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Multinational enterprises and employment in the Mauritian export processing zone

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Note:
Working papers on themes studied within the ILO
are intended to stimulate discussion and
critical comment.

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INTRODUCTION

Since the late 1960s, there has been a growing tendency for developing countries and territories to create export processing zones (EPZs).¹ By 1984, there were 79 EPZs established in 35 developing countries (Economist Intelligence Unit, 1985). Mauritius, which established its EPZ at the end of 1970 has been a pioneer - the first in the African region - in the application of this concept. Accordingly, its 15 years' experience in this domain provides the possibility for a relatively long-term assessment of the effects of the EPZ on the economy of the country and on employment, including the role played by multinationals.² The EPZ in Mauritius is generally considered as very successful, particularly in contrast with many notable failures in other countries (Basile and Germidis, 1984, p.22).

Chapter I of this study describes the establishment and relatively rapid growth of the Mauritian EPZ and examines the reasons for its success. Chapter II investigates the ownership pattern of enterprises in the Mauritian EPZ, in particular the extent of multinational ownership and the origins of the foreign investment. Chapter III provides a comprehensive description of the employment effects of the EPZ including the amount of direct and indirect employment generated, as well as assesses the stability of employment. Chapter IV gives an account of working conditions prevailing in the zone with some national and international comparisons. Finally, a last chapter briefly summarises the main points of the study.

While no observer can claim complete objectivity, the present paper attempts to accumulate the "facts" which are available on the major issues concerning employment in the Mauritian EPZ. Depending on the criteria which one chooses to adopt, judgements may vary considerably just as the perspectives of the readers also will be very different.

Notes

¹ An EPZ has been defined as an administratively and sometimes geographically distinct area enjoying special status allowing for the free import of equipment and other materials to be used in the manufacture of goods earmarked for export. The special status generally involves favourable legal provisions and regulations pertaining mainly to taxation (Basile and Germidis, 1984, p. 20).

² "Multinational enterprises" include "enterprises whether they are of public, mixed or private ownership, which own or control production, distribution, services or other facilities outside the country in which they are based" (ILO, 1977, para. 6). Accordingly, any foreign company investing in a country qualifies as a multinational since it has facilities in more than one country.

CHAPTER I

ESTABLISHMENT AND GROWTH OF THE MAURITIAN EPZ

In 1970 when the Government of Mauritius created the Export Processing Zone (Act of Parliament No. 51 of December, 1970), it was one of the first developing countries to try this experiment. The reasons motivating this decision must be placed in the context of the economic and social problems which the country was facing at that time.

1. Historical context

Manufacturing is not, strictly speaking, a new activity in Mauritius. The sugar industry, whose milling operations can be considered an industrial process (ISIC classification 3118) had developed since the eighteenth century to become the mainstay of the economy, sugar and molasses providing over 90 per cent of the exports in the 1950s and 1960s. Other secondary industries were also traditionally operating on the island, many of them related to the sugar industry, either producing products used by that industry such as aloe fibre bags and lime or transforming sugar by-products such as molasses into alcohol. In the 1960s, in addition to sugar-related industries, there were also a small number of factories producing consumer goods mostly for the local market such as cigarettes, shoes, soft drinks, bread and biscuits.

The ownership and management of this industrial activity was for the most part local. Among the notable exceptions to the general rule of local ownership were: three sugar estates with factories owned by the Anglo-Ceylon and General Estates Ltd. (British) (out of 21 estates operating in the 1960s and 1970s) - a company which was taken over by Lonrho in the 1960s; the cigarette factory owned by British American Tobacco; and the Bata shoe factory.

The early 1960s constituted a turning point in the industrial history of Mauritius. With the movement towards independence, concern arose about the economic future of the island. In the 1950s, real per capita incomes were falling and, at the request of the Government of Mauritius, a report was made on the economic and social structure of the country (Meade et al., 1961). The report was particularly concerned about population growth and the need to provide productive jobs for the rapidly increasing labour force. Agriculture and sugar could not be expected to provide any substantial increase in employment (due, inter alia, to the limited land area), and therefore manufacturing was suggested as a key sector for the creation of productive employment at the required rate (Meade et al., 1961, pp. 25-32).

In order to encourage the development of local industries, the Government initiated a system of "Development Certificates" (DCs) in 1962. Industries granted Development Certificates were exempt from tax for five years, were eligible for long-term loans at favourable rates and benefited from protective import duties or quotas.

Such industrial development as took place during the 1960s was almost exclusively the result of the activities of enterprises with DCs. By 1970, 70 new industrial enterprises oriented almost entirely to the local market had gone into production. Almost all were locally owned, although they relied to a varying extent on foreign technology and know-how. The products manufactured were very diverse - for example, beer, margarine, pickles, soap, paint, edible oil, cosmetics and rolled steel.

This development had the advantage of initiating some industrial activity of a new type, but it became clear by 1970 that the amount of employment and economic growth which could be generated by an import-substitution strategy in a small economy was limited and insufficient. Per capita income had stagnated during the 1960s and the establishment of DC industries had led to the creation of no more than 1,200 jobs between 1964 and 1968 (Government of Mauritius, Ministry of Economic Planning and Development, 1971, p. 162).

By 1970, two years after Independence, it was thus felt by Government that industrial development and employment creation on the scale required could be accomplished only by the establishment of export-oriented operations. At that time, it was estimated that about 20 per cent of the labour force was more or less wholly unemployed and that, in the face of the rapidly expanding labour force, even the prevailing modest levels of income (about US\$200 per capita) could only be maintained by selling on the world market goods that could be produced more cheaply in Mauritius than elsewhere. The new orientation of the Government was therefore to encourage the manufacture or assembly for export of those products in which labour costs were a significant proportion of the value added. Its main concern was to provide jobs for the many unemployed. This is reflected in the first Development Plan (1971-75) which set a target of 42,000 new jobs in the manufacturing sector out of a total of 130,000 new employment opportunities projected for the period 1971-80 (Government of Mauritius, Ministry of Economic Planning and Development, 1971).

Although the actual number of jobs created in the EPZ by 1980 (about 22,000) fell short of this objective, it was nevertheless substantial and the Government's policy for industrial development has shifted increasingly from import substitution to export manufacturing. By 1985, the system of protection for companies operating under a Development Certificate was gradually being changed and the system of incentives was being harmonised with that of the EPZ in order to encourage all companies including those producing for the local market to seek export opportunities (Government of Mauritius, Ministry of Economic Planning and Development, 1984).

2. Growth of the EPZ (1971-86)

The main indicators of growth in the EPZ in terms of the number of enterprises, direct employment created and exports are given in table 1.1.

The overall picture emerging from these data is clearly a "success story". Thus, the number of EPZ enterprises rose from nine in 1971 to 408 in 1986; the number of jobs directly created from 644 in 1971 to over 74,015 in December 1986, and the gross value of EPZ exports from Rs.3.9 million in 1971 to almost Rs.5 billion in 1986. The EPZ was providing an increasing proportion of employment in Mauritius accounting for almost one-third of total employment by 1986 (see Chapter III below for details).

As concerns exports, by 1986, exports from the EPZ amounted to almost 55 per cent of total export value, while sugar and molasses, the main traditional exports, accounted for only 40 per cent (Bank of Mauritius, 1986). It is true that the gross export value of EPZ products is not the whole story since imports constitute an important component of the value of exports. In fact, in 1984-86, the net value of EPZ exports (i.e. gross exports minus the value of imported raw materials and machinery) in a given year, represented around 23 per cent of gross exports (see table 1.2). This figure is less than 1983 (35.2 per cent) due partly to the acceleration in the imports of machinery and equipment associated with rapid expansion of EPZ activities since 1983. These perhaps are lower than those reported for the

Table 1.1: Indicators of growth of the EPZ, 1971-86

Year	Number of enterprises	Employment	Gross exports (Rs. million)
1971	9	644	3.9
1972	19	2 588	12.0
1973	32	5 721	45.0
1974	45	10 669	135.6
1975	66	11 407	196.4
1976	85	17 403	308.6
1977	89	17 474	433.4
1978	85	18 323	484.5
1979	94	20 742	620.1
1980	101	21 642	894.5
1981	107	23 601	1 087.1
1982	115	23 870	1 235.5
1983	146	25 526	1 306.8
1984	197	37 573	2 100.0
1985	277	53 440	3 283.0
1986	408	74 015	4 960.0

Sources: Wong Ng, 1985, pp. 22-23. Ministry of Economic Planning and Development, 1985 and 1986.

Table 1.2: Value of EPZ exports and imports, 1983-86 (Rs. million)

	1983	1984	1985	1986
Imports	846.5	1 650.4	2 529.7	3 837.0
of which:				
Raw materials	(768.4)	(1 459.8)	(2 225.3)	(3 346.0)
Machinery and equipment	(78.1)	(190.6)	(304.4)	(491.0)
Exports	1 306.8	2 150.7	3 272.2	4 959.6
Export-imports	460.3	500.3	742.5	1 122.6
Imports/exports (%)	64.8	76.7	77.3	77.4
Exports-imports/exports (%)	35.2	23.3	22.7	22.6

Source: Bank of Mauritius, 1986, table 3.4

Mason EPZ in the Republic of Korea (40-45 per cent), but similar to those in the Philippines, and considerably higher than for Malaysia and Sri Lanka (Maex, 1983, p. 39).

As for contribution to the GDP, data for 1986 show that the EPZ accounts for 8.9 per cent, as compared to 11.2 per cent for sugar (Central Statistical Office, 1986, table 1.5) and preliminary estimates for 1987 indicate that both sectors are expected to contribute almost 11 per cent each (Economist Intelligence Unit, 1987, p. 24).

Thus, the main indicators point to the importance which EPZ activities have developed within the economy of Mauritius. The factors that can explain this success story are discussed in the last two sections of this chapter. The remainder of the current section discusses the growth pattern of the EPZ, the types of industries established, the destinations of exports and the geographical dispersion of the EPZ within Mauritius.

(a) Growth pattern

The growth of the EPZ has not been uniformly steady throughout its history. The data in table 1.1 show that, after a rapid development from a tiny base between 1971 and 1976, there was a relative slow-down between the years 1977 and 1982; this is particularly true of the years 1977 and 1982 themselves, when employment figures only slightly exceeded those of the preceding year. In fact, in 1982, output (in constant prices) declined by 3 per cent over 1981 (Central Statistical Office, 1985b, tables 2.15 and 2.30). Since 1982, a new phase of rapid acceleration has started and by 1986, employment had more than tripled with respect to 1982 and was continuing to increase.

The 1976-77 slow-down may be explained by the drying up of local sugar-generated investment after the sugar boom of 1973-75¹ and by the lack of enthusiasm on the part of local and overseas investors as a result of government-decreed wage and bonus awards, some of which had retroactive effect (see Chapter IV for details). In 1981-82, the factors contributing to the slow-down may be considered to be the world recession and the imposition of quotas in certain overseas markets. The resumption of rapid growth since 1982 may be attributed to the recovery in the United States and other developed economies, to investment outflows from the area of Hong Kong,² to problems in other competing EPZs (e.g. Sri Lanka) and to the promotional efforts by the "Alliance" Government elected in 1983 which created confidence with its pragmatic economic policy.

(b) Type of industry

Table 1.3 gives information concerning the various types of industries operating in the EPZ in terms of the value of their exports in 1976 and 1982. Although the pioneering enterprise in the EPZ (Micro Jewels Ltd.) was engaged in the piercing of jewels for watches, the dominant activity of the EPZ has been in the area of textiles, particularly wearing apparel. For woollen knitwear, Mauritius has become the third among world producers of pullovers (Joint Committee for the Promotion of Industry, 1983).

As apparent in table 1.3, the electronics industry accounted for 20 per cent of exports in 1976 but has since virtually disappeared from the Mauritian EPZ. Its demise has been attributed to the problems of factories easily becoming obsolescent in a sector where technology and markets change rapidly and where large investments are required (Wong Ng, 1981).

Table 1.3: Exports by type of industry in 1976 and 1986

Industry	Exports					
	Rs. million			Percentage		
	1976	1982	1986	1976	1982	1986
Textiles and garments	202.8	863.0	4 116.0	65.7	69.9	81.3
Electronics	61.3	2.4	-	19.9	0.2	-
Jewellery, diamonds and precious stones	7.1	78.9	256.0	2.3	6.4	5.1
Toys and Christmas decorations	7.4	29.8	58.0	2.3	2.4	1.1
Other	30.0	261.4	630.0	9.7	21.1	12.5
Total	308.6	1 235.5	5 060.0	100.0	100.0	100.0

Source: P. Forget, 1983, p. 18; Central Statistical Office, 1986a.

Although textiles and garments are clearly the backbone of the Mauritian EPZ and are accounting for an increasing proportion of the value of export, there have recently been some attempts to diversify and there are a number of small factories producing, for example, watches and clocks, leather goods, fish flies and spectacle frames. Another original diversification which makes use of some local raw materials is the production of greeting cards from dried natural flowers; the firm concerned employed 625 persons in 1984 (Ministry of Commerce and Industry, unpublished figures) and has a contract with Hallmark (White, 1985).

The success of the knitwear sector in Mauritius has, at least partially, been the result of its ability to comply with the rules of origin for duty free entry into the European Economic Community (EEC) (Lim Fat, 1985; see also section 4(c) below). This is also the main sector of the EPZ to achieve a significant degree of vertical integration with local spinning and dyeing operations assuring the supply of wool.³ Thus, Nixon (1985) calculates that of the 4.5 million kilograms of wool fibre used in the knitwear sector, over 3 million kilograms is spun locally. For her part, the manager of the EPZ Association has also noted the good quality/price ratio and the producers' direct control over their markets as factors contributing to the success of the Mauritian knitwear sector (Wong Ng, 1981). The International Wool Secretariat established an office in Mauritius in 1977 and about 80 per cent of pure wool production carries the Woolmark label (Nixon, 1985).

Garment manufacturers, on the other hand, have been constrained by difficulties in complying with the EEC rules of origin since they often do not use fabrics originating from either EEC countries or Mauritius (Lim Fat, 1985). In 1985, the one local producer of garment fabrics could supply only a fraction of existing needs in Mauritian factories.

Table 1.4: EPZ exports by country of destination, 1976, 1982 and 1986

	1976		1982		1986	
	Rs.m	%	Rs.m	%	Rs.m	
1. EEC countries of which:	248.4	80.2	992.0	80.2	3 382.6	68.2
France	(159.6)	(51.7)	(404.6)	(32.7)	(1 620.5)	(32.7)
Belgium	(13.4)	(4.3)	(64.6)	(5.2)	(164.9)	(3.3)
Fed. Rep. of Germany	(43.9)	(13.3)	(157.8)	(12.8)	(650.7)	(13.1)
United Kingdom	(19.6)	(6.3)	(199.2)	(16.1)	(511.9)	(10.3)
2. United States	35.9	11.6	161.4	13.1	1 338.4	27.0
3. Others	25.3	8.2	82.1	6.7	239.2	4.8
Total	309.6	100.0	1 235.5	100.0	4 959.6	100.0

^a France (including Réunion), Belgium, Federal Republic of Germany, United Kingdom, Italy, Netherlands.

^b Excluding Réunion.

Sources: P. Forget, 1983, table 2.3.4.
Central Statistical Office, 1986a.

(c) Destination of exports

The main markets towards which EPZ products are exported are shown in table 1.4. There is clearly a strong concentration on the EEC market - with emphasis, albeit decreasing, on the French market. This concentration has declined somewhat since the early 1980s with an increasing share of exports going to the United States market (27 per cent by 1986).

In fact, the rapid success of Mauritian knitwear in penetrating EEC markets led to restrictions on the part of importing countries. A "voluntary restraint agreement" was negotiated with France, the major European importer, in 1976 and its declining share of EPZ exports is apparent in table 1.3. This imposition of quotas forced a search for new markets which have been found to some extent in the United States and Canada. However, again, both the United States (in 1981) and Canada (in 1984) have imposed quotas on the importation of Mauritian knitwear. Canada has also in 1985 imposed a quota on cotton shirts, which like the knitwear quota, can rise by only 6 per cent per year (Economist Intelligence Unit, 1986).

(d) Geographical dispersion of the EPZ

It is important to note that the Mauritian EPZ has never been restricted to one geographical location as is often the case in other countries. Rather, it is a system of bonded factories located throughout the island. The geographical spread of units is shown in table 1.5. Over the period 1977-82, the proportion of factories in the main town, Port Louis, has decreased from 50 per cent to 32 per cent while the proportion in other urban areas and in rural areas has increased.

Table 1.5: Geographical spread of EPZ units - 1977 and 1986

Geographical location	1977		1986	
	Number	%	Number	%
Port Louis area	46	50.0	139	31.8
Other urban areas	21	22.8	158	36.2
Rural areas	25	27.2	140	32.0
Total	92 ¹	100.0	437 ¹	100.0

¹ Total is greater than the number of enterprises because some EPZ companies have two or more factories spread in several areas.

Source: Mauritius Chamber of Commerce and Industry as cited in Forget, 1983; Ministry of Economic Planning and Development, 1986 (4th quarter).

This dispersion of EPZ activities has a number of advantages. When all workers must come to the same site, the demands on public transport are very great. Also as employment grows, employees would have to be recruited from and travel increasingly greater distances. Thus, many employers have found it to their advantage to locate their operations in areas where labour is more readily available.⁴ This has avoided the strong competition for labour which tends to occur in particular in the main Plaine Lauzun Industrial Estate (in the area of the capital city, Port Louis). Also, from the employer's point of view, the dispersion of EPZ units makes it more difficult for a general movement of organised discontent to develop among the workforce. At the same time, there are also benefits for employees who spend less time and money on transportation than would have been the case if all factories were located in the Port Louis industrial estates.⁵

This dispersion has also meant that employment opportunities are spread more evenly throughout the island. In 1985, the Minister of Industry referred to this in the following terms: "In putting up industrial sites in the rural areas, we are not bringing jobs to the people only - we are doing more than that - we make industrial vocation a reality particularly for those used to agriculture only" (Pillay, 1985).

3. Facilitating background factors

It is unlikely that, on their own, the legal and economic incentives created by the Government of Mauritius to encourage investment would have been successful. In explaining the success of the Mauritian EPZ, in spite of the country's geographical disadvantage, it is important to take into account certain favourable circumstances prevailing in Mauritius as a result of its socio-economic history, namely the quantity and quality of the workforce, the local business environment and the political stability of the country. Indeed, these were the main factors stressed in a speech delivered to potential United States investors in Washington in 1984 by Mr. Peter White, President of the Mauritius Chamber of Agriculture and Managing Director of the Lonrho operations in Mauritius (White, 1985).

(a) Labour force characteristics

According to the World Bank (1983, p. 20), "the economy's most valuable resource is the country's literate labour force working at low wages". As noted above, unemployment has been a chronic problem in Mauritius and accordingly there has been a large pool of jobseekers available for employment. At the same time, and possibly linked to the unemployment situation, Mauritian wages have been and continue to remain relatively low by international standards (see Chapter IV for details).

When the EPZ was created, not only was there an abundant supply of inexpensive labour but the educational levels of the available labour were generally far superior to those in many other developing countries. Primary education had been free and widespread since the 1950s and by 1972 about three-fifths of the population not in school and aged 15 to 44 years had at least five years of primary schooling. The educational level of the population of working age constituted an encouragement for investment since, for most production-level jobs in textile, garments and electronics factories, basic literacy and numeracy are considered desirable by employers as facilitating adaptation to the factory environment.

The qualities of the Mauritian workers were highlighted by White in the following terms: "In regard to our workforce, I have always maintained that

Mauritians have brains in their fingers: they are intelligent and fun to work with" (White, 1985). A similar comment from French investment circles was as follows: "In clothing and electronics and in such sophisticated sectors as the cutting and polishing of diamonds and precious stones, too, the use of advanced techniques was proof of the Mauritians' technical and manual skill and the dexterity of the workers even made it possible to produce model boats, now sold the world over" (Maurus, 1984).

(b) The local business environment

As will be seen in Chapter II, local entrepreneurship and capital have played an important role in the development of the EPZ. In particular, joint ventures involving local entrepreneurs and foreign investors are a frequent occurrence. It is likely that the foreign investment was encouraged by the fact that there were local businessmen willing and able to invest in such ventures. This would tend to inspire confidence in the country's prospects while at the same time it facilitated dealings with the local administration and the labour force. The ethnic diversity of Mauritian businessmen and their fluency in both English and French (and in some cases Chinese languages) has also likely been an added advantage in attracting investment partners from a variety of backgrounds.

In addition, the business environment in Mauritius offers many of the facilities which are taken for granted in industrialised countries but which are not always available in developing countries. White (1985) summed up the situation as follows: "All this activity is supported by high-quality professional accountants, corporate lawyers and all the range of services and supplies that you require to operate a business effectively. It is this Mauritian understanding of business and commerce that makes things so much easier for the overseas investor."

One particular aspect of this environment is the parallel development of the country as an exotic tourist destination. The possibility of combining business with tourism was an attraction for investors themselves, for technical specialists employed temporarily in factories and also for buyers from importing countries whose visits facilitated the task of EPZ exporters.

(c) Political stability

Political stability of the host country and the continuity of policies is a critical factor in foreign investment decisions and is particularly important in the case of EPZs since many investment incentives are dependent on government legislation and its implementation. Mauritius is a parliamentary democracy with numerous political parties, regular peaceful elections and many newspapers of quite diverse political viewpoints. The laws of the country are upheld by an independent judicial system which provides for the possibility of appeal to the Privy Council in the United Kingdom.

Since the creation of the EPZ, official government policy has continued to provide support for its development despite three general elections and two major changes in the ruling political leadership. It is true that the Government of the Mouvement Militant Mauricien (MMM), which is often considered to be a leftist party and which swept into power in 1982, at first expressed some doubts about the export-oriented strategy carried out by its predecessors and political opponents, and stated that:

The new development strategy takes stock of the failure of the post-independence policies, which laid undue emphasis on an export-led strategy, making the Mauritian economy completely dependent on the vagaries of the international economic situation and more especially on developments in the large market economies. (Government of Mauritius, Ministry of Economic Planning and Development, 1983a, p. i.)

However, the doubts were very short-lived and soon afterwards it was affirmed by the same Government that "the industrial development strategy of Mauritius would be centred around an export-led development" (Government of Mauritius, Ministry of Economic Planning and Development, 1983b, p. 10). The continuing importance attached to sustained growth of the EPZ was again confirmed by the 1984-86 Development Plan prepared by the succeeding Government which states that the EPZ will be the major employment-generating sector over the period (Government of Mauritius, Ministry of Economic Planning and Development, 1984, p. 36).

In fact, in 1981, the concept of providing facilities and incentives for export-led development was extended to the services sector (Export Services Zones Act) to include activities such as management and engineering consultancy, re-exports, insurance and reinsurance, translation, off-shore banking, etc., a primary goal being the creation of white-collar employment for the increasing numbers of "educated" unemployed.

4. Legal and institutional incentives

A basic characteristic of all export processing zones is that imports of raw materials, intermediate products, machinery and equipment required for production are free of customs duties. Other financial and fiscal incentives as well as infrastructure facilities are also usually part of the benefits offered to investors. In the case of Mauritius, the system of incentives has been described by the World Bank as "quite generous compared to others" (World Bank, 1983, p. 21). The same report comments that "the incentives do not need to be better than those offered in other countries, but merely of the same order" (ibid., p. 21).

(a) Fiscal and financial incentives

The main fiscal and financial incentives offered to investors in the Mauritian EPZ as at 1983 are listed in Appendix I. The tax incentives were basically the same as those when the zone started in 1971. In particular, since the inception of the EPZ, companies have been granted a company tax holiday on retained earnings for ten years.

Initially, the possibility of extension to 20 years was envisaged but, in 1980, the tax holiday was extended beyond the tenth year on a declining basis: 50 per cent exemption from the eleventh to the fifteenth year and 25 per cent exemption from the sixteenth to the twentieth year. As for dividends, they were wholly exempted from income tax for a period of any five consecutive years throughout this period.

These incentives were modified by the June 1985 budget as concerns new companies, whereas established companies could choose to opt for the new regime. The new provisions provided for a 15 per cent corporate tax during the life of the company with dividends exempted from income tax for ten years as from production day. It is also noteworthy that the 1985 budget provided for graduated tax reductions to non-EPZ companies which export more than 10 per cent of their turnover.

These tax holidays are, of course, only operative to the extent that enterprises make profits and in this context, the exchange rate policy followed by the Government has been favourable to the profitability of export enterprises. In particular, there were two formal devaluations of the rupee in 1979 (30 per cent) and in 1981 (20 per cent). Its value continued to decline during the 1980s in relation to the US dollar such that in 1984 US\$1 = Rs.13.80 on average compared to Rs.6.14 in 1971.

Among the other incentives applicable in the EPZ, the following should be mentioned: tax rebates on the salaries of foreigners working in Mauritius, priority in financing by the Development Bank of Mauritius (long-term capital), and loans and discounting of export bills at preferential rates by the commercial banks.

While incentives for EPZ investors are claimed to be quite generous as noted above, the institutional framework has often been considered to be too cumbersome. The World Bank (1983, p. 21) noted in this connection that: "Mauritius needs to pay urgent attention to removing the institutional and other rigidities which stand in the way of more effective investment promotion: procedures and administrative requirements to start new industries are quite complicated and need to be simplified and centralised." Also, for firms already established, their major problem as determined by a survey of 88 enterprises in 1983 was bureaucracy and difficulties in dealing with Government agencies and ministries such as customs and the Bank of Mauritius (Forget, 1983). These administrative constraints are recognised by the Government in the Development Plan 1984-86, which states that ways are being sought to reduce these problems.

In 1984, the Government set up the Mauritius Export Development and Investment Authority (MEDIA), a parastatal financed mainly by the Government whose task is to attract investment for export industries and promote Mauritian products abroad as well as to manage and develop industrial estates owned by the Government. It was felt that the assistance of MEDIA in the area of international marketing would be particularly helpful to Mauritian entrepreneurs who have more difficulty in this area than companies with mainly foreign ownership and whose involvement was felt to be important for the long-term stability of the EPZ (Lim Fat, 1985).

(b) Infrastructure

As mentioned above, the EPZ in Mauritius is not restricted to designated industrial estates or enclaves. There are, however, a number of industrial estates which have been built. The Development Bank of Mauritius has constructed two estates in Port Louis where buildings are leased by industries, and new estates were also being established in 1984/85 in various parts of the island. In addition, a few private industrial estates have been developed on sugar estates. The growth of the EPZ in 1984-85 has been such that seven new industrial sites which were nearing completion in 1985 and which provided 350,000 square feet of factory space were completely booked (Government of Mauritius, Minister of Finance, June 1985).

The geographical dispersion of the EPZ requires the availability of basic infrastructure in many locations (e.g. water, electricity, telecommunications, roads and bus services). The fact that these services existed in most areas of the island and required only progressive upgrading to meet EPZ requirements has thus facilitated the establishment of factories outside the main city.

Availability and cost of air and sea transport is a critical issue for export-based industrialisation in an island like Mauritius which is far from

its main markets and sources of supplies. Despite regular shipping connections with the rest of the world including Europe, the main EPZ market, freight has been a continual problem. During the 1970s, EPZ industries were hit by rising freight costs and complained about the high cost of local port services and chronic congestion in the port (Currimjee, 1978). The port modernisation programme completed in 1981 involved the construction of deep-water quays and a separate bulk sugar terminal. This has ended the problem of port congestion and reduced the turn-around time for ships; but, given the distance from main export markets, it is not surprising that, as found in a 1983 survey, one-third of firms interviewed considered that high freight costs were one of their main problems (Forget, 1983, pp. 33-36). Indeed, the most recent Development Plan (1984-86) notes that cargo handling costs are still a cause of preoccupation and that the Government will monitor freight charges closely. In this respect, the Cargo Handling Corporation was expected to introduce a double shift system in 1986 in order to improve productivity in Port Louis harbour.

Air freight has become increasingly utilised by EPZ industries given that many of the products, particularly fashion garments, must reach their markets quickly. This was facilitated by proximity to Réunion, a French overseas "département" with large import requirements (and few exports), and thus regular air cargo service towards Europe was available under relatively favourable terms. Also, there are daily flights to European destinations, partially because of the tourist attractions of the island: there were about 140,000 tourists in 1984 (Government of Mauritius, 1985a).⁷ The expansion of exports has also had implications for the local airline: the General Manager of Air Mauritius reported that in 1984 the increase in the amount of air freight carried by this airline alone has been "phenomenal" - 31 per cent more than in 1983 (Weekend, 3 February 1985, p. 4). As concerns costs of air freight, it can be noted that as export volumes become increasingly larger, it becomes easier to negotiate special rates. However, in the mid-1980s, the volume had become so great that Air France, which did about 75 per cent of the air freighting, found it difficult to cope in peak periods and availability of air freight was becoming a constraint to the expansion of the EPZ (Economist Intelligence Unit, 1986, p. 25).

(c) International agreements

Mauritius has signed bilateral agreements with various countries including France, the United Kingdom and the Federal Republic of Germany for the protection of investments and also signed double taxation agreements with the United Kingdom, France, Federal Republic of Germany and India. However, the most important consideration from the investors' point of view has been the fact that Mauritian products enjoy duty-free access to the EEC through the Lomé Convention. Mauritius was, in fact, the first member of the British Commonwealth to become an associate member of the EEC (even before the entry of Britain itself) and has had duty-free access since 1972 when it was a signatory to the Yaoundé Convention. This possibility of access to the EEC and other Western markets is believed to have been a determining factor in the choice of Mauritius as a place for relocation by investors from the area of Hong Kong who were faced with quotas in a number of these markets (see Chapter II, section 3).

(d) Labour legislation

The labour laws and labour conditions established for the EPZ are another factor which created an incentive for the establishment of EPZ enterprises. Details concerning wages and working conditions are given in Chapter IV and

are summarised for 1985 in Appendix II. However, three points can be made concerning the differences between the conditions of employment in the EPZ and those in other sectors of the economy. The first concerns the greater flexibility given to EPZ employers to terminate employment in that the constraints on them to justify reductions in their labour force and to compensate employees whose employment was terminated were less than in other sectors, particularly in the early years. Secondly, overtime work, if requested, was made compulsory in the EPZ and is computed on a weekly rather than a daily basis as in other sectors.

Finally, as regards the level of wages, the minimum wages legislated for the EPZ have generally been less than in other formal sectors of employment (see Chapter IV, for details), and there has been since about 1979 a general policy of wage restraint "to restore the country's competitive advantage" (Government of Mauritius, Ministry of Economic Planning and Development, 1984, p. 103). In particular, the devaluations in 1979 and 1981 played an important role in keeping labour costs competitive by international standards.

Notes

¹ There was an unprecedented sugar crop in 1973 while the unit value of sugar exports rose by 14.8, 65.5 and 35.4 per cent in 1973, 1974 and 1975 respectively. On the other hand, in 1976, unit value of sugar exports fell by 23 per cent with a further decline in 1977 (World Bank, 1983, p. 92).

² Many South-East Asian investors - mostly of Chinese origin and from the area of Hong Kong - are searching to diversify their investments into other locations given the uncertainty in Hong Kong in the context of its return to Chinese administration and the need for expanded access to European and North American markets.

³ A recent new initiative at vertical integration has been set up by a local spinning and weaving group to help solve the problem of disposal of waste yarn and fabric (normal levels of wastage being about 3 per cent). This new operation produces blankets, towels and cleaning fabrics, most of which are sold locally, but prospects for exporting to Réunion and several African countries look promising (Nixon, 1985).

⁴ For the recruitment of female labour, distance to the factory is important since travelling long distances to work is generally not approved by their families. The dispersion of factories also avoids the problems which migration to urban areas can cause.

⁵ Even with the existing spread of factories, transportation problems - mainly insufficient buses at peak hours and traffic congestion - are a major complaint of workers. Since 1984, legislation (see Appendix II) has provided for a transport allowance to be paid to workers not provided with free transport and living more than two miles from the factory - thus giving a further incentive to the dispersion of factories.

⁶ It is interesting to note that the EPZ has itself become one of the tourist attractions of the island, with a few factories offering guided tours for tourists.

CHAPTER II

OWNERSHIP

The present chapter analyses the pattern of ownership in Mauritian EPZ enterprises with particular attention to the role of foreign investment and multinational enterprises. In Mauritius, there are no restrictions concerning the degree of foreign participation in enterprises although the Government generally prefers a minimum local participation of 30 per cent in the equity capital (Joint Committee for the Promotion of Industry, 1983). Also foreign majority shareholding has certain disadvantages: a limitation of debt to equity ratio to 1, necessity of approval by the Central Bank regarding declaration of dividends and by the Prime Minister for purchase of land and buildings.

1. Methodological issues

In the Mauritian context, it is particularly difficult to distinguish clearly between foreign and local investors. The ethnic diversity of the local population (none of which is truly indigenous) - and particularly of the entrepreneurs - means that, in a certain number of cases, the "Mauritian" investor may have dual nationality, arising out of traditional family links, marriage or periods of migration overseas. In addition, a number of the foreign-born entrepreneurs have acquired Mauritian nationality as a result of residence in Mauritius while managing operations in the EPZ, including a few cases of marriage with local persons. Under the circumstances, there is inevitably an element of arbitrariness in considering a particular investor as being local or foreign.

As regards the country of origin of the foreign investors, official shareholder records occasionally give company names and addresses in "tax haven" countries such as Luxembourg or Liberia of which it is unlikely that the beneficiary owners are nationals. Local knowledge must be used to determine the probable nationality of the shareholder. A further complication in the case of a few foreign investors in the EPZ is that they are known to have more than one foreign nationality. As in the cases of dual nationality which included Mauritian, the nationality has to be assigned to the country of strongest reputed link using local knowledge.

In any case, it should be noted that it is not possible in the modern context to know with certainty where the funds invested actually originated. An investor with the nationality of a particular country may well have acquired the funds through operations in another country.

The question also arises concerning the extent to which the foreign investors are in fact "multinational", i.e. whether they have operations in at least one other country. Particularly when the shareholders are individuals, it is sometimes impossible to ascertain whether they have other operations elsewhere or the nature of their links with companies outside Mauritius. It can also be noted that at least two of the Mauritian groups which have some investments in the EPZ are themselves multinationals since they have subsidiaries and/or investments in other countries - mainly in other Indian Ocean countries. Although a simplification, in the present paper it is assumed that only foreign investors are multinationals and Mauritian multinationals are considered to be local and not classified as multinationals.

Most of the data on ownership pattern presented in this chapter are based on a study undertaken by Professor Lamusse of the University of Mauritius who collected data on the participation in equity capital of enterprises as recorded in the official records of the Registrar General's Department (Companies Section).¹ Ninety-one enterprises operating in June 1984 were included in this study. There were, in fact, 161 EPZ enterprises registered in June 1984, but the 51 which were employing less than 20 workers and another 19 which were still in the preliminary stages of operation in early 1985 were excluded. The 91 enterprises included in the Lamusse study employed a total of 31,270 persons in December 1984 and thus accounted for 83 per cent of EPZ employment as reported in official statistics.

2. Ownership pattern

An important characteristic of the Mauritian EPZ has always been the high participation of local investors and this is reflected in the results of the Lamusse survey.

Of the 91 companies operating in June 1984 which were included in the above study, 28 (or 31 per cent) were wholly owned by Mauritians (see table 2.1). If one further defines companies with less than one-third foreign participation as "local", then a total of 32 EPZ enterprises (or 35 per cent) can be classified in this group. At the other extreme, only 13 companies (or 14 per cent) were wholly owned by foreigners, but another 14 can be considered as mainly foreign (i.e. at least 80 per cent foreign participation) making a total of 27 substantially foreign companies (30 per cent). The remaining 32 companies (35 per cent) can be classified as "joint ventures" with significant local and foreign participation (between 33 and 79 per cent of the equity capital being foreign). Thus, on the whole, the figures for the number of firms suggest a fairly even split between Mauritian and foreign ownership.

The breakdown of ownership of firms by type of industry, as shown in table 2.1, indicates that there is no sector where multinationals constitute the majority and that locally owned firms (i.e. more than 67 per cent Mauritian capital) are present in all sectors.

If one calculates the actual amount of equity capital invested by Mauritian and foreign shareholders, the degree of foreign participation is more important than would appear in considering only the number of enterprises. As calculated for the 91 enterprises in the study of Lamusse, the paid-up equity capital in 1984 totalled Rs.191.5 million of which Rs.108.3 million was foreign or 56.6 per cent of the total. The real local participation is in fact greater than the remaining 43.4 per cent because some of the foreign equity capital has been borrowed from local banks.

With Mauritians owning 43.4 per cent of the equity capital of EPZ firms and wholly owning 31 per cent of the firms, local participation can be considered to be high compared to a number of other countries with EPZs. For example, in the Republic of Korea (Masan), the Philippines and Malaysia, the proportion of local firms was 0, 25 and 5 per cent respectively; the proportion of wholly foreign-owned was 72, 42 and 64 per cent respectively around 1980 (Maex, 1983, table 2.1) as compared with 14 per cent in Mauritius.

The figures concerning EPZ employment in 1984 as a function of ownership are shown in table 2.2. Again, the importance of local entrepreneurs is apparent: 29 per cent of EPZ employment is in firms wholly owned by Mauritians whereas only 12.3 per cent is in firms wholly owned by foreigners. Most of EPZ employment is in enterprises where there is both Mauritian and foreign capital.

Table 2.1: EPZ enterprises in Mauritius: Structure of ownership by industrial group in June 1984¹

	Total No. of firms		Foreign-owned		Joint venture		Local	
	No.	%	No.	%	No.	%	No.	%
Manufacture of textiles	5	100	1	20.0	2	40.0	2	40.0
Wearing apparel:								
(a) pullovers	20	100	7	35.0	4	20.0	9	45.0
(b) gloves and other garments	33	100	10	30.3	10	30.3	13	39.4
Leather products and footwear	4	100	2	50.0	1	25.0	1	25.0
Optical goods	8	100	3	37.5	4	50.0	1	12.5
Watches and clocks, jewellery and related articles	6	100	3	50.0	2	33.3	1	16.7
Toys and carnival articles	6	100	1	16.7	3	50.0	2	33.3
Others (including fishing tackle and flies)	9	100	0	0.0	6	66.7	3	33.3
Total	91	100	27 ²	29.7	32	35.2	32 ³	35.2

¹ Foreign-owned includes firms with 80 per cent or more foreign equity capital; joint venture 33 per cent to 79 per cent foreign capital, and locally owned less than 33 per cent foreign capital.

² Includes 13 companies where foreign participation is 100 per cent.

³ Includes 28 companies where local participation is 100 per cent.

Source: Compilation from the records of the Registrar General's Department, (Companies Section) by Lamusse.

Table 2.2: Employment in the EPZ by ownership of enterprise, December 1984

Ownership	No. of enterprises	Employment	Per cent employment	Employment/enterprise
100% Mauritian	28	9 075	29.0	324
67-99% Mauritian	4	1 739	5.6	435
Joint venture (21-66% Mauritian)	32	8 690	27.8	272
80-99% foreign	14	7 922	25.3	566
100% foreign	13	3 844	12.3	296
Total	91	31 270	100.0	344

Sources: Compilation from records of the Registrar General's Department (Companies Section) and employment figures of the Ministry of Commerce and Industry.

It might have been thought that Mauritian-owned firms would be much smaller than foreign firms but this is not the case for enterprises in the present study.² The figures for average number of employees per enterprise as shown in table 2.2 indicate that the smallest firms tend to be joint ventures. The largest firms are those with a substantial foreign participation (but not wholly owned) by foreigners.

In fact, the figures on the number of enterprises must be interpreted with caution. In some cases, the same management is in charge of more than one enterprise, all of which have similar ownership. Indeed, in a few cases, firms listed separately in the records of the Registrar General do not appear to have separate identities: the two main Mauritian-owned knitwear operations both have more than one registered firm with a similar name. Consequently, since the number of units is inflated by having more than one official enterprise for the same overall operation, the employment per enterprise figures tend to underestimate the average size of enterprises. A further complication is that enterprise size does not necessarily reflect factory size since some of the larger companies have production units in various locations throughout the island.³

Throughout the existence of the EPZ, the level of local participation has generally been estimated to be almost half⁴ and the data from the Lamusse study also suggest that no substantial changes have occurred over time. For the 91 enterprises surveyed in 1984, changes since the time of incorporation in the proportion of equity capital owned by Mauritians have not been substantial. Although some 30 companies experienced changes in the percentage of Mauritian participation, many of these were slight involving increases or decreases of less than 10 percentage points in the case of 18 companies. The remaining 12 firms where significant changes had occurred were evenly split between those where Mauritian participation increased and those where it decreased.

The relative stability in the ownership structure seems to imply that much of the increase in the amount of equity capital invested in the EPZ may have come from reinvested earnings. Indeed, it can be noted that over the period 1976 to 1984 when the total EPZ equity capital is estimated by Lamusse to have increased from about Rs.90 million to Rs.192 million (i.e. by Rs.102

million), Rs.39.5 million can be directly attributed to the expansion of firms already in existence in 1976.⁵ In addition, it is noticeable that a number of the new firms established over the period 1976-84 are owned by persons or companies which already had other companies operating in the EPZ in 1976. This observation applies to both foreign and local investors. It is therefore very likely that many new firms are being financed by the reinvestment of profits and earnings from existing firms. The World Bank (1983, p. 20) comes to a similar conclusion: "A relatively small amount of recent investment was financed by new equity capital, the major part of the financing being provided by loans and reinvested profits."

3. The foreign investors

The country or area of origin of the foreign shareholders in the Mauritian EPZ in 1984 is shown in table 2.3. From this table, it is apparent that investors from the area of Hong Kong and France are by far the majority, each with investments in 22 firms. The investors from the area of Hong Kong are concentrated in the wearing apparel industry with 19 of the 22 firms being in the knitwear or garment and gloves sectors. The French investors are more spread over different types of industries: nine are in wearing apparel, three in leather and footwear, three in watches and clocks, three in toys and four in other industries.

Table 2.3: Origin and pattern of foreign equity participation in EPZ enterprises of Mauritius, June 1984

Country or area of origin	Number of enterprises with foreign participation	Number mainly foreign ^a	% mainly foreign ^a
Hong Kong	22	12	54.5
France	22	6	37.3
Switzerland	6	2	33.3
Federal Republic of Germany	5	3	60.0
United States	5	4	80.0
India	4	2	50.0
Japan	2	0	0.0
United Kingdom	2	0	0.0
Italy	1	0	0.0
Total	63 ^b	27 ^b	42.9

^a Mainly foreign includes all firms where Mauritian participation is less than 20 per cent.

^b The column for number of enterprises adds up to 69 because six enterprises have shareholders of two foreign nationalities. Two of these firms are mainly foreign thus the column for number mainly foreign totals 29.

Source: Compilation from records of Registrar General's Department (Companies Section) provided by Lamusse.

The tendency to invest in enterprises which are wholly or mainly foreign seems to vary with the country or area of origin of the investor. It can be noted in table 2.3 that investors from the area of Hong Kong, the Federal Republic of Germany and the United States were more likely to invest in enterprises which were mainly foreign-owned, whereas the French and the Swiss tended to enter into joint ventures with local capital.

Table 2.4 shows the amount of equity capital owned by multinational interests as a function of the country or area of origin of the investor in 1984. In this table, it is clear that Hong Kong investors are by far the most important source of foreign capital in the EPZ, providing two-thirds of the foreign capital and 37 per cent of the total EPZ investment in 1984.

Table 2.4: Multinational participation in equity capital by country or area of origin as at June 1984

Country/area of origin	Equity capital (Rs. '000)	%
Hong Kong	71.6	66.1
France	10.6	9.8
Switzerland	5.6	5.2
Federal Republic of Germany	3.5	3.2
United States of America	4.4	4.1
India	4.5	4.2
Others	8.1	7.5
Total	108.3	100.0

Source: Lamusse, 1985, table 3.

As concerns investors from the area of Hong Kong, special mention needs to be made of the Afasia and Esquel groups of companies, which together accounted for about one-fifth of all EPZ employment in December 1984.⁶ The Afasia group started producing knitwear in Mauritius in 1974 and almost simultaneously in the area of Hong Kong (Afasia Knitting Factory (HK)) and in Malaysia (Afasia Knitting Factory). It also has a spinning and dyeing mill in China, and in early 1984 Afasia Knitters (Jamaica) was opened.

In Mauritius, 5 Afasia factories were established in the mid-1970s - one spinning and dyeing operation and four knitting factories. An additional two factories were opened in 1981 and 1983. By the end of 1984, Afasia companies employed almost 4,000 persons in Mauritius which constituted about two-thirds of the world-wide total employment of the group and about 10 per cent of total EPZ employment in Mauritius.

Closely linked with Afasia is the Esquel group of companies which has a similar board membership. The Esquel group is in various sectors of the wearing apparel industry and is reputed to be the second largest shirt manufacturer in the world. It has operations in the area of Hong Kong (14 companies), Singapore (three companies), Malaysia (two companies), and in China, Jamaica, the Philippines, Sri Lanka, the United States of America, the United Kingdom and France (one company in each). Group turnover in 1983 was

about US\$250 million. In Sri Lanka, its operation (Polytex Garments Ltd.) was considerably reduced in 1984 following prolonged strikes. In Mauritius, it has been expanding its production facilities in the 1980s; three of its four garment factories existing in 1985 have been established since 1981 and one of these increased its employment by about 1,000 workers between March and December 1984.

In both Afasia and Esquel companies there is generally a minority of Mauritian shareholders. However, technical and administrative teams from the area of Hong Kong closely supervise what the group booklet refers to as "offshore production centres" and marketing is controlled from Hong Kong.

Afasia diversified from the area of Hong Kong in the early 1970s because of the sluggish demand for Hong Kong products "due to increased labour and material costs". By establishing operations in Mauritius, they became eligible to export to the EEC under the Lomé Convention. The 1984 expansion by the Esquel group of their garment manufacturing in Mauritius was probably related to the establishment of quotas in the United States for Mauritian products that year.

In the context of Hong Kong investors, a brief mention should also be made of the multinational Hutchison (Hutchison Whampoa) which was instrumental in starting the first knitwear factory, Floréal Knitwear, in 1971. However, at an early stage Floréal became entirely Mauritian-owned and together with its subsidiary in spinning expanded to account for about 12.3 per cent of EPZ employment by 1984. It was probably this case to which the World Bank was referring when it noted that "some of the success of the knitwear industry can be related to a demonstration effect of one or two early firms which were set up with the participation of foreign capital; as others imitated this activity, the subsector developed a critical mass leading to its further expansion" (World Bank, 1983, p. 22).

As can be seen in table 2.3, investment from Europe has been considerably less than that from the area of Hong Kong. However, it has been more diversified in terms of types of industries and investors. European multinationals operating in Mauritius tend to be much smaller than the large wearing apparel factories established by Hong Kong interests. Thus, despite the fact that the French have invested in the same number of firms as Hong Kong investors, the actual amount of capital involved is much less since, on the one hand, their share of the equity capital tends to be less (see table 2.3), and on the other hand, these firms tend to be much smaller. In fact, apart from Litronix (a subsidiary of Siemens which closed in 1981) and the relatively short-lived operations of David Whitehead Ltd. (Lonrho group), no major multinational from the United States or Europe has invested in Mauritius.⁷

In order to illustrate the activities of a small European multinational the following example may be cited. In the early 1970s, a French company, Compagnie Industrielle du Bracelet (CIB) of Besançon was looking for a third world country in which it could produce leather watchstraps. After trying India and being discouraged by complicated administrative procedures, it decided on Mauritius where a joint venture was set up in 1975 with one of the leading local commercial firms. The Mauritian firm holds one-third of the equity capital and also looks after the management of the local factory. In 1984, this factory employed about 140 persons.

The French company has further expanded its interest in Mauritius by investing with the same commercial firm in a second watchstrap company in 1984 (International Watchstraps Ltd.) where Hong Kong investors also have a small participation. In addition, in the late 1970s, the CIB has taken up a small

participation in a new factory producing leather bags (La compagnie de Maroquinerie de l'Océan Indien) where another French firm (Grain d'Orge) has a 45 per cent stake and the same local commercial firm 20 per cent.

Although some general reasons for the attraction of the Mauritian EPZ have been suggested in Chapter I, the precise factors accounting for the individual foreign investments have not been well documented. The only survey known to the author was conducted by Busjeet in the late 1970s who interviewed a small number of investors from newly industrialising areas, i.e. mainly the area of Hong Kong (Busjeet, 1980, as reported in Wells, 1983). The results of this study indicate that low labour costs were the most important factor motivating investment in Mauritius followed by the privileged access of Mauritian goods to EEC markets.

The role of ethnic ties in attracting foreign investors has been noted by Wells (1983) and in this context he cites the case of Mauritius. However, the situation is not as clear-cut as might appear. As concerns investors from South-East Asia, there is no doubt that a few Sino-Mauritians with strong business and family links in the Far East played a leading role in the early 1970s in attracting businessmen and were themselves prominent investors in this early stage. However, it should be noted that the current Mauritian minority shareholders in partnership with Hong Kong investors are far from being exclusively Sino-Mauritians. Similarly for investors from France, ethnic ties were probably important in initially attracting investors. Some of the first joint ventures with French investors were done by a local Franco-Mauritian family which owns a sugar estate and has both business and family contacts in France. However, subsequently, the business partners of the French (and Swiss) have been by no means limited to Franco-Mauritians.

The preceding analysis has shown that investment by multinationals, particularly those from the area of Hong Kong, has played an important role in the Mauritian EPZ but that the zone is far from depending entirely on foreign investment. Foreign investors have played a particularly crucial role in providing seed capital and initiating activities which provided an example for local investors to imitate so that a certain momentum could be established. As noted by the 1985 Chairman of the Mauritius Export Processing Zone Association, investment by Mauritians is important for the long-term stability of the EPZ because all their profits stay in the country and they are unlikely to be attracted elsewhere.

With respect to foreign investment in 1985 there was a strong promotional effort to attract more investors and to diversify the origins of foreign investment. MEDIA conducted important promotional campaigns in Australia and South Africa which resulted in increased interest among concerns from these countries in investing in Mauritius (Economist Intelligence Unit, 1986). Diversification is felt to be important because the Special Economic Zones being established in China near the border with the area of Hong Kong are increasingly likely to attract investors from this area and in any case a concentration of investment from the Far East is likely to be met by increasing protectionism on the part of Western countries (Arouff, 1985).

Notes

¹ This data was collected and compiled by Professor Lamusse and communicated to the author. Some of this data also appear in Lamusse (1985).

² Firms employing less than 20 persons which were not included in the Lamusse study, may, however, be mainly owned by Mauritians.

³ Problems with interpreting overall statistics concerning the number of enterprises and their size are well illustrated by the case of Floréal Knitwear, a large locally owned EPZ firm. The records of the Registrar General indicate the existence of two firms - Floréal Textiles and Floréal Knitwear - but the two appear to have the same structure and management. Nevertheless, despite the unity of management, production is split geographically among a main factory and five out-units in various parts of the island; thus, total employment is not necessarily an indication of factory size.

⁴ The only other published study which reports figures on ownership is a survey of the financial status of 88 EPZ companies in 1982 by Forget (1983). He concluded that 48.8 per cent of total equity was the property of Mauritian investors.

⁵ Calculations based on the records of the Registrar General's Department suggested that the equity capital of firms already existing in 1976 increased from Rs.71.8 million in that year to 111.3 million in 1984 (Lamusse, 1985, p. 17). The total equity capital for 1976 includes about Rs.18 million for firms which subsequently closed down and were no longer operational in 1984.

⁶ Information concerning Afasia and Esquel groups of companies has been obtained from a booklet entitled "Afasia/Esquel" published by the group in 1984.

⁷ David Whitehead (Mts.) Ltd. was a weaving factory which was part of an international group of weaving factories controlled by the London-based multinational Lonrho. Litronix (Mauritius) although belonging to Siemens at its closure was started in 1974 by Litronix Incorporated of California.

CHAPTER III

EMPLOYMENT EFFECTS

The present chapter describes the employment effects of the EPZ. Direct employment in EPZ enterprises is analysed in terms of its importance in the economy of the country, its stability and the characteristics of the persons employed. Indirect employment effects are also considered in the last section.

1. Number of employees

Table 3.1 gives the evolution of employment in the EPZ since its creation as compared to total employment in manufacturing establishments and as compared to total employment in all large establishments. This table shows that by the end of 1986, EPZ employment accounted for about 88 per cent of employment in manufacturing establishments and 31 per cent of all employment in establishments with at least ten employees.

Table 3.1: Employment in the EPZ, in the manufacturing sector and in all large establishments 1971-86 (in thousands)^a

	(1) EPZ	(2) All manufacturing establishments	(3) All large establishments	(1)/(2)	(1)/(3)
1971	0.6	9.8	142.5	.06	.00
1972	2.6	11.6	148.2	.22	.02
1973	5.7	15.7	157.8	.36	.04
1974	11.0	20.8	167.2	.53	.06
1975	11.4	22.5	172.8	.51	.07
1976	17.4	29.3	184.5	.59	.09
1977	17.5	33.2	194.7	.60	.09
1978	18.3	33.1	198.7	.55	.09
1979	20.7	35.6	199.4	.58	.10
1980	21.6	36.4	197.5	.59	.11
1981	23.6	37.2	196.3	.63	.12
1982	23.9	36.9	195.1	.65	.12
1983	25.5	38.3	193.8	.67	.13
1984	37.6	48.5	200.4	.78	.19
1985	53.4	62.9	215.4	.85	.25
1986	74.0	84.4	237.9	.88	.31

^a EPZ figures (Column 1) are for December and Columns 2 and 3 refer to September. Large establishments includes all establishments employing at least ten persons.

Sources: Central Statistical Office, various years, Bi-annual survey of employment and earnings; Wong Ng, 1985.

Thus, the employment effects of the EPZ are substantial. They are proportionally much greater than in Asian EPZs where the percentage of the workforce in the EPZ around 1980 ranged from less than 0.1 per cent in India, 2 per cent in Malaysia, 4 per cent in the Republic of Korea to 10 per cent in Singapore (Maex, 1983). Even the absolute number of persons employed in the Mauritian EPZ in 1985 (74,000) is substantially greater than the numbers reported for India (3,200), Indonesia (8,800), the Philippines (22,800) and Sri Lanka (14,700) in the early 1980s, although less than the number for countries such as the Republic of Korea, Mexico, Singapore and Malaysia (Maex, 1983; UNCTAD, 1983).

Table 3.2 and figure 3.1 show the change in the structure of employment among various sectors of the Mauritian economy between 1975 and 1985. Over this period, the leading sector for employment creation (+40,000 jobs) has been manufacturing, followed far behind by services (+12,100 jobs).

It can be deduced from table 3.1 that almost all the increase in manufacturing employment over this period has been the result of the expansion of the EPZ. Thus, for employment creation, the EPZ has been the main source over the last decade. On the other hand, in certain other sectors there has been a decrease in employment, particularly in agriculture where a reduction of almost 12,000 jobs occurred. Although it is impossible to say what would have happened to employment figures if there had been no EPZ, the figures certainly suggest that the employment increase between 1975 and 1985 was the result of the dynamic performance of EPZ enterprises. In fact, by the end of 1985, EPZ employment, which had reached 53,000 jobs (see table 1.1), exceeded employment in the sugar industry - the dominant employer for the previous 150 years or so.

The wearing apparel industry has accounted for the lion's share of EPZ employment throughout its existence. In 1974, the products of the EPZ were classified as in table 3.3 which clearly shows the early dominance of the textile sector, with electronic components well behind in second place. By December 1986 (as can be seen in table 3.4) the concentration in textiles, particularly wearing apparel, had been further increased: over 90 per cent of total zone employment was in textiles and clothing mainly in pullovers and other garments. The electronics sector has completely disappeared and no longer appears as a separate industrial category in the 1986 figures. Although there were a number of enterprises outside the textile/wearing apparel sector (114 of the 408 enterprises), the number of persons they employed was relatively small - only 8.5 per cent of total employment.

As seen earlier (table 2.2), investment by multinationals has played a key role in the creation of direct employment: about 70 per cent of EPZ employment in 1984 was in enterprises with some foreign participation, although only 12 per cent was in enterprises wholly owned by foreign interests.

2. Stability of employment

A major criticism of the employment generated by EPZs made by many authors is that it is inherently unstable because enterprises are indulging in a sort of industrial camping and risk to relocate in another country offering better incentives particularly once their tax holiday has expired. The "footloose" behaviour attributed to EPZ enterprises is generally assumed to result from their multinational nature and would presumably not apply to local enterprises. Nevertheless, recent reports suggest that this characteristic may have been "over-emphasised" (UNCTAD, 1983, p. 30) and that the costs and risks of relocation, particularly constant relocation, are substantial for most multinationals (ILO, 1985a, p. 66).

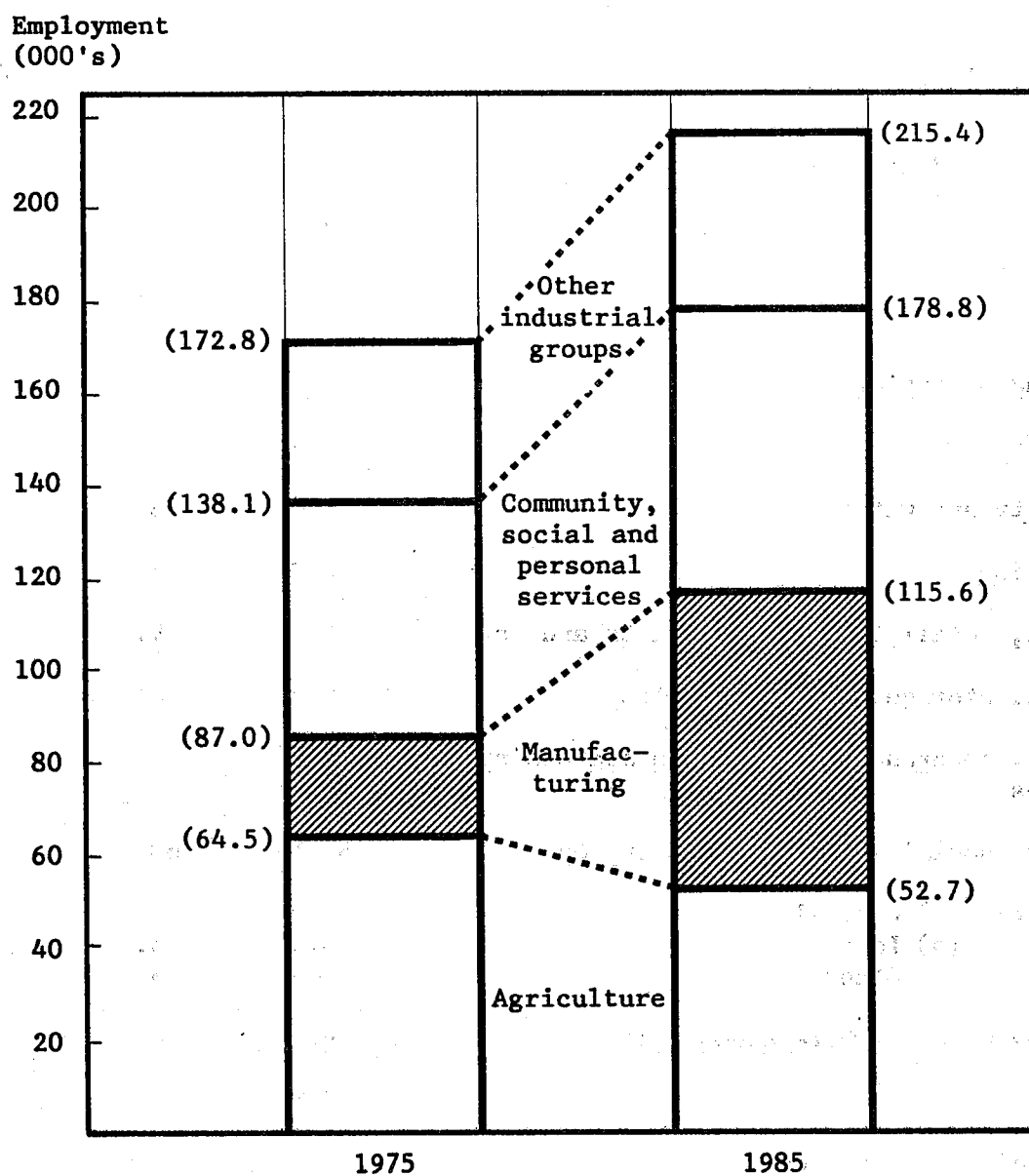
Table 3.2: Employment by major industrial group in large establishments 1975 and 1985 (September) (in thousands)

Industrial group	1975	1985	Change
<u>Agriculture and fishing</u>	<u>64.5</u>	<u>52.7</u>	<u>-11.8</u>
Sugar ^a	57.8	47.6	-11.2
Tea ^a	4.7	3.4	- 1.3
Tobacco	1.3	1.0	- 0.3
Other	0.7	1.4	+ 0.9
<u>Mining and quarrying</u>	<u>0.2</u>	<u>0.2</u>	<u>0.0</u>
<u>Manufacturing</u>	<u>22.5</u>	<u>62.9</u>	<u>+40.4</u>
<u>Electricity and water</u>	<u>3.0</u>	<u>3.8</u>	<u>+ 0.8</u>
<u>Construction</u>	<u>6.0</u>	<u>5.0</u>	<u>- 1.0</u>
<u>Wholesale, retail trade, restaurants and hotels</u>	<u>6.5</u>	<u>9.2</u>	<u>+ 2.7</u>
<u>Transport, storage and communication</u>	<u>9.4</u>	<u>8.7</u>	<u>- 0.7</u>
<u>Financing, insurance, real estate and business services</u>	<u>2.8</u>	<u>5.2</u>	<u>+ 2.4</u>
<u>Community, social and personal services</u>	<u>51.1</u>	<u>63.2</u>	<u>+12.1</u>
Government: (a) Central	40.9	50.0	+ 9.1
(b) Local	3.6	5.1	+ 1.5
Other	6.6	8.1	+ 1.5
<u>Activities not elsewhere specified</u>	<u>6.9</u>	<u>4.5</u>	<u>- 2.4</u>
Total	172.8	215.4	+42.6

^a Includes factories.

Sources: Central Statistical Office, 1985c, table 5; Government of Mauritius, Ministry of Economic Planning and Development, 1986.

Figure 3.1: Employment by major industrial groups, Mauritius, 1975 and 1985



Source: As in table 3.2.

Table 3.3: Employment in the EPZ by type of industry, 1976

Product	No. of enterprises	Employment	Employment %
Textiles	25	6 589	73.5
Electronics	4	1 587	17.7
Diamonds	1	174	1.9
Other	15	619	6.9
Total	45	8 969	100.0

Source: Government of Mauritius, Ministry of Economic Planning and Development, 1976, table 19.3.

Table 3.4: Employment in the EPZ by industrial group, December 1986

Industrial group	No. of enterprises	Employment	Employment %
1. Flowers	21	143	0.3
2. Manufacture of textiles	18	2 354	3.2
3. Wearing apparel of which	276	65 367	88.3
(a) pullovers	(53)	(31 524)	(42.6)
(b) gloves	(5)	(1 650)	(2.2)
(c) other garments	(218)	(32 193)	(43.5)
4. Leather products and footwear	9	720	1.0
5. Wood, furniture and paper products	10	684	0.9
6. Optical goods	3	392	0.5
7. Watches and clocks	5	588	0.8
8. Jewellery and related articles	9	973	1.3
9. Fishing tackles and flies	4	560	0.8
10. Toys and carnival articles	6	670	0.9
11. Others	47	1 464	2.0
Total	408	74 015	100.0

Source: PROSI, May 1985; Economic indicators (4th quarter 1986), Ministry of Industry.

The present section presents some data on employment reductions and closures of enterprises in the case of the EPZ in Mauritius and investigates differences in this respect by types of ownership.

Table 3.5 shows figures concerning closures of enterprises as at the end of 1986. Out of 513 enterprises created over the period 1970-86, 105 (or 20 per cent) were no longer operating in 1986. Most of these closures occurred during the period 1978-82. It is likely that the reasons for these closures were the economic problems - both local and international - which

characterised this period (as discussed in Chapter I, section 2) rather than the expiration of incentives. Of the 22 enterprises created in the 1970-72 period whose ten-year tax holiday expired in 1982, nine were still operating at that time. It should also be noted that in 1980 the incentive scheme was extended to 20 years although on a declining basis (see Chapter I, section 4). It is difficult to know to what extent there might have been more closures without this measure. The new financial incentives introduced by the Finance Act, 1985, provide for a corporate tax rate of 15 per cent during the life-time of the company thus reducing the possible influence of the expiration of tax holidays on firm closures.

Table 3.5: New EPZ units operating yearly

	New operating units	Closures	Cumulative figures of No. of operating units
1970	4	-	4
1971	6	-	10
1972	12	2	20
1973	13	1	32
1974	25	3	54
1975	12	2	64
1976	20	-	84
1977	7	2	89
1978	12	15	86
1979	16	7	95
1980	10	4	101
1981	19	11	109
1982	18	9	118
1983	44	17	145
1984	55	5	195
1985	101	6	290
1986	139	21	408
Total	513	105	408

Source: Ministry of Commerce & Industry and Ministry of Labour.

Table 3.6 shows how the yearly growth figures for employment in the EPZ have been influenced by closures of enterprises and by the reduction of employment in existing enterprises over the period 1978-83 which was the slump period. According to these figures, 1982 was the worst year during the period for loss of employment in the EPZ; during that year about 15 per cent of the jobs existing at the end of 1981 were lost either through the closing down of enterprises or through the contraction of existing enterprises. Employment loss does not show any clear trend as to the relative contribution of the closure of enterprises as compared to that of contraction of existing enterprises. In practice, this distinction is quite arbitrary since a firm in financial difficulty may drastically reduce its staff in one year and close in the next year with only a portion of its previous staff remaining.

Table 3.6: Analysis of employment in the EPZ sector (as at December) 1978-86^a

Description	1978	1979	1980	1981	1982	1983	1984	1985	1986
Employment creation through new enterprises	514	855	304	1 145	1 499	2 491	5 308	6 281	9 023
Employment creation through expansion of existing enterprises	3 314	2 862	2 101	3 639	1 823	2 258	7 410	12 087	13 517
A. Total employment creation	3 828	3 717	2 405	4 784	3 322	4 749	12 718	18 368	22 540
Employment lost through closing down of enterprises	1 647	274	161	1 929	1 425	1 733	63	322	681
Employment lost through contraction of existing enterprises	1 332	1 024	1 642	598	2 022	966	618	1 627	1 795
B. Total employment lost	2 979	1 298	1 803	2 527	3 447	2 699	681	1 949	2 476
C. Net change in employment (A - B)	+849	+2 419	+602	+2 257	-125	+2 050	+12 037	+16 419	+20 064
Total employment	18 323	20 742	21 344	23 601	23 476	25 526	37 537	53 440	74 015

^a These employment figures have been collected and compiled by the Ministry of Industry and refer to the total EPZ sector. Figures include small establishments, outworkers and units engaged in the cultivation of flowers.

Source: Central Statistical Office, 1985b, table 2.16, and 1986 (Bi-annual survey of employment and earnings).

The figures concerning employment creation in table 3.6 show clearly that much of the employment created over the period 1978-86 was the result of the expansion of existing enterprises. The rapid employment creation in the 1984-86 period is substantially the result of the expansion of existing enterprises (60 per cent in 1986). Even in the relative slow-down of 1978-82, new jobs created have usually more than compensated for jobs lost during the year except for a small decrease in 1982.

Of course, the individual employees who lost their jobs were not necessarily hired in the new jobs created. The failure of the electronics sector where about 1,900 jobs were lost over the period 1978-82 (Forget, 1983) was particularly difficult for the workers who lost their jobs since there were no other factories where their skills were in demand. In the wearing apparel sector, on the other hand, the demand for experienced workers was such that those who lost their jobs could probably find employment elsewhere although with a loss of seniority benefits, in particular as concerns security of employment and leave.

Although similar figures concerning employment creation and loss are not available for other sectors of the Mauritian economy, it is quite likely that employment in the EPZ is less stable than elsewhere. However, in the EPZ the jobs which were lost have, for the most part, been more than compensated by the creation of new jobs. Such is not the case in the other main productive sector, sugar, where between 1975 and 1984 there was a net loss of 11,000 jobs (table 3.2).

A question which arises in the context of the present study is whether employment was more likely to be lost in enterprises where the majority of the capital was foreign. From the ownership study conducted by Professor Lamusse (see Chapter 2) information is available concerning ownership and employment at closure for the 32 firms which closed during the period 1979-84.¹ As can be seen in table 3.7, about 22 per cent of the closures were enterprises where the equity capital was at least 80 per cent foreign and these enterprises accounted for about one-third of the employment lost. Since about 27 per cent of EPZ employment in 1984 was in mainly foreign firms (table 2.2 above), it does not appear that employment security in mainly foreign enterprises was any lower than in joint ventures or entirely Mauritian firms.

Most of the employment lost in the group of predominantly or wholly foreign-owned firms was the result of the closure of one large electronics factory (owned by Siemens) which employed over 1,000 workers at the time when it closed after about eight years of operation. The owners of the other three wholly foreign-owned firms were Indian, French and from the Federal Republic of Germany/South Africa. Only one of the 32 closures involved investors from the area of Hong Kong, a joint venture in knitwear, which employed 583 workers and which had been operating for about seven years. These closures were in firms where the tax holiday was not about to expire, and hence it is unlikely that this was a major cause of the closure.

Among Mauritian-owned firms, a major closure was that of a knitwear operation which officially included two firms together employing about 600 workers. The closure of these two firms has been attributed to the inappropriate choice of machines, remuneration policies and marketing problems (see Lamusse, 1985). These firms were operating for about four years and the expiration of tax holidays has never been suggested as a reason for closure.

Table: 3.7: Employment in firms ceasing operation between 1979 and 1984 by ownership structure

Ownership	Firms		Employment at closure	
	No.	%	No.	%
Wholly Mauritian	10	31.3	1 461	30.7
68-99% Mauritian	2	6.3	245	5.1
Joint venture	11	34.4	1 406	29.5
80-99% foreign	3	9.4	322	6.8
Wholly foreign	4	12.5	1 215	25.5
Ownership unknown	2	6.3	117	2.5
Total	32	100.0	4 766	100.0

Source: Compiled from records of the Registrar General's Department (Companies Section).

In addition, it can be noted that among the 91 firms operating in June 1984 which were included in the Lamusse study, there were 27 which had started operating in 1975 or earlier and had thus remained beyond the ten-year tax holiday: of these 27 firms, eight (or 30 per cent) were mainly foreign owned - a percentage which corresponds almost exactly to the proportion of foreign owned firms in the EPZ in 1984 (see table 2.1).

The Mauritian data, therefore, support the conclusion (ILO, 1985a, p. 66) that the "footloose" or "runaway" behaviour sometimes assumed to be characteristic of multinationals in EPZs "has so far proved to be the exception rather than the rule, an exception explained more readily by factors other than the expiry of tax holidays and the desire to escape to even lower wage costs".

3. Background characteristics of employees

Two common criticisms of the employment created in EPZs are related to the characteristics of the persons who are employed. The first criticism is that EPZs do little to reduce unemployment mainly because they draw into the workforce a group of workers who were not previously economically active, particularly young women, rather than providing jobs for prime-age men who are considered to form the bulk of the unemployed (UNIDO, 1980). The second criticism is that EPZs provide few management posts for local personnel because top posts are filled by expatriates (UNCTAD, 1983, p. 19). As regards Mauritius, data on the sex of employees and the employment of expatriates can shed some light on these questions

(a) Sex of employees

The most striking feature of EPZ employees in Mauritius, as in other countries, is the predominance of women. Women have accounted for about 80 per cent of workers since the inception of the EPZ up until 1985 when the

proportion started declining reaching 66 per cent in early 1987 (see table 3.8). The massive employment of women in EPZ factories has meant that women's share of total employment in the country has increased substantially: in 1970 women constituted about 19 per cent of all employees in large establishments as compared to over one-third by 1987 (see table 3.8).

The background characteristics of the women working in EPZ factories indicate the emergence of a new group of workers into the Mauritian labour force. A survey of a representative sample of women workers conducted in 1977 (Hein, 1984) showed that 70 per cent were under age 25 years, about three-quarters had never been married and virtually all the workers had attended primary school. About one-quarter had some secondary education but had not completed it.² This is a group which tended to be economically inactive in the past with young single girls traditionally remaining at home and not taking employment prior to marriage.

The job experience of the factory workers interviewed also indicated that they were new entrants to the labour force: for 90 per cent of the workers factory employment had been their first job. In addition, about half were not actively seeking employment before taking their first factory job; they heard about opportunities and went to the factory to see.

Table 3.8: Employment in large establishments and in the EPZ by sex 1970, 1984 and 1987 (thousands)

	All large establishments			EPZ		
	1970 (Sep.)	1984 (Sep.)	1987 (March)	1970	1984	1987 (March)
Men	106.1	138.9	159.3	0	7.9	25.6
Women	24.6	61.6	83.4	0	29.6	50.1
Total	131.6	200.4	242.7	0	37.6	75.7
% women	18.7	30.7	34.4	-	78.7	66.2

Sources: Central Statistical Office, Biannual Surveys of Employment and Earnings, Sep. 1970 and 1984, March 1987; Government of Mauritius, Ministry of Economic Planning and Development, 1986.

One factor contributing to the ready supply of women available for factory work was the lack of employment opportunities for women in other parts of the Mauritian economy. As is apparent in table 3.8, the increase in employment of women between 1970 and 1987 (about 58,000) is almost entirely due to the EPZ which employed 50,000 women by 1987. For women who have not graduated from secondary school (who are the majority in Mauritius) their main employment opportunities, apart from factory work, were as agricultural labourer or domestic servant. Young girls with some basic education find that factory work has much more appeal than these traditional occupations even if remuneration were comparable (see Hein, 1984).

On the social level, the fact that the EPZ employs mainly women has been criticised because "these women are morally penalised by their new financial autonomy which undermines the men's responsibility for their families; the men feel beaten at their own game - that of employment" (Rambeau, 1985). However, if women do in fact have "new financial autonomy", this is usually regarded as a positive evolution: indeed, most authors (for example Sen, 1985, Youssef, 1982) consider that one of the main factors which can eventually lead to an improved position for women within society and within the family is independent economic resources. The problem of the stability of families is complex and would require more research to establish the causal sequence: does the employment of women undermine the stability of their families; or are women who are divorced or separated more likely to seek employment?

It can be noted that the policy of government in the mid-1980s is to create more job opportunities for men in the EPZ. This is reflected in the abolition of the minimum wage for male workers in late 1984 while maintaining a minimum for women (see Chapter IV, section 2 for details). The increasing proportion of men among EPZ workers since 1985 has probably been a result of this measure combined with a shortage of female labour in this period of rapid employment increase.

(b) Employment of expatriates

In Mauritius, there is no official ceiling or quota on the employment of expatriates in EPZ enterprises although they must acquire a work permit. The government policy is to "Mauritianise" employment at all levels: permission is granted for non-Mauritians to work for only a limited period, with insistence that Mauritian counterparts be trained to take over (Ministry of Labour, personal communication). In 1984, there were 213 expatriates working in EPZ industries, 0.6 per cent of total employment (figure from Ministry of Commerce and Industry). As a proportion of the total workforce, this is less than in 1976 when there were 200 expatriates constituting 1.1 per cent of the workforce at that time. It would thus appear that dependence on expatriates is declining and that there has been a certain Mauritianisation of posts as locals learned the new technologies.

As a general rule, there is a strong correlation between the nationality of the factory manager and the ownership structure of the firm. When the majority of the equity capital is foreign owned, the manager of the EPZ firm tends to be foreigner and similarly when the majority of the capital is local, the manager tends to be Mauritian.

4. Indirect employment effects

The extent to which the existence of the EPZ in Mauritius has led to the creation of employment outside the zone is difficult, if not impossible, to determine. As Maex (1983, p. 36) remarks: "It is almost impossible to assess the indirect employment effects because one cannot know what the alternative situation would have been without the existence of the EPZ."

It has been suggested that to estimate the total employment effect of the EPZ in Mauritius one could add about 25 per cent to the direct employment in the zone to take into account persons working in other industries outside the zone which provide goods and services for the zone. This included workers employed in packaging, painting, furniture making, persons working in infrastructure such as construction, water and electricity, and in services like the port, customs, shipping, airlines and insurance, as well as in local

bus transportation (Arouff, 1981). In 1986, this would imply about 18,000 such indirect jobs as a result of the existence of EPZ.

As concerns the linkages of EPZ enterprises with the rest of the economy, no detailed study has been done to estimate their employment effects. Nevertheless, the extent of these linkages can be ascertained by examining the detailed production account of the EPZ sector which is published as part of the national accounts (Central Statistical Office, 1985b). As can be seen in table 3.9 which presents the detailed production account for 1982, in that year value added in the EPZ represented Rs.448.8 million or 30.6 per cent of gross output. There is only a slight difference between value added at market prices and value added at factor cost since the indirect taxes paid by the EPZ are very small (just over Rs.1 million in 1982).

The intermediate consumption represents the purchases made by the EPZ both overseas and locally, and in 1982 this amounted to about Rs.1,018 million out of a gross output of Rs.1,467 million (or nearly 70 per cent). About 63 per cent of this intermediate consumption (Rs.643 million) was imported directly from abroad and the remaining 37 per cent (Rs.375 million) was inputs of goods and services obtained locally. This proportion of locally purchased inputs must be regarded as fairly high by EPZ standards and shows some degree of integration with the rest of the economy. It can be noted that some of the locally purchased inputs are the result of a certain amount of vertical integration within the wearing-apparel sector which purchased locally about Rs.174 million of goods from the textile and wearing apparel sector, most of which was probably in the EPZ and in some cases subsidiaries of the purchasing company. Some unknown part of the value of these purchases was necessarily imported. Similarly, amounts spent on "local" items such as transport, storage and communication (Rs.57 million) and electricity (Rs.27 million) are themselves partly import consuming. On the other hand, the non-negligible amounts spent locally by EPZ firms on items such as business services (Rs.27 million), food and beverages (Rs.24 million), paper, printing and publishing (Rs.21 million), maintenance (Rs.12 million), and insurance (Rs.5 million) point to the need not to underestimate the spillover effects of EPZ operations, even when they are based essentially on imported raw materials as is the case of Mauritius.

On the negative side, it has been suggested that the employment created in EPZs may indirectly lead to decreases in employment in other sectors of the economy. This would be the case if firms previously operating outside the EPZ transferred into the EPZ or if EPZ products competed on the local market with small local producers. In Mauritius, almost no cases exist of transfer of factories into the EPZ: the wearing-apparel industry was virtually non-existent in Mauritius before the creation of the EPZ and would certainly not have developed to any great extent based on the local market, whereas the transfer to EPZ status of the traditional export sectors of sugar and tea has never been allowed nor envisaged.

Some EPZ industries do sell a small proportion of their output on the local market (after paying import duty), particularly pullovers, but rather than depriving small artisans of their livelihood, this has probably reduced the importation of knitwear since prior to the EPZ such articles were mainly imported. In the case of garments (shirts, jeans, etc.), it has been suggested that tailors and seamstresses have suffered from competition of factory-produced goods (Economist Intelligence Unit, 1987). In 1986, this local sector received a boost by the abolition of customs duties, stamp duty and sales tax on a number of fabrics and on sewing and knitting machines so that individuals and firms outside the EPZ could benefit from tax-free materials and equipment in the same manner as EPZ factories.

Table 3.9: Detailed production account of the EPZ sector, 1982

ISIC Code No.	Inputs at purchasers' prices	Activity Group						Rs. '000 Total
		Food	Textiles	Wearing apparel	Leather products	Jewellery and related articles	Other manu- facturing industries	
Local								
31	Food, beverages and tobacco	24 046	15	2	-	33	-	24 096
32	Textile, wearing apparel and leather products	-	3 300	173 926	586	-	19	177 831
34	Paper and paper products, printing and publishing	2 185	2 326	14 036	640	975	1 117	21 279
35	Chemicals and chemical, rubber and plastic products	68	4 126	9 644	754	2 352	587	17 531
36	Non-metallic mineral products	-	-	-	-	-	7	7
38	Fabricated metal products, machinery and equipment, maintenance	3 046	1 560	5 639	509	883	443	12 080
39	Other manufactured products	-	-	1 728	-	-	-	1 728
41	Electricity	581	13 300	7 967	524	3 040	1 438	26 850
42	Water	276	793	660	8	174	57	1 968
5	Construction	-	-	-	-	-	8	8
6	Wholesale and retail	4 498	-	995	-	-	-	5 493
7	Transport, storage and communications	680	7 821	39 099	838	2 812	5 338	56 388
82	Insurance	188	1 331	2 737	100	344	300	5 000
83	Real estate and business services	421	1 634	10 276	765	1 869	2 405	17 370
9	Other services	781	1 587	3 746	163	353	322	6 952
	Local intermediate consumption	36 770	37 793	270 455	4 887	12 835	12 041	374 781
Imported								
31	Food, beverages and tobacco	11 188	-	-	-	-	-	11 188
32	Textile, wearing apparel and leather products	-	171 734	264 044	9 989	-	3 757	449 524
33	Wood products	-	-	-	-	-	1 285	1 285
34	Paper products, printing and publishing	316	2 369	484	-	1 506	7	4 682
35	Chemicals and chemical, rubber and plastic products	1 363	18 720	22 956	1 357	18 185	10 212	72 793
36	Non-metallic mineral products	-	-	5	-	36 575	259	36 839
37	Base metal industries	-	-	-	-	2 898	5 336	8 234
38	Fabricated metal products, machinery and equipment, spare parts	14 791	6 907	6 096	1 029	22 180	530	51 535
39	Other manufactured products	-	204	2 179	-	835	3 668	6 896
	Imported intermediate consumption	27 658	199 934	295 764	12 375	82 182	25 054	642 974
	Intermediate consumption	64 428	237 727	566 219	17 262	95 024	37 095	1 017 755
	Value added at market prices	7 377	91 353	272 223	9 988	45 114	23 797	449 852
	Less net indirect taxes	5	110	702	27	127	37	1 008
	Value added at factor cost	7 372	91 243	271 521	9 961	44 987	23 760	448 844
	Gross output at producers' prices	71 805	329 080	838 442	27 250	40 138	60 892	467 607

Source: Central Statistical Office, 1985b, table 2.27.

Source: Central Statistical Office, 1985b, table 2.27.

Notes

¹ Firms employing less than 20 persons at the time of closure have been omitted from this analysis.

² It should be noted that in 1977 labour shortages were being experienced by EPZ firms as a result of the rapid expansion of employment which occurred in the mid-1970s. Although more recent data are not available concerning the background characteristics of employees, the general impression of Mauritian employers is that the proportion of married women has increased in the 1980s and that educational levels are higher than in 1977.

CHAPTER IV

WAGES AND WORKING CONDITIONS

Although EPZs have created new jobs and employment opportunities, a central issue concerning EPZs is the level of wages and working conditions, particularly since the Government, through its system of incentives, is the main promoter of the jobs created (Lee, 1984). Criticisms concerning this aspect of EPZs abound: workers are said to be exposed to a range of exploitative and unfavourable conditions which include low wages, hazardous and unhealthy working environment, lack of employment security and long working hours often involving night work and shifts while trade union rights are curtailed (see for example, UNIDO, 1980; International Centre for Research on Women, 1980; Basile and Germidis, 1984; Lean, 1984; Edgren, 1984).

It is important to note that in evaluating the level of wages and working conditions in EPZs various criteria can be used, leading to rather different conclusions. One can compare with the wages and working conditions of similar workers in industrialised countries or in other developing countries, with those of workers in other sectors of the local economy or with those of persons having comparable personal characteristics (e.g. age, sex, education) within the local economy. At least some of the criticisms of EPZ employment conditions may apply to much of employment in developing countries and may not be specific to the EPZ. As Dror (1984) notes, comparisons with conditions in other organised sectors outside the EPZ within the local economy are the key issue and thus the present chapter focuses on this aspect of EPZ employment in Mauritius. However, where possible, some international comparisons are also given.

This chapter is based, for the most part, on the legal provisions concerning employment in the EPZ. The obvious question which arises concerns the extent to which these provisions are, in fact, implemented particularly in a context where workers may not be well aware of the existing legislation. As concerns wages, data from surveys of the Central Statistical Office provide an indication that minimum wage legislation tends to be implemented. Also, although trade unions have regularly complained about alleged unfair treatment of EPZ workers in certain factories or about inadequate minimum wages, these complaints have rarely included any alleged payment of wages below the legal minimum. With respect to other legal provisions such as payment of overtime, security of employment and leave, non-respect of existing laws by certain employers is occasionally signalled in the press, notably by trade unions. It should be noted, however, that for the implementation of labour legislation, there is an active corps of labour inspectors which regularly visit factories. In any case, given the employment opportunities in the EPZ, especially for experienced workers, the employer who offers substandard working conditions would have great difficulty recruiting and maintaining his workforce. In the tight labour market since 1984, newspaper recruitment advertisements stress above-minimum working conditions and benefits to attract experienced workers.

The chapter starts by giving some brief background on industrial relations and then goes on to consider minimum wages and earnings, working time, termination of service arrangements and health and safety and training.

1. Institutional arrangements and industrial relations

An important characteristic of the Mauritian EPZ is that no legal differences exist between it and the rest of the country as regards industrial relations or trade union activity as is the case in certain other countries such as Pakistan, the Philippines and the Dominican Republic (Dror, 1984). Legal infringement on trade union rights is a major criticism often made concerning EPZs (e.g. Edgren, 1984) but such is not the case in Mauritius.

In Mauritius, the role of the Government in the fixing of wages and other conditions of employment is particularly determinant in all sectors; only in a few cases (or for a few organisations) are wages and conditions of employment fixed by direct negotiations between unions and management leading to collective agreements. The Minister of Labour, under the Industrial Relations Act, issues Wages Remuneration Orders which fix minimum wages and conditions of employment for particular sectors or groups of workers. One of the groups is EPZ workers.

For the purpose of issuing a Wages Remuneration Order, the Minister receives advice from the National Remuneration Board, which consists of representatives of workers and employers as well as independent officials appointed by the Minister. However, the Minister's powers are extensive, since he is free to accept, reject or amend any proposals from this Board. Indeed, the 1984 Annual Report of the Mauritius Employers Federation (MEF) notes that the Remuneration Order for the EPZ (No. 191 of 1984) was published "without due consultation with the federation which represented the EPZ employers before the National Remuneration Board" (p. 16). Unions, on their side, also often complain that their view has not been taken into account.¹ Thus, in the case of the Remuneration Order cited above, the abolition of the minimum wage for male workers (see section 2 below) was strongly opposed by the trade unions.

The conditions fixed by the Remuneration Orders are a minimum and employers increasingly have offered more as the labour market became tighter. However, collective bargaining leading to agreements to improve on the basic minimum is rare.

Another method of government regulation of wages is through Additional Remuneration Acts or Special Wage Increase Acts which apply to actual wage rates in all sectors. These are issued annually as a result of tripartite discussions and provide for percentage increases which compensate more or less (depending on the year) for cost-of-living increases. The results of these increases are subsequently incorporated into the minimum wages provided by the Remuneration Orders for each sector. Thus, in this respect the general pattern of increases in minimum wages in the EPZ has followed closely that in other sectors of the economy with differentials among sectors remaining similar.

In the EPZ, as in other sectors, industrial disputes may be referred for conciliation to the Industrial Relations Commission and, as a last resort, are referred to the Permanent Arbitration Tribunal whose decision is final, and in practice all major disputes end at the tribunal. It can be noted that none of the 47 cases for which the Permanent Arbitration Tribunal has published awards between 1980 and 1984 was in the EPZ (MEF Annual Reports).

As noted earlier, there are no legislative constraints on the organisation of trade unions in the Mauritian EPZ. Trade unions have been active in the zone throughout its existence, although the proportion of workers unionised has probably been low. The figures of union membership by

sector of activity (shown in table 4.1) give some indication in this respect. In manufacturing as a whole (where the EPZ is the dominant activity), only about 10 per cent of employees belonged to unions in 1980 although this had increased to almost 20 per cent by 1985. In both years, the percentage unionised in manufacturing is the lowest proportion for any sector (apart from construction) and well below the national average.

Three reasons can be suggested for the particularly low proportion of union members in the EPZ. First, the high proportion of young women among the workers, a group which is traditionally considered to be difficult to unionise. Secondly, the lesser constraints on EPZ employers concerning termination of employment (see section 4 below) may discourage unionisation from developing. Third, the presence of a certain number of foreign managers who accept with difficulty the presence of unions in their enterprise since this is not the practice in their home country. Indeed, in both union and employer circles, there are complaints in this respect concerning certain foreign managers. The 1985 Chairman of the MEPZ Association notes in an interview reported in a local newspaper that employers coming from South-East Asia are less willing to accept the existence of unions within their enterprise: "They do not know this phenomenon since it does not exist in their country, thus their distrust of unions" (Weekend, 10 February 1985, p. 11). On the same theme, the editorial of a special issue of the local private-sector bulletin, marking the fifteenth anniversary of the EPZ, suggested that any investor seeking a permit to invest in an EPZ industry should be required to subscribe to the Code of Practice of Mauritian enterprises of the Mauritius Employers' Federation² (Appasamy, 1985, p. 3). Indeed, in its 1984 Annual Report, the MEF stated that "the biggest problem lies with the bad industrial relations practices being indulged by non-members, which provoked some wild-cat strikes in the industrial sector" (p. 24).

Although it was noted earlier that no case involving the EPZ was considered by the Permanent Arbitration Tribunal over the period 1980-84, industrial disputes are not unheard of in the EPZ. Table 4.2 shows the number of days lost through strikes in the various sectors of economic activity over the period 1975-82. It can be noted that in general the number of working days lost through strikes in Mauritius has never been very high. As concerns the manufacturing sector (of which the EPZ is an important part), the peak years for industrial disputes were 1975 and 1976, the years when employment in the EPZ was expanding rapidly and when it probably was believed that the Government, about to face elections at the end of 1976 was particularly susceptible to pressure. The MEF Annual Report for 1975 points out that many of the strikes during that year were illegal as no proper notice was given but no sanctions appear to have been taken.

Over the period 1977-82, when there was a certain stagnation of EPZ employment and when a number of firms were closing down (see Chapter 1, section 2), industrial disputes involving strikes were relatively rare in manufacturing industries. Since 1983, there has been an increase in industrial disputes in manufacturing, often provoked by interpersonal incidents, but the number of workers involved and the number of days lost are both less than in 1975-76. This increase may be related to the rapid expansion of the EPZ since 1982 and the resulting increase in the bargaining power of workers.

Table 4.1: Union membership by sector of activity at the end of 1980 and 1985

Activity	No. of unions		Total membership (000's)		Employment* (000's)		Members as % employed	
	1980	1985	1980	1985	1980	1985	1980	1985
Agriculture, forestry and fishing	31	36	23.1	32.5	58.0	52.7	39.9	61.7
Manufacturing	42	50	3.6	12.2	36.4	62.9	9.9	19.4
Food, drink and tobacco	(8)	7	(1.0)	(1.0)				
Textile and wearing apparel	(5)	8	(0.5)	(5.3)				
Paper printing and publishing	(4)	5	(0.4)	(0.4)				
Other manufacturing industries	(25)	30	(1.6)	(5.5)				
Electricity, water	7	4	3.4	3.4	4.5	3.8	75.2	89.5
Construction	6	4	0.3	0.2	7.4	5.0	3.5	4.0
Commerce	15	17	1.0	1.2	9.2	9.2	10.9	13.0
Wholesale and retail trade	11	8	0.6	0.6				
Restaurants and hotels	6	7	0.7	1.6				
Transport and communications	31	34	4.6	8.4	8.1	8.7	57.0	93.1
Insurance and finance	18	20	1.5	2.1	4.5	5.2	34.7	40.4
Community and social services	99	22	20.9	37.1	62.8	63.2	33.2	58.7
Other activities	n.a.	5	n.a.	0.5	6.5	4.5	n.a.	11.1
Total	269	289	59.8	104.1	197.6	215.4	30.3	48.3

* September 1980 and 1985.

n.a. = Not available.

Sources: Government of Mauritius, Ministry of Labour, 1984, 1987; Central Statistical Office, 1986.

Table 4.2: Industrial disputes and working days lost by major division of economic activity, Mauritius, 1975-84

Total		Major divisions of economic activity									
		1	2	3	4	5	6	7	8	9	0
		Agriculture, hunting, forestry and fishing	Mining, quarrying	Manu- facturing	Electricity, gas, water	Construc- tion	Trade, restaurants and hotels	Transport, storage, communica- tion	Financing, insurance, real estate, business services	Community, social and personal services	Activities not ade- quately defined
1975											
Workers involved	70 075	35 661	:	22 835	1 000	-	0.457	9 652	-	-	0.470
Days lost	123 930	66 578	:	40 150	1 000	-	0.457	14 335	-	-	1 410
1976											
Workers involved	67 841	4 099	:	24 434	-	0.200	0.452	8 488	0.195	29 973	-
Days lost	114 716	6 702	:	38 505	-	0.200	0.452	8 959	0.195	59 703	-
1977											
Workers involved	9 629	0.315	:	1 982	-	0.030	0.193	6 701	-	0.361	0.047
Days lost	11 644	0.340	:	2 335	-	0.030	0.193	8 197	-	0.361	0.188
1978											
Workers involved	42 813	29 977	:	1 772	1 000	0.057	0.084	9 923	-	-	.
Days lost	46 591	30 040	:	1 810	0.563	0.057	0.084	14 037	-	-	.
1979											
Workers involved	64 698	30 733	:	0.323	0.186	0.195	-	7 099	0.076	26 086	.
Days lost	373 058	241 454	:	0.502	0.186	0.195	-	39 952	0.076	90 693	1 164
1980											
Workers involved	3 760	-	-	0.323	2 890	-	-	0.447	-	0.100	-
Days lost	12 548	-	-	0.413	10 360	-	-	1 725	-	0.050	-
1981											
Workers involved	5 522	-	-	0.593	2 977	0.150	-	-	-	1 802	-
Days lost	15 177	-	-	0.506	2 977	0.075	-	-	-	11 619	-
1982											
Workers involved	6 967	-	-	2 950	1 048	0.889	-	1 638	-	0.442	-
Days lost	12 396	-	-	3 905	1 048	0.989	-	2 228	-	4 166	-
1983											
Workers involved	12 732	-	-	9 887	-	-	400	280	-	2 165	-
Days lost	27 721	-	-	12 304	-	-	300	560	-	14 557	-
1984											
Workers involved	5 951	-	-	5 867	65	-	-	-	-	-	19
Days lost	7 895	-	-	7 811	65	-	-	-	-	-	19

Source: ILO, Year Book of Labour Statistics 1981, table 28B; 1983, table 29B; and 1985, table 30B.

The relatively low level of working days lost through strikes, taken together with the lack of cases submitted to arbitration, may be partly due to the unwillingness of EPZ workers to bring out their complaints or to press them collectively for fear of retaliation, but it tends to indicate that industrial relations are certainly not worse in the EPZ than in other sectors of the economy.

2. Wages and earnings

The minimum wages and working conditions in the EPZ are governed by Export Enterprises Remuneration Orders. Until December 1984, minimum wages for workers were fixed in terms of four categories of workers: men under 18 years, men over 18 years, women in first year of employment, women after first year. The minimum fixed for men was always substantially higher than that for women: for example in 1983, the minimum for a man over 18 years was Rs.167 per week (US\$13.42 at the 1983 average rate of exchange) whereas the minimum for women with at least one year's experience was Rs.106 per week (US\$8.51) — that is only 63 per cent of the male wage. (Joint Committee for the Promotion of Industry, 1983.) Even compared to a man under 18 years, this female minimum wage amounted to only 76 per cent.

Table 4.3: Minimum wage rates for various categories of worker in 1984 and 1987 (Rs. per day)

	Male (Rs.)		Female (Rs.)		F/M	
	1984	1987	1984	1987	1984	1987
Factory worker (EPZ) ^a	29.38 ^a	28.47 ^b	17.46 ^b	25.78 ^b	0.59	1.00
Field labourer (sugar)	41.28	54.20	26.11	35.75	0.63	0.66
Field labourer (tea)	32.24	36.86	21.10	24.16	0.60	0.66
"Brigadier" (bread manufacture)	34.63	39.70	-	-	-	-
Female factory worker (outside EPZ)	-	-	-	22.00 ^b	-	-

^a 18 years and over.

^b first year of employment.

Sources: Central Statistical Office, 1985a, table 8.11 for 1984; Remuneration orders in the relevant sectors for 1987.

Since December 1984, a minimum wage has no longer been legislated for men but was continued for women. According to the Minister of Labour, the goal in allowing the male wage to float was to encourage greater employment of men in the EPZ (as quoted in *Weekend*, 24 February 1985, p. 20). Indeed, the lower minimum wages of women constituted an important incentive to their employment (see Hein, 1984) and it seems that this measure has led to an increase in the proportion of men among EPZ employees (see Chapter III). This recent measure, although highly contested by the unions, would tend to bring conditions in the EPZ more into line with the principle of equal remuneration for work of equal value to the extent that the differential in remuneration between men and

women workers decreases.³ It can be noted that for workers in the sugar industry and other agricultural sectors, the practice of setting lower minimum wages for women has not been modified (see table 4.3) on the rationale that women in these sectors are exempted in law from heavy duty and their work is lighter.

Comparison of the minimum wage rates for EPZ workers with those for workers in other sectors of the economy indicates that they are generally lower. Table 4.3 shows the minimum wages in 1984 and 1987 for workers in the EPZ, for one occupation in another type of manufacturing, and for agricultural workers in sugar and tea. Comparisons with agricultural workers must necessarily be made by sex since the minimum wage legislation makes this distinction. Daily minimum wage rates for both men and women in the EPZ were about 71 per cent of those in sugar and 91 per cent of those in tea in 1984. For men, comparisons can be made with other industrial occupations where one of the lowest paid is in bread manufacturing. In this case, the EPZ minimum is 85 per cent of the minimum in 1984 and 65 per cent in 1987 when the male and female minimums in the EPZ are the same.

Table 4.4 shows the evolution of minimum wages in the EPZ as based on the minimum for a woman worker in her first year of service. The evolution for other categories of EPZ workers and also for manual workers in other sectors is quite similar since increases are often general percentage increases granted by Additional Remuneration Acts. The increases in minimum wages granted during the mid-1970s were greater than the cost-of-living increases as can be seen from the index of the real minimum wages which increased during this period. In November 1975, the Remuneration Order of the EPZ granted an increase of 36 per cent on basic wages plus 6 per cent extra cost-of-living allowance with retroactive effect to 1 January 1975. In the early 1980s, real minimum wages and the US dollar value of the minimum wages were falling. However, by 1987, the dollar value had increased substantially.

In the mid-1970s, apart from minimum wages, the Remuneration Orders for Workers in Export Enterprises also increased various other payments to workers. An end-of-the-year bonus of one month's salary for workers who have been employed for at least one year was legislated by the Government for all sectors in 1976 and continues to be mandatory for EPZ workers. This measure, which seems to have been decided in the context of the December 1976 General Election, was resented by employers at the time as it had been unforeseen. A further bonus of another month's salary was granted in 1977 but was reduced to three-quarters of a month in 1978 and was discontinued as from 1979. The payment of an attendance bonus of 5 per cent of basic wages to workers who were not absent during a period of one month was introduced in 1977. In 1984, a daily transport allowance of Rs.2.50 was made mandatory for workers who live more than two miles away from the factory and who are not provided with transport by the enterprise. In 1987, this allowance of Rs.2..50 was replaced by the refund of full return bus fare (Government Notice No. 65 of 1987).

The high increases in minimum wages over the period 1974-78, with in one case, retroactive effect and the unforeseen end-of-the-year bonuses were strongly contested by employers and created a certain lack of confidence on the part of investors which may have contributed to the stagnation of the EPZ as from 1977. However, as from about 1979, the Government has followed a policy of wage restraint in order to maintain the international competitiveness of the EPZ. This was accomplished by the devaluation of the rupee by 30 per cent in 1979 and a further 20 per cent in 1981 while wage increases did not compensate for the resulting increases in the cost of living. Thus, as can be seen in table 4.4, real minimum wages declined at the end of the 1970s and remained relatively constant throughout the early 1980s.

Table 4.4: Evolution of minimum wages for women workers in EPZ

	1972	1974	1976	1978	1980	1982	1984	1987
1. Minimum wage ^a (Rs. per day)	3.02	4.39	7.70	9.55	12.29	15.35	17.46	25.78
2. Wage index (base 1972=100)	100.0	145.4	255.0	316.2	407.0	508.3	578.1	853.6
3. Purchasing power of the rupee (1972=100)	100.0	146.5	190.8	225.8	367.1	468.3	530.6	n.a.
4. Real minimum wages index (2/3)	100.0	99.2	133.6	140.0	110.9	108.5	109.0	n.a.
5. US\$ per day	0.57	0.77	1.15	1.56	1.60	1.41	1.27	1.94

^a Rates are for woman worker in first year of employment.

n.a. - Not available.

Sources: Central Statistical Office, 1985a, tables 6.4 and 8.11; Export Enterprises Remuneration Order, 1987.

Data on actual earnings and wage rates in typical occupations in selected sectors are available from an inquiry conducted by the Central Statistical Office in October 1984 (table 4.5) and indicate that workers in the EPZ, in particular the women, tend to earn somewhat more than the legal minimum. Two of the occupations included in this table are typical of the EPZ: sewing-machine operator and knitting-machine operator. Only for sewing-machine operators are there rates for men workers, probably because so few men were knitting-machine operators. The average wage rates for these men were approximately the same as the male minimum wage rates in force at that time, whereas for women, wage rates averaged about 10 per cent more than the minimum for women in their first year of employment and about 4 per cent more than that for women with at least one year's experience.

Earnings, which include overtime and various bonuses and allowances, were substantially greater than minimum wages, particularly in the case of women workers where average earnings of sewing-machine operators were 30 per cent greater than minimum wages and of knitting-machine operators were 38 per cent greater. For male sewing-machine operators, earnings were only 17 per cent more than the male minimum.

The other two occupations included in table 4.5 were chosen since they were manual occupations of possibly comparable skill level. There are no figures concerning female wage rates in other manual occupations outside agriculture - probably reflecting their concentration in the wearing apparel sector. For men, wage rates and earnings for workers in the EPZ were substantially less than for a mason (grade I) or a gardener working at a municipality.

Table 4.5: Average daily wage rates and daily earnings^a of selected occupations in October 1984 and 1986 (Rs./day)

Occupation		Male		Female	
		1984	1986	1984	1986
Minimum EPZ		29.38	20.76	17.46	20.76
Sewing-machine operator:	wage rate	29.48	28.88	19.28	25.20
	earnings	34.43	34.80	22.88	31.81
Knitting-machine operator:	wage rate	-		20.85	21.30
	earnings	-		24.15	31.80
Gardener (municipality):	wage rate	45.37	50.86	-	
	earnings	47.60	53.37	-	
Mason (grade 1)	wage rate	51.90	61.60	-	
	earnings	56.10	71.04	-	

^a The earnings data include overtime, productivity bonus, attendance bonus, travelling and all other regular allowances.

Source: Central Statistical Office, Bi-annual survey of employment earnings.

Data concerning average earnings in different types of manufacturing suggest that earnings tend to be less in the types of industries located in the EPZ but that the differential has been decreasing over time. In 1973 and 1986, earnings in the wearing-apparel industry (which is the main industry of the EPZ) were less than in all other industries. Earnings in textiles, the other main industry of the EPZ where the proportion of men is higher than in wearing apparel, were somewhat higher and above the overall average for manufacturing industries in 1986. The most rapid increase in earnings between 1973 and 1984 was in wearing-apparel industries thus narrowing substantially the gap between their earnings and those of workers in other non-EPZ-type industries. For example, in 1986, earnings in wearing-apparel industries amounted to over four-fifths of those in food industries compared to barely more than half in 1973.

How do wage levels in the Mauritian EPZ compare with those in other countries? Since garment manufacturing is the main activity in the Mauritian EPZ, a partial answer to this question can be found by comparing available figures concerning earnings in the garment industry in other countries with those for Mauritius, as in table 4.7. For the countries included in table 4.7, it is clear that around 1982, earnings in garment manufacturing in Mauritius were substantially less than in all the other countries except for the Philippines and Sri Lanka. In fact, the World Bank (1985, p. 29) notes that of five EPZ countries examined (Mauritius, Sri Lanka, Singapore, the Philippines and Hong Kong), only Sri Lanka had lower wage rates for unskilled and semi-skilled labour.⁴ As is evident in table 4.7, average hourly earnings are strongly correlated with GNP per capita.

Table 4.6: Daily earnings in various manufacturing industries in Mauritius, 1973 and 1986

Type of manufacturing (ISIC category)	Earnings per day (Rs.)		
	1973	1986	% increase
All manufacturing	6.03	37.60	524
Food ^a (311-312)	6.14	43.64	611
Textiles (321)	5.82	43.05	640
Wearing apparel (322)	3.33	35.99	981
Footwear (324)	7.19	46.41	545
Wood products (331-332)	9.48	42.59	349
Printing, publishing (342)	8.55	54.08	533
Chemical products (351-352, 354)	5.29	41.95	693
Glass and non-metallic mineral products (362, 369)	8.70	59.43	383
Metal products except machinery (381)	7.08	54.42	669
Machinery except electrical (382)	8.06	74.80	828
Electrical machinery (383)	5.27	36.41	591
Transport equipment (384)	10.16	64.50	534
Other manufacturing (390)	4.24	39.00	820

^a Excluding sugar and tea factories.

Source: ILO, Year Book of Labour Statistics 1983; Central Statistical Office, Bi-annual survey of employment and earnings, 1986.

Table 4.7: International comparison of average hourly earnings in garment manufacturing (US\$)

Country/Area	Year	Hourly earnings	GNP per capita (1982)
Mauritius ^a	1982	0.26 ^b	1 160
Hong Kong	1980	1.03	5 340
Republic of Korea	1980	0.59	1 910
Philippines	1978	0.17	820
Sri Lanka	1981	0.12	320
Puerto Rico	1982	3.76	n.a.
United States	1982	5.20	13 160

^a For Mauritius, hourly earnings were calculated by dividing the daily earnings by 8 and converting to US\$ on the basis of US\$1 = Rs.10.90, rate given by World Bank (1983) for 1982.

^b By July 1987, the average earnings in Mauritius have increased to US\$0.50.

Sources: Edgren, 1984, table 2.1; ILO, 1983, table 17B; World Bank, 1984.

3. Working time

Legal normal working hours in the EPZ, as in many other sectors of the Mauritian economy, are 45 hours per week. This does not include time for meal breaks which must include one hour for lunch and 15 minutes for tea break after 1 p.m. The weekly 45 hours are in some cases divided over five days (nine hours per day) and in others over six days with eight hours on weekdays and five hours on Saturday. Compared to zones in other developing countries, these normal working hours can be considered as about average if not lower; normal weekly working hours as fixed by law are 44 in Singapore, 45 in Sri Lanka and 48 in Malaysia, the Philippines, the Republic of Korea and Tunisia (Edgren, 1984).

A major exemption which the EPZ Act made to existing labour provisions is that it permitted a night shift for women whereas in other industries, women may not work between 10 p.m. and 5 a.m. Zones in other countries also usually permit night work by women.⁵

There are no detailed figures available concerning the number of factories which operate more than one shift nor the number of workers involved. However, most of the garment and knitting factories are known to operate only one major shift. In some cases, there is a small night shift which is composed mostly of men. It is mainly in the spinning mills that production continues round the clock with a three-shift system. Thus, the general impression is that shift work is less common in the Mauritian EPZ than in others such as Malaysia where Datta-Chaudhuri (1984) reports that shift work is usual perhaps because of the predominance of electronics factories (where this practice is common) in that country.

A major difference between the EPZ and other sectors relates to the compulsory nature of overtime and the time period used to define it. Subsection 14(2) of the EPZ Act reads as follows:

An employee may be required to work for more than the normal number of hours on any day other than a public holiday and no payment for overtime shall thereupon accrue to the employee if the number of hours of actual work in the week does not exceed forty-five.

In contrast, in other sectors of the economy, overtime is defined by daily rather than weekly working hours and is not compulsory as in the EPZ. Thus, EPZ employers have the possibility of requiring workers who have been absent during the week to work in excess of normal daily working hours at the end of the week without paying overtime rates. Since 1987, the amount of compulsory overtime weekly is limited to ten hours; beyond this number, the consent of the workers is required. The law provides that overtime should be paid at the rate of one-and-a-half times the basic hourly rate for the first ten hours; twice the basic rate per hour for the next five hours and three times the basic rate per hour thereafter except on Sundays and public holidays when the rate is twice the basic rate.

In practice, judging from press reports and the continuing complaints about overtime in the EPZ, it would appear that workers have been required to work beyond normal daily hours fairly frequently - at least in certain factories and particularly when orders must be completed to meet deadlines. Overtime is probably more frequent in the EPZ than in other industries which do not experience the same fluctuations in workload. A problem related to the compulsory nature of overtime in the EPZ has been that the law did not provide for any notice to be given and thus workers' families could not be warned, a situation particularly difficult for women workers, both married and single. The Remuneration Order of December 1984 rectified this problem (at least

officially) by requiring that 24 hours' notice be given of the extra work to be performed and its duration.

A complaint of both workers and unions has been that overtime is not always paid at the required rates (see, for example, Weekend, 17 February 1985). Some of the problems may arise from the weekly time period used to define overtime which means that work in excess of normal daily working hours may not necessarily be counted as overtime in the EPZ as it would be in other sectors.

Another provision specific to the EPZ Act is that an employee may be required to work up to the normal number of daily hours on a public holiday. In addition, the remuneration orders provide that the employer can either pay twice the normal rate (as in other sectors) or grant one day's leave with a normal day's pay in the following week.⁶ As in other sectors, workers must have one year of continuous employment with the same employer in order to be paid a day's wages for a public holiday which is not worked.

As concerns annual leave and sick leave, provisions in the EPZ were somewhat less than in other sectors but have gradually been changed so that by 1987 they were in line with other sectors. After one year of employment, EPZ employees are entitled to annual vacation leave of 14 days if they work a six-day week (12 if they work a five-day week) and to sick leave of 21 days with full pay (if they work a six-day week) with a further period of 14 days on full pay for prolonged illness. Production of a medical certificate to justify sick leave is required sooner by EPZ workers - not later than the third day of absence as compared to the fifth day in other sectors.

The duration of paid annual leave (somewhat more than two weeks) provided by the law for EPZ workers is not only similar to other sectors of the economy, but is also about the same as in a number of other countries with EPZs, for example, Tunisia, Indonesia, Cyprus, Costa Rica, Haiti and El Salvador, and is greater than in certain others such as Mexico, Malaysia, the Philippines and Singapore, where minimum paid annual leave is 6, 9, 5 and 7 days respectively (ILO, 1984, table 1). Thus, paid annual leave can be considered to be within the current range for comparable developing countries and has, in fact, not been a cause for complaints by the local workforce.

Until the end of 1984, the maternity leave, for which EPZ workers with at least one year of employment were eligible, consisted of two months on full pay, which was less than the 12 weeks provided in most other sectors although this situation was an improvement on conditions prior to 1977 when the leave was on half pay. The Remuneration Order for the EPZ in December 1984 increased this leave to 12 weeks thus bringing it into line with other sectors.

4.1 Termination of service

A significant aspect of labour legislation relevant to the EPZ is the flexibility given to employers to terminate the employment of workers. This flexibility was given by the EPZ Act of 1970 which exempted employers in the EPZ from the Termination of Contracts of Service Ordinance of 1963. The 1963 Ordinance states that all terminations of employment at the initiative of the employer (except in cases of gross misconduct) necessitate the payment of a "severance allowance" if the employee has completed at least one year of service. This severance allowance amounts to two weeks' salary per year of service in the normal case and reaches six times that amount when "unjustified" dismissal is established.⁷ In addition, the Termination of Contracts of Service Ordinance provides for a special procedure of application by the employer for a proposed reduction in his workforce which involves

appearance in front of a tripartite board (the Termination of Contracts of Service Board) which decides whether the proposed reduction is justified or not. Thus, EPZ employers do not have to justify the reduction of their workforce before this Board.

The EPZ Act of 1970 did, however, provide for the payment of a compensation of two weeks' wages per year of service to workers terminated after three years of continuous service. The qualifying period for compensation was thus two years more than in other sectors and employers were not liable to the punitive payments for unjustified dismissal. This latter provision was subsequently changed by the Labour Act of 1975 which, in line with other sectors, provided for the punitive rate of six times the normal severance allowance for an unjustified dismissal of a worker with at least one year's service. Thus, the main difference between the EPZ and other sectors after 1975 was the longer qualifying period for normal compensation if dismissed.

The special exemptions concerning termination of service have tended to remove some of the constraints and potential liabilities from the EPZ employers who were thus freer to recruit, discipline or terminate employees. The relative ease with which EPZ employers may terminate a worker's employment has formed the basis for allegations of abuse by certain employers formulated from time to time in trade union circles and in the local press. One of the main themes of these criticisms has been that there are arbitrary dismissals in the EPZ and that certain employers circumvent existing labour provisions but employees do not bring their complaints out into the open for fear of dismissal. However, the impact of the fear of dismissal should not be exaggerated since experienced workers, particularly in the wearing-apparel sector, have usually been in demand as evidenced by regular vacancy notices in the press.

5. Safety and health

The general physical conditions which may influence the safety and health of workers vary enormously from industry to industry within the EPZ and from firm to firm. As will be seen below, there have been reports of certain factories where the physical environment is deemed to be substandard and where medical facilities are almost completely lacking. At the same time, there are other factories which have been favourably commented upon. For example, one large Mauritian-owned enterprise which was cited as being exemplary has a full-time nurse, visits by a part-time doctor who comes two or three times a week, and provides treatment and medicine free of charge, family planning services and also distributes tea or milk twice a day (Weekend, 17 February 1985, p. 13). The relatively large size of this firm may make the provision of such facilities more feasible, but all large firms do not make a comparable effort.

Figures concerning occupational injuries in 1982 are given in table 4.8 for the main sectors of economic activity. Although these figures do not identify the EPZ separately from other manufacturing activity, it is clear that work in the manufacturing sector is among the less hazardous, with six injuries per 1,000 workers representing 30 times less than in the agricultural sector (including sugar and tea factories) and five times less than in the construction sector. Also, fatal injuries were most likely to occur in agriculture and construction. Thus, the nature of the economic activity is a main explanatory variable for the safety performance of enterprises.

As concerns worker health and occupational diseases, one must be careful to distinguish the effects of the work environment from other factors. As ILO

(1985, p. 54) remarks, the incidence of health problems must be compared with their incidence in control groups to see if factory workers suffer more than other comparable workers. The only study to date in Mauritius was conducted in 1979 and looked at the nutritional habits of women workers (Peerbaye, 1979). This study concluded that workers' daily diet was lacking in calories, proteins, vitamins and minerals and it was suggested that a large proportion were suffering from anaemia; however, no comparisons were made with other comparable women not working in the EPZ.

Table 4.8: Occupational injuries by sector of activity, 1982

Sector	Number injured	Of whom fatally	Workers injured per thousand workers
Agriculture ^a	10 303	4	182
Manufacturing	203	1	6
Electricity, gas	-	-	-
Construction	176	4	31
Commerce	-	-	-
Transport and Communication	67	1	8
Finance, insurance, real estate	37	-	8
Community, social and personal services	19	-	-
Other activities	177	1	28
Total	11 014	11	55

^a Including sugar and tea factories.

Sources: ILO, Year Book of Labour Statistics 1983, table 28A; Central Statistical Office, 1985c, table 5.

Various health problems of EPZ workers have been mentioned by workers and unions in the press, such as problems of dust and poor ventilation in the clothing factories, leading to problems of asthma (Weekend, 17 February 1985), high noise levels in the spinning factories and back problems for workers who stand all day operating the knitting machines (Rambeau, 1985). Also, in the survey of women factory workers conducted by the author (Hein, 1984) physical fatigue, including various health problems such as feeling faint, backache and palpitations, emerged as the main complaints. It is obvious that the nutritional habits of the workers contribute to these problems, but a more in-depth scientific study on the occupational health aspects of EPZ jobs, in particular with a view to defining measures which could improve the work environment in this respect, is certainly desirable.

Two hygiene matters have been the source of frequent complaints by EPZ workers as reported in the local press with reference to certain factories. The first is the lack of toilets and their dirty state. The second is the fact that in certain factories there is no place for the workers to eat lunch. The Minister of Labour (Weekend, 24 February 1985, p. 18) admitted that, according to his inspectors, these two aspects require attention, but pointed out that the choice was difficult between "saying the employer has only so many toilets, therefore he cannot employ so many workers, and

permitting this state of affairs, so that bit by bit the employer can improve the facilities". However, approval of new industrial buildings is given only if the required amenities are planned.

Medical facilities provided by the EPZ factories vary enormously from the positive case noted above to other factories which have no health officer despite their relatively large size. In contrast, the sugar estates have uniformly good medical facilities, usually including clinics, nurses and part-time doctors. A survey conducted by the Mauritius Employers' Federation in 1981 found that all the sugar estates had a part-time doctor (as required by law) as compared to 26 per cent of the EPZ enterprises surveyed (MEF, Annual Report, 1981). However, the EPZ figure compares well with other manufacturing industries and the construction sector where only 6 per cent and 0 per cent respectively employed a part-time doctor.

The Government is conscious of the need to improve health and safety in the EPZ and, with ILO assistance, has drafted comprehensive legislation on health, safety and welfare of workers to be presented to Parliament in late 1987.

6. Training

Training of local workers is a key factor in the process of the transfer of technology and also in the promotion and mobility possibilities of workers. EPZs have been criticised as offering little possibility for the transfer of technology since the operations located in the zone are mainly unskilled or semi-skilled with few tasks requiring higher-level skills and therefore any transfer of skills involves only a limited number of persons (see, for example, UNCTAD, 1983; Basile and Germidis, 1984).

The situation in Mauritius is difficult to evaluate. No statistics are available on the number of posts existing at different skill levels. At least up until 1985, all industry-specific training has been done by the companies themselves, mainly on the job, and in a few cases by sending employees abroad, but no data are available concerning exactly what training is being provided by firms. In 1987, a study is being carried out under a World Bank scheme to define training needs.

It is clear that the majority of the jobs created in the EPZ have been for unskilled or semi-skilled tasks which are learned in a relatively short period of time. The Remuneration Orders for the EPZ provide for a maximum training period of three months during which the trainee is paid at three-quarters of the minimum salary and this period appears to be sufficient for most production workers. The Orders also state that no worker shall be employed as a trainee more than once by the same employer.

It is at intermediate and higher management levels that there is evidence of the acquisition of skills necessary for producing for world markets. The declining proportion of expatriates among zone workers (see Chapter III, section 3), for example, would tend to indicate that Mauritians can fill certain managerial and technical posts formerly occupied by expatriates. Indeed, the Development Plan 1984-86 suggests that the original shortage in the EPZ of managerial, entrepreneurial and marketing skills is disappearing (Government of Mauritius, Ministry of Economic Planning and Development, 1984). As another observer remarked (Forget, 1983, p. 35), Mauritian businessmen including those outside the EPZ have acquired new skills thanks to the EPZ:

Bankers have had to adapt to the higher risk sector of export industry, insurers have had to face the more diversified problems of producing and exporting EPZ merchandise, local businessmen have learnt new trades, acquired new concepts and management tools and laid out new worldwide business contacts.

At the same time there is still a strongly felt need for improved training facilities. The 1985 Chairman of the MEPZ Association noted that: "Although many Mauritians have been trained in key and specialised jobs of the EPZ, their numbers are woefully inadequate to enable us to cater for the present boom in the EPZ let alone to stand on our own feet in the foreseeable future" (Lim Fat, 1985, pp. 11-12). He cited the areas of most urgent need as production managers and supervisors and sewing machine mechanics.

This list suggests that training needs are particularly at intermediate levels and that shortages at this level would constitute a constraint to advancing to more complex technologies. If there is a lack of specialised intermediate personnel, this situation risks to be exacerbated by certain multinational companies who were advertising in local newspapers to recruit Mauritians for jobs such as knitting machine mechanics and knitting production supervisors available in African countries.

The Government has responded to the EPZ's needs for higher skill development by passing a law establishing the Central Training Office (CTO). The Development Plan 1984-86 suggests that the operation of the CTO will give a new impetus to practical in-plant training. However, the law has not been promulgated and the Government has decided to entrust the policy and co-ordination of training to the Ministry of Economic Planning and Development.

To conclude concerning training that Mauritians have learned few new skills as the result of the EPZ would be incorrect. Although for the majority of the workers, the level of the skills learned has not been high, for a certain minority new trades have been acquired. It is possible that this minority is less limited than in certain other countries because the high proportion of Mauritian-controlled companies means that more functions are carried out in Mauritius and that there is a certain preference for employing Mauritians rather than expatriates whenever possible.

Notes

¹ In fact, the Textile and Clothes Manufacturing Workers' Union in Mauritius made comments to this effect in 1986 to the ILO Committee of Experts on the Application of Conventions and Recommendations which took note thereof.

² The Code of Practice for Enterprises in Mauritius which members of the Mauritius Employers' Federation undertake to put into practice includes various basic principles concerning recruitment, induction, training conditions of work, communication and consultative management and also states that enterprises employing more than 250 persons should employ a trained personnel manager. A number of EPZ enterprises, particularly those controlled by multinationals, had not joined the MEF as at 1985.

³ Mauritius has neither ratified the Equal Remuneration Convention, 1951 (No. 100) nor the Discrimination in Employment and Occupation Convention, 1958 (No. 111). The 1974 Report of the Committee of Experts on the Application of Conventions and Recommendations has suggested that the main problems in the Mauritian EPZ as concerns the application of standards arose with respect to these Conventions (ILO, 1984a, p. 13); its 1986 Report referred to a number of other Conventions, in relation to their application in

EPZs (ILO, 1986a, p. 19). It can be noted that the Minister of Labour has stated that his ministry has been watching to ensure that men are not hired at wages less than those of women (as quoted in Weekend, 24 February 1985; see also ILO, 1986a, p. 19).

⁴ Also a brochure promoting investment in the Mauritian EPZ (Joint Committee for the Promotion of Industry, 1983) suggested that wage rates were about one-tenth of the European average and one-quarter of those in the area of Hong Kong.

⁵ In the case of Sri Lanka, the Night Work (Women) Convention (Revised) (No. 89) had been ratified but was subsequently denounced in 1982. By 1985, six countries had denounced this Convention and it is the centre of a certain debate as to whether it contributes to unequal employment opportunities for men and women. The 1985 Resolution on Equal Opportunities and Equal Treatment for Men and Women in Employment states that future action by ILO should include the following: "protective instruments, for example, Night Work (Women) Convention (Revised), 1948 (No. 89), should be reviewed periodically to determine whether their provisions are still adequate and appropriate in the light of experience acquired since their adoption and of scientific and technical information and social progress" (ILO, 1985b, p. 9).

⁶ Up until 1983, Mauritius was a world leader as concerns number of public holidays - 23 per year. This number was reduced to 15 in 1983.

⁷ The normal severance allowance corresponds approximately to the employers' contribution to the National Pension Scheme against which it can be offset, thus implying that no further disbursement is involved.

CHAPTER V

SUMMARY AND CONCLUSIONS

According to most of the indicators reviewed in this paper, the Mauritius EPZ can be considered as very successful. By the mid-1980s, the EPZ constituted an important part of the economy, as regards direct employment, and contribution to GDP and to exports. In fact, it is difficult to envisage in retrospect any other development strategy which would have produced comparable results. A measure of the major structural transformation of the economy is given by the fact that by 1985, EPZ employment exceeded that in the sugar industry - the traditional mainstay of the economy.

The main EPZ activities are textiles and garments, and the main market has been the European Economic Community. The reasons explaining the success of the Mauritian EPZ are to be found in the background socio-economic characteristics of the country itself, including political stability and the quality of the labour force and of the local business environment, encouraged by the package of incentives provided by Government, in conjunction with market access to the EEC under the Lomé Conventions.

The Mauritian EPZ presents an interesting case of the combination of local investment with investment by multinational enterprises, many of which originated in Asian newly industrialised countries (NICs). Although foreign investment represents more than half of the equity invested in the EPZ, firms owned entirely by multinationals are a small minority (about 14 per cent of total) and are fewer than those wholly owned by Mauritians (about 31 per cent). Joint ventures are the prevailing type of arrangement. There has been relative stability in the ownership pattern over time, with a substantial part of the expansion being financed from reinvested earnings. The main foreign sources of investment by multinationals have been the area of Hong Kong, followed by France.

As regards employment, the EPZ in the mid-1980s came to represent about 88 per cent of employment in manufacturing and about 31 per cent of total employment in the organised sector - a higher proportion than in any other EPZ. The closures of EPZ enterprises in most years were more than compensated by the creation of new enterprises or the expansion of existing ones. As regards stability of employment, no difference is noticeable between enterprises mostly owned by foreigners and those mainly owned by Mauritians.

A striking feature of EPZ employment has been the employment of women - most of whom were single and were not previously in the labour force. Thus although the direct employment impact of the EPZ has been considerable, it took mainly the form of bringing a new group into the labour force and its effect on the previously unemployed group has been more limited. Nevertheless, since the end of 1984 when the higher minimum wage for men was abolished, the proportion of men among EPZ employees has been steadily increasing.

In spite of the fact that most of the raw materials used by the EPZ are imported, data indicate that EPZ enterprises make non-negligible purchases of goods and services locally - thus also indirectly creating jobs. There is no evidence of diversion of jobs from other sectors into the EPZ since the type of industries functioning in the EPZ were new to the country.

As part of the incentives deliberately created by Government to attract investment to the EPZ, there were a number of working conditions that were

less favourable than for workers in other organised sectors of the economy. These concerned minimum wages, overtime and security of employment. There has been, however, a definite tendency over the lifetime of the EPZ to make conditions more similar to those in other sectors as was noted in the cases of earnings, annual leave, maternity leave, over time and compensation for unjustified dismissal.

The laws regulating trade union activity in the EPZ are the same as those applicable in other sectors. Trade unions have been active in the EPZ throughout its history but the proportion of workers unionised has been low since the conditions for the development of unions have been less favourable than in certain other sectors. Some enterprises controlled by certain multinationals operating from areas with little trade union activity have been particularly reticent to deal with trade unions.

In conclusion, an EPZ, by its very nature, is inevitably externally oriented and superimposed on the local economy. In the case of Mauritius, a new form of employment-generating economic activity has been created in the EPZ, which has become a major part of its economy and its main source of employment growth. The development of the EPZ was spearheaded originally by multinationals who, in addition to their capital, introduced essential technologies and marketing know-how which would not otherwise have been available. However, the continuous Mauritian involvement, as partners in joint ventures with multinationals, as independent investors and as employees at all levels, has contributed to a certain degree of integration of the EPZ into the local social and economic environment.

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APPENDIX I

Summary of incentives for export industries in the
Mauritian Export Processing Zone in 1983¹

Income tax relief

TEN-YEAR TOTAL INCOME TAX
RELIEF ON CORPORATE INCOME

Industries operating in MEPZ automatically enjoy a 100% corporate tax exemption during the first ten years. From the eleventh to the fifteenth year, a 50% exemption is available and from the sixteenth to the twentieth a 25% exemption.

FIVE-YEAR TAX HOLIDAY
ON DIVIDENDS

Within the first ten-year period dividends are wholly exempted from income tax for a period of five consecutive years, beginning from the first dividend year.

Other tax incentives

DUTY FREE INPUTS

Capital goods, raw materials, components and semi-finished products used by export industries are admitted into Mauritius free of customs and other duties.

PARTIAL TAX EXEMPTION
ON RE-INVESTED PROFITS

Profits re-invested in new manufacturing enterprises in Mauritius, instead of being transferred abroad, enjoy partial exemption from income tax.

TAX REBATES FOR
FOREIGN TECHNICIANS

Foreign technicians are granted a global exemption on an initial sum of Rs.15,000 on their salaries, inclusive of fringe benefits, plus a further relief of 30% on the balance.

Other facilities

GUARANTEE AGAINST
NATIONALISATION

Such a guarantee which is already contained in Sessional Paper No. 2 of 1963 has since then been periodically confirmed by every incoming government. The present Government has repeatedly reassured foreign investors to that effect.

¹ This summary appears in A guide for foreign investors (Joint Committee for the Promotion of Industry, 1983).

Other facilities (cont.)

REPATRIATION OF PROFITS,
DIVIDENDS AND CAPITAL

Profits and dividends may be freely repatriated. Likewise for capital actually invested, excluding capital appreciation which is subjected to the normal rate of stamp duty.

SHARE TRANSFER

Shares are freely transferable.

INVESTMENT CAPITAL

Priority, whenever possible, is granted to export industries in the allocation of investment capital by the Development Bank of Mauritius.

LOANS AT PREFERENTIAL
RATES

Loans are currently available from commercial banks at preferential rates.

DISCOUNTING OF EXPORT
BILLS AT PREFERENTIAL
RATES

Export bills are discounted by commercial banks at preferential rates.

PROTECTION AGAINST
DOUBLE TAXATION

Double taxation agreements have already been signed with France, the United Kingdom, the Federal Republic of Germany and will soon be signed with India. Further, in those countries where tax laws prevent investors from benefiting from tax incentives in host countries, the Government is prepared to conclude agreements with "tax sparing" provisions.

FAVOURABLE FREIGHT TERMS

Export firms benefit from freight rebates from major shipping companies plying between Mauritius and Europe.

GOVERNMENT CONTRIBUTION
TO TRADE MISSIONS AND
TRADE FAIRS

The Government provides valuable assistance for participation in trade missions and trade fairs so as to facilitate the marketing of the products to be exported.

APPENDIX II

EPZ employment regulations applicable in 1987¹

1. Normal working hours

The normal working weeks consists of 45 hours' work, excluding time allowed for meal breaks.

Meal breaks:

Lunch break of one hour between 10.00 a.m. and 12.00 a.m.

Two tea breaks of 10 minutes each, the first to be taken not earlier than two hours before lunch and the second not later than two hours after lunch.

Where a shift system is in operation, the time of breaks is mutually agreed between employer and workers.

2. Extra work

Work on a public holiday is paid at twice the basic rate for the first eight hours and thereafter at three times the basic rate.

During week-days extra work performed is remunerated at one-and-a-half times the basic rate for the first ten hours, twice the basic rate for the next five hours, and thereafter three times the basic rate.

The basic rate per hour is 1/45th of the weekly basic rates.

A worker may be required to perform extra hours of work for up to ten hours per week.

No employer shall require a worker to perform extra hours of work unless he has given notice to the worker at least 24 hours in advance of the extra work and its duration.

3. Annual leave

After one year of service, the annual leave on full pay is:

14 days for a worker employed on a 6-day week.

12 days for a worker employed on a 5-day week.

¹ This summary is based on the Wages Remuneration Order for EPZ workers, Government Notice No. 19 of 1984, which came into effect in January 1985, as subsequently amended by the Export Enterprises (Remuneration Order) (Amendment) Regulation, 1987 (Government Notice No. 65 of 1987).

4. Sick leave

After one year of service, a worker employed on a six-day week is entitled to 21 days' sick leave on full pay, and a further period of 14 days on full pay for prolonged illness. For a worker employed on a five-day week the corresponding leaves are respectively 18 and 12 days.

5. Maternity benefits

A female worker who has been in continuous employment with the same employer for one year preceding her confinement is entitled to 12 weeks' leave on full pay and an allowance of Rs.300.

Where a female worker who has at any time had three confinements is pregnant, she shall not be entitled to the benefits specified above but she shall be entitled to 12 weeks' leave without pay.

6. Transport benefits

Every worker shall be entitled to free transport or be paid the return bus fare where no free transport is available if the distance between his residence and the place where he reports for work exceeds 2 miles (3.2 km).

7. Public holidays

A worker, other than a monthly paid worker, who has remained in continuous employment with the same employer for one year is entitled to a normal day's wages for every public holiday, other than Sunday, on which he is not required to work.

8. Piece-rate

Piece-work is remunerated at such a rate that the wages paid to the worker per hour exceed the normal basic rate per hour by at least 10 per cent. The same principle applies for extra work.

9. Subsistence allowance

A worker who is required to work after 7.00 p.m. after a normal day's work has to be provided with an adequate meal or an allowance of Rs.10.

10. Protective equipment

The employer must provide before 31 May every year:

(i) two aprons to every factory worker;

(ii) two overalls or uniforms to every mechanic and electrician.

12. Attendance bonus

A worker who does not absent himself from work during a period of one month is entitled to a bonus of not less than 5 per cent of the basic wages he has earned for that month.

13. End-of-year bonus

The end of the year bonus is equivalent to 1/12th of total earnings for that year.

ANNEX

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