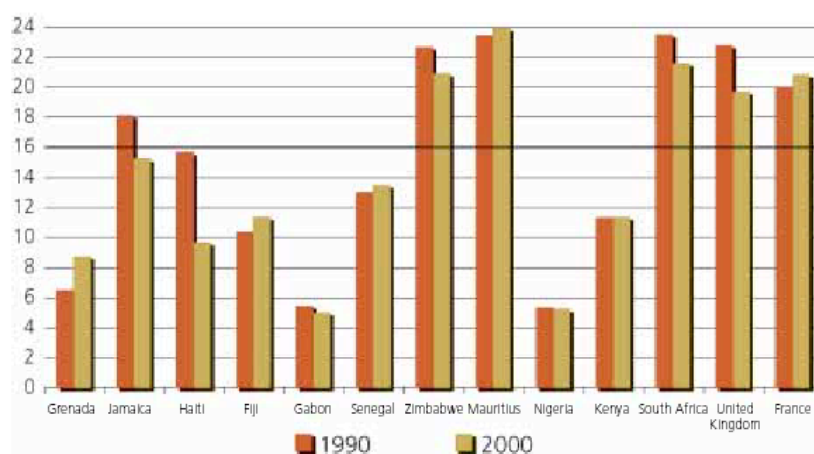
With trade liberalisation, the Mauritian textile and clothing industry is now faced with a number of short and medium-term challenges, on both the internal and external fronts. These relate mainly to elimination of trade preferences, exchange rate fluctuations, relatively slow pace of restructuration and diversification, increased competition from low-cost manufacturers, rising costs of air and sea freight, and low penetration of new markets.

Faced with growing unemployment (about 10%, March 2004), accelerated economic growth to create jobs and improve standard of living is on top of government's agenda [2]. Textiles and apparel will remain one of Mauritius's key manufacturing sectors but a new mindset is critical for the renewed health of the industry. The sector has no option but to invest in product and design innovation through research, new technology, highly skilled workers and successful marketing. How we innovate, how we use materials and machines in new ways and anticipate consumer demands will dictate the future of the Mauritian textile and clothing industry. Table 1 illustrates the importance of textiles and clothing manufacture in a number of developing economies.

Table 1: Percentage of Total Export Earnings in Textiles and Clothing (Source, WTO)

Country	Percentage of Total Export Earnings			GDP per Capita (USD)
	Textiles (T)	Clothing (C)	T+C	
Bangladesh	9	75	84	343
Pakistan	49	23	72	436
Mauritius	5	64	69	3,773
Sri Lanka	4	50	54	862
Turkey	14	25	39	2,999
Tunisia	2	40	42	2,058
Morocco	2	32	34	1,115
Madagascar	29	1	30	243
Haiti	2	28	30	497
India	14	14	28	453

On the regional level, Mauritius has done well with the share of manufacturing value added (MVA) in the GDP being about 19% while for most African countries MVA remains below the minimum 16% required on an ongoing basis for sustainable development. Moreover, the African continent has seen its GDP per capita fall between 1990 and 2000, from USD 755 to USD 673 [3].



\*16% of the share of MVA in GDP is equivalent to the minimum required for sustainable development

Source: UNIDO International Yearbook of Industrial Statistics, 2002, Vienna, Austria

Figure 1: Share of Manufacturing Value Added (MVA) in GDP of some ACP and EU Countries, 1990 and 2000 (as %, 1990 prices)

Mauritius, therefore, urgently needs to translate this competitive advantage into substantial inflow of foreign investment and skilled job creation. In terms of trade, government policy is to defend acquired markets, as well as to vigorously seek new markets. It seeks to capitalise on all opportunities opened to it (such as through the Africa Growth and Opportunity Act), and has been active in pressing for the opening up of regional and sub-regional groups which it sees as providing opportunities for greater

trade and investment. In addition, government, through appropriate legislation, has improved Mauritius's reputation for (homeland) security and institutional fairness among potential investors.

The productive sectors of the Mauritian economy have undergone drastic change over the years and the role of the secondary and tertiary sectors has grown at the expense of the primary sector, Table 2.

**Table 2** Sectoral Composition of GDP (%)

Sector	1970	1980	1990	1998
Primary	23.9	12.6	12.2	8.8
Secondary	23.9	25.7	32.0	32.2
Tertiary	52.2	61.7	55.8	59.0

Source: ACP-EU Courier

The change in the structure of the economy has been partially reflected in employment patterns. In 1998 the primary sector absorbed about 9% of the labour force, compared to 23.9% in 1970. The secondary sector which became significant during that period absorbed about 33% of labour in 1998 as against 26.6% in 1982. The tertiary sector, however, has continued to employ the major proportion of total labour force, with an average of 48.5% over the same period [4]. Table 3 shows the real growth rates of the main sectors and sub-sectors of the Mauritian economy.

**Table 3** Real Growth Rates (%)

Real Growth Rates (%)	1995	1997	1998	1999	2000	2001
GDP	5.6	5.6	5.8	2.8	8.3	8.5
Agriculture	8.4	3.4	-2.0	-28.1	28.4*	-
Sugar	10.0	5.1	2.5	-45.0	56.2	6.0
Textiles	5.0	6.0	6.9	6.0	6.0	6.5
Tourism	9.0	10.2	6.0	6.0	11.0	12.4
Services	8.7	6.4	6.0	6.7	6.8	6.8

(\*) Exceptional figures due to drought in 1999

Despite the volatility of textiles and clothing, Mauritius has been quite successful in preserving market share. Unfortunately, the removal of preferential access to traditional markets threatens to undermine the industry and thus limit Mauritius's growth. The restructuring of the industry is high on government agenda and a number of policies including diversification are being pursued.

The natural disadvantage facing small island developing states (SIDS) is their small size, small size of their domestic markets, limited natural resources, limited human capital which in turn negatively impact on foreign direct investment (FDI). FDI, following the trend over the last decade, has been little interested in the production of low value-added goods. The thrust of FDI, as in India, China or Mexico, has gone towards the production

of high-tech products either for export or domestic consumption, taking advantage of their huge domestic markets, which SIDS will never have. The drought of FDI in the textile and clothing sector in Mauritius may be attributed to two main reasons; small size of the domestic market and low pace of diversification into higher value-added activities within the sector. Though Mauritius is investor-friendly and enjoys a number of competitive advantages (social, cultural, political, environmental), the trickle of FDI has proved difficult to reverse.

## **2.0 Globalisation: Optimism and Uncertainty**

While the abolition of import restrictions on textile and clothing may benefit consumers in industrialised countries, most developing nations, big or small, harbour strong reservations. They point out that global economic integration favours the already wealthy and hurt the poor. Ironically, in 1994, when the World Trade Organisation (WTO) was created, almost all member nations assumed that the end of textile quotas, part of rich country trade reform, would create more jobs across the board. In 2004, this enthusiasm is shared only by big, low-cost producers while relatively small producers are being squeezed out.

Supporters of globalisation in developing countries argue that it is an economic opportunity as it will usher in more trade and prosperity. However, there are pertinent questions that need to be answered.

- How do we ensure a level playing field or fair competition when countries with diametrically opposite profiles are vying for the same markets?
- Is it possible to create trading conditions so that emerging economies can compete internationally?
- Is globalisation not excluding smaller producers from the international market?
- Will industrialised countries not place trade barriers of a different kind?

Mauritian manufacturers maintain that the future of the sector is threatened by exporting giants like China and India. During the first quarter of 2003, Chinese clothing exports to the US increased by 27%, with quotas and duties still in place. What will be the growth of Chinese exports without quotas? The WTO has predicted that after abolition of quotas China may capture 50% of the American clothing market and 29% of the EU's [5]. Similarly, Vietnam alone can rival the amount of goods exported to North America from all sub-Saharan African countries combined even with duties. The American Central Bank has estimated that the Chinese yuan is approximately 40-50% undervalued with respect to the US dollar. To add to the currency advantage, more than half of textile mills and more than a quarter of apparel makers are state-owned. Even though these companies regularly run at a loss, the Chinese government subsidises their output to gain market share around the world. In addition, there is provision for an export tax rebate [6].

The over-concentration of Mauritian textile and clothing exports towards the European Union (65% in 2000) has accentuated the vulnerability of the sector in the face of globalisation. In 2000-2001, textile and clothing exporters incurred serious financial losses resulting from a declining Euro and an appreciating Dollar (most inputs imported by the sector are paid in US dollars, whereas the enterprises are paid for their goods

largely in Euro). Fortunately, the recent rise of the Euro against the US dollar is earning significant windfall gains.

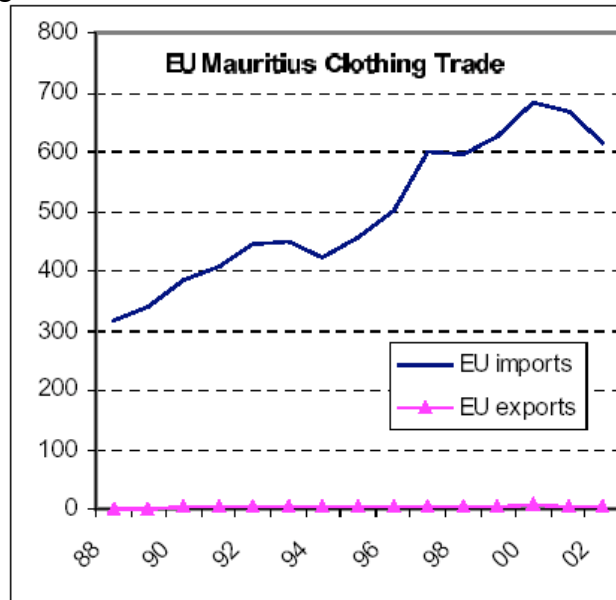


Figure 2: EU-Mauritius Clothing Trade (million Euros)

At the Doha Round, small economies like Mauritius tried to procure a differential system of market access. However, a final decision is still pending. Mauritius also demanded assistance to help strengthen production and export capacities. Meanwhile, at the national level, urgent measures that include diversification of products and markets and productivity improvements have been taken.

### 3.0 Regional Trade and Cooperation

Though trade with other Indian Ocean and Southern African countries (other than South Africa) is still quite limited, Mauritius is keen to increase levels of trade and investment regionally and regional co-operation is an increasingly important feature of foreign policy. In the wake of globalization, regional cooperation is deemed to be inevitable and irreversible for Mauritius to overcome the constraints of size and lack of resources. Mauritius is an active member of a number of Indian Ocean and Southern African regional organisations, including:

- COMESA (the Common Market for Eastern and Southern Africa);
- IOC (Indian Ocean Commission);
- SADC (Southern African Development Community);
- IORA (Indian Ocean Rim Association).

Exports to SADC and COMESA markets grew by 12% in 2000.

### 4.0 The Africa Growth and Opportunity Act (AGOA)

The AGOA provides sub-Saharan African garments with duty-free and quota-free access to the US market. Under the AGOA, US imports of African-made garments are expected to grow from US\$ 250 million to about US\$ 4.2 billion by 2008 [7]. One of the

objectives of the act is to boost investment in textile manufacturing as after September 30, 2005 (following one-year extension), AGOA benefits will only be available to garments made up from materials made in the region or in North America. Hence textile and garment manufacturers need to adapt their supply chain very fast to remain competitive, especially after elimination of quotas.

The terrorist attacks in the US in September 2001 led to a slight downturn in levels of exports but local experts concur that Mauritius has still not taken full advantage of the trade opportunities under AGOA. For example, from Nov 00 to Nov 01 (first effective year of AGOA) exports to the US increased by a nominal 3.3% in terms of quantity (measured in square meter equivalents) but decreased by 2.7% in dollar terms due to exchange rate fluctuations and bargaining power of buyers. The reasons attributed for the ongoing poor performance are firstly lack of AGOA-eligible yarn and fabric for producing garments and secondly Mauritian garment manufacturers have had little success in developing new markets in the US [8]. The 'private sector' is keen to pursue the following pro-active strategies:

- Develop strategic alliances with sources of yarn and fabric on the African continent, particularly within SADC;
- Undertake more aggressive targeted marketing to identify US buyers who can benefit from sourcing garments from Mauritius;
- Implement two fundamental improvements to current business and production practices, namely quick response and industrial engineering.

In the SADC region, there are textile plants that are currently under-utilised and this represents a tremendous opportunity for Mauritian manufacturers to strike strategic alliances to increase availability of AGOA-eligible fabric. In a strategic alliance, partners cooperate on product development, and share information about projected demand and capacity, as well as information on current output, down stream orders and stock levels. Direct investment in these mills would be more effective as they are under-capitalised and need funds to improve technology and build capacity. As investors, Mauritian manufacturers would ensure timely supply of "quality" yarn and fabric and effectively manage the supply chain to shorten the merchandising calendar and reduce inventory levels throughout the garment delivery pipeline. To better exploit the American market and remain competitive the Mauritian industry would have to take advantage of the current low capacity utilization of SADC textile plants.

## **5.0 Education and Training**

The investments and participation of the Mauritian government and industry in education and training are quite low, particularly relative to the important contribution (65%) of the textile and clothing industry in export earnings. If such a situation continues, the competitiveness of the Mauritian textile and clothing industry will be significantly affected by globalisation. In this global economy, nearly every competitor can potentially have access to technology, equipment and capital to create products. The determining factor will be the availability of skilled labour.

Over the past two years, the textile and clothing sector has continuously received a bad press and job seekers are now reluctant to enter the industry. Many enterprises are currently facing recruitment problems. The University of Mauritius has thoroughly revised two bachelor degree programmes in textiles and added a significant component of Information and Communication Technologies (ICT) to boost student intake. The programmes, however, still emphasise on latest technologies in design, production and e-business. The government, recognizing the importance of human capital for wealth creation, has set up the Human Resource Development Council (HRDC) to promote human resource development in line with national objectives.

## **6.0 Industrial Clusters**

A cluster is defined as a geographic concentration of interconnected companies and institutions that achieve unusual competitive success in a particular field. In Mauritius, during the 90's, the concept of clustering was not given enough attention most probably due to the booming industry and vertical integration. This has now resulted in huge setups with expensive overheads. In certain cases, the outcome has been either streamlining of operations or closure of some (big) inefficient enterprises facing difficult financial situation. Globalisation has further complicated matters by enlarging competition worldwide.

Currently, productivity, innovation, modernisation and flexibility are the main battle-horse of the industry and industrial clusters are being promoted for that end. It is believed that with the necessary policy framework, clustering can help SMEs realise the opportunities and meet the challenges associated with globalisation [9].

## **7.0 Public-Private Sector Partnership**

Mauritius has a long tradition of healthy public and private sector collaboration. Over the years an environment has been created conducive to the growth of the private sector. Private sector activities contribute to around 80% of GDP and its participation is being encouraged through significant changes in the role of the state, which is called upon to become more of a facilitator and regulator and less of a financier and producer of goods and services. Moreover, through the consultative mechanisms that exist in the country, the state, the private sector and civil society have regular consultations on pertinent national economic and social issues.

Mauritius also has comprehensive labour legislation governing industrial relations. These are marked by dialogue among trade unions, employers' organisations and government agencies. Trade unions and NGOs play an active role through seminars and workshops to educate workers and train their leaders. They participate fully in tripartite negotiations to safeguard the rights of workers.

Government, together with the unions and the private sector, is examining the possibility of setting up an appropriate forum to foster industrial relations and promote social dialogue on a permanent basis. The textile and clothing sector as well as other sectors have derived immense benefit from this enduring conducive social environment.

## **8.0 Unforeseen Offshore Threats**

After September 11, the Bush Administration desperately needed Pakistan in its war against terror. In order to keep Pakistan in its fold and to prop up its economy, the Administration has eliminated all textile and apparel tariffs on goods not currently under quota. Before a final decision was taken by America, the European Union (EU) had already announced duty free access to its markets for textiles and apparel from Pakistan. This dealt a severe blow to the “preferential market access” that Mauritius had been enjoying from the EU since independence in 1968. The EU as a whole currently absorbs about 67% of Mauritius’ textile and apparel exports but that figure is now constantly under pressure. Government and industry are lobbying the EU for a mechanism that will preserve Mauritian interests.

## **9.0 Conclusion**

Mauritian textile and clothing manufacturers will inevitably face difficulties as a result of trade liberalisation, especially from sourcing giants like China, Vietnam and India. It is still not clear how sourcing patterns will shift in 2005. It is indeed more difficult to quantify the shift so that proactive measures can be taken.

Increasing penetration of global markets will require a lot of effort by individual companies. Each company will have to study what its competitive advantages are and what improvements and changes it will need to make to compete in global markets. The role of government as a legislator and facilitator is crucial to the success of this industry.

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