Epz- Annual Growth Rate, Job Losses, Etc

Private Notice Questions - 27 May 2003

EPZ – ANNUAL GROWTH RATE, JOB LOSSES, ETC

The Leader of the Opposition (Dr. N. Ramgoolam) *(By Private Notice)* asked the Minister of Industry and International Trade whether, in regard to the EPZ, he will state –

for the calendar years 2001 and 2002 –

the level of growth in output;

the number of people employed;

the number of job losses;

the growth in export proceeds, and

the total investment.

whether Summit Textiles and Leisure Garments will pull out of Mauritius and, if so, their effects on employment and output, and

why policy measures taken by Government have not reversed the declining trend of major indicators in the EPZ.

The Minister of Economic Planning, Financial Services and Corporate Affairs (Mr K. Khushiram): Mr Speaker, Sir, I would like, with your permission, to reply to this PNQ. The substantive Minister, my colleague, hon. Cuttaree, is, in fact, on mission abroad, precisely, in relation to this question. He is attending a meeting of COMESA in Nairobi, Kenya, to discuss the COMESA strategy with regard to the trade negotiations to be held soon in Cancun and also with regard to the negotiations on Regional Economic Partnership Agreement (REPA) with the European Union. Mr Speaker, Sir, the information sought in part (a) of the question is as follows -

(i) The annual growth rate in 2001 was 4%. However in 2002, the sector registered a negative growth rate of □%, essentially due to problems in Madagascar;

(ii) The number of workers stood at 87,607 in 2001 and 87,204 in 2002 ;

(iii) In 2001, net job losses were 3,075 while in 2002 it amounted to only 403;

(iv) The export proceeds were of the order of Rs33.69 billion in 2001 and Rs33.5 billion in 2002;

(v) Total investment amounted to Rs1.69 billion in 2001 and Rs1.65 billion in 2002.

As regards part (b), Summit Textiles Ltd has been experiencing difficulties over the last three years. Exports declined by 4% in 2002 and it lost Rs115 m. in the same year. It has indicated that it will close a number of units as part of its restructuring plan in order to improve its competitiveness. An eventual closure might lead to job losses of around 1,731 employees (including 331 expatriates) out of a total work force of 4,059 employees. In the event of the closure of the units, the output of Summit Textiles will still range around Rs200 m.

Following a meeting held yesterday with the Chief Executive of the Company, we have been informed that the Company has stayed action on its proposal to close a number of units. In the meantime, proposals on improved market access which will benefit Summit Textiles as well as a number of other EPZ units are being examined.

Leisure Garments Ltd. has been facing difficulties to secure orders from its clients. The Company is currently employing 2,723 workers, which include 800 expatriates. Its exports for the year 2002 were valued at Rs1.5 billion. It has notified that it will cease operations on 31 August 2003. However, it has proposed an Employee Support plan, which covers training and reskilling of workers for alternative jobs.

In replying to part (c) of the question, I would like, Mr Speaker, to briefly dwell on the major changes in the international economic and trade environment. As the House is aware, the world economy has been slowing down over the last three years. Our major markets namely, the United States and the European Union are growing at a sluggish rate. Consumer confidence worldwide has been depressed for a prolonged period. This has had a direct impact on the prospects and the performance of our textile and clothing sector. Secondly, trade liberalisation has gradually eroded the preferential access to our major markets and putting increasing pressure on prices. Thirdly, new and major players such as China, Vietnam, Bangladesh have emerged on the scene, taking an increasing share of our own market. The combination of these factors has adversely influenced the performance of the EPZ sector. Government, in response, has come forward with a number of policy initiatives that are aimed at improving the competitiveness of the textile and clothing industry. These include the provision of a special line of credit of Rs 800 million put in place in 2001 through the Bank of Mauritius. A few firms availed of such funds to re-structure and modernize their operations. Besides, in the last budget the establishment of equity funds was announced to buttress the equity base of industries in the EPZ sector, and it is now operational. We are also promoting the setting up of spinning plants and a special industrial/spinning village is gradually rising out of the ground at La Tour Koenig. An innovative package of incentives has been designed in this regard.

In view of the substantial financial resources required for consolidating the whole EPZ sector, we have through the ACP submitted a proposal to the European Union for the setting up of a textile restructuring fund for the ACP countries. Our efforts to utilise AGOA to improve the prospects for EPZ exports are well known to the House and the Mauritian nation. The different policy measures I have referred to will pay dividends in the medium to long term. The industry is going through a painful restructuring process and this was not unexpected. In fact, appropriate measures should have been taken a long time back, to allow the sector to adapt to a changing world environment. With Government's multi-pronged strategy to consolidate past gains, restructure the existing industries and to develop new avenues of growth, the EPZ sector will continue to play a vital role in the social and economic development of Mauritius.

Dr. Ramgoolam: From the figures that we have and confirmed by the Minister, I think it is the first time since 1982 that this vital sector is recording a negative growth. In spite of what he has said, between 1996 and 2000, every single year, there has been positive growth, despite difficulties that managed have started way back, as he himself said. Therefore, the Government has the unique performance of getting a negative growth in a vital sector. Can he tell us whether he believes that this, in itself, is not evidence of poor economic management and poor stewardship.

Mr Khushiram: Mr Speaker, Sir, the only seriously negative trend that the Leader of the Opposition has mentioned is a drop of 4% in the value added of the EPZ in 2002. We all know that it is attributable largely to problems in Madagascar. The exports of the EPZ in 2002 were broadly stable compared to the previous year, and had the Malagasy problem not happened, exports would have been, at least, Rs 1 billion more, which would have erased the negative growth rate that occurred in 2002. But, besides Madagascar, we know that, over the last three years, world markets have witnessed considerable negative factors, namely recession, deflation, terrorism, security problems, wars, to the extent that, today, the world is seemingly on the verge of a deflation. No one will deny that, over the last three years, demand in our export markets has not increased, and even declined, which has directly affected the exports of the EPZ. But, to come back to the main negative trend, mentioned by the hon. Leader of the Opposition, the situation in Madagascar largely explains the oddity of a negative growth in EPZ value added in 2002.

Dr. Ramgoolam: Therefore, may I ask the hon. Minister whether he is aware that when Madagascar had started getting problems, some investments that were supposed to go to Madagascar shifted to Mauritius? Would he confirm that?

Mr Khushiram: Mr Speaker, Sir, I am not aware of a major significant outflow of investments. Some orders may have temporarily been sent to Mauritius, but this does not reflect the general situation in the EPZ.

Dr. Ramgoolam: I thank the Minister for agreeing that some orders did actually shift from Madagascar to Mauritius. I know that the Minister of Economic Development is not the substantive Minister, but I suppose he must be aware that China, Vietnam and Bangladesh have been competitors since a long time. Can he confirm this?

Mr Khushiram: Mr Speaker, China only joined the WTO a few years ago. It is only in the last couple of years…

(Interruptions)

Mr Speaker: Order, please!

Mr Khushiram: It is only in the last two years that China has expanded massively on the US market. If that had happened earlier, there would certainly have been protectionist reactions from US manufacturers. In fact, it is now that the US manufacturers are trying to build a coalition to resist the surge of Chinese exports to the US market. Similarly, in the European Union, it is only in the recent years that China has really expanded in Europe, and the reason is their membership in the WTO. But there are other factors as well besides the growth of textile exports to Europe and the USA. There is the EBA ("Everything but Arms") initiative that is directed towards Least Developing Countries, who can now access the European market quota free and duty free. There is the forthcoming deadline of liberalisation, of the end of the multi-fibre agreement, which is weighing on producers' decisions about investment, exports and location. They know that the deadline is coming closer and it looks that it will be unavoidable. So, now, producers are really looking for alternative locations where they can get cheap and abundant labour. All these factors are leading to a new re-structuring of the textile and clothing industry worldwide, and which is aggravating the prospects and the situation in the Mauritian EPZ sector. But, as a prudent and responsible Government, we have, over the last two years, taken a number of policy initiatives in expectation of these difficulties. My colleague, the substantive Minister of Industry, has been lobbying the European Union, the United States on AGOA, to improve the prospects of this industry. The Prime Minister will be proceeding to Washington soon to lobby the American Government, to ensure that if the extension of LDC status is granted for another two years under AGOA, then Mauritius should also be eligible to this LDC status. This will be something that will really help the EPZ sector to benefit more fully from AGOA. Mr Speaker, there is no reason to believe that, because China and Vietnam were already producers of textiles, therefore, the present difficult situation is not justified. It is, Mr Speaker, and I have given sufficient reasons to show that.

Dr. Ramgoolam: I know the hon. Minister is not the substantive Minister of Industry, but he must know that China has the biggest export growth not since it joined the WTO but before that. Vietnam, Bangladesh and all these countries have been in competition with Mauritius since some time. After having said all this, can I ask him what does Government intend to do to reverse this awful performance that we are seeing now?

Mr Khushiram: What the hon. Leader of the Opposition calls an awful performance, again, is something that is totally out of our hands, totally out of our control. And already in the year 2003, exports are coming back on stream. With the increasing stability in Madagascar - the improvement there - we are confident that investment will resume and our EPZ industry can look ahead to the future with greater optimism. We have no reason to be pessimistic, to paint too black a picture; we are just realistic about the difficulties that have existed in the past, but that have intensified over the last couple of years. We are confident, Mr Speaker, that the initiatives, the strategy that we have adopted, will help to strengthen, consolidate and re-structure the industry. Our intention to develop a whole new area of industry is to go towards spinning activities, which is more capital intensive, maybe less employment generating, but it will move our industry up market; it will create greater vertical integration, and it will enable us to preserve a number of jobs in the EPZ and textile sector.

The emphasis we are putting on AGOA, our negotiations with the European Union will help to preserve the preferences that we enjoy for as long as we can. The Equity

Fund, as I have already said, Sir, will provide the finance, the resources for EPZ industries to restructure themselves, to reduce their debt overhang which does not encourage them to invest more since they are squeezed by the huge amount of debt. The Equity Fund will relieve them of their debt problem and help them, encourage them to invest further in modernising, in renewing their equipment. These are the series of measures that we have taken to ensure the continued progress of the EPZ sector.

Mr Duval: Mr Speaker, Sir, it seems that Government has washed its hands of the EPZ.

(Interruptions)

Mr Speaker: Order!

Mr Duval: In January 2002 the high-powered committee submitted a lengthy report to Government in which it identified three major problems. (i) cost of labour; (ii) high finance charges and (iii) the high cost of utilities. Just for starters will the Minister tell us how has he attacked and dealt with these three problems identified by the Government's own high-powered committee?

Mr Khushiram: As regards the high cost of labour, Sir, in the recent tripartite negotiations we had emphasised to the trade unions and workers in the country at large of the need to preserve competitiveness in the EPZ sector and generally as well in the economy and, therefore, to be moderate in the demands for salary compensation. The increase in salary compensation that was awarded does not seriously endanger the competitiveness, unit labour cost increase, in the EPZ sector. But moreover as the House and the whole country is aware, the exchange rate policy followed by the Bank of Mauritius ensures that a good balance is reached between the fight against inflation and ensuring export competitiveness. This was the fatal mistake committed by the Government at one time that endangered the prospects and the livelihood of EPZ workers during the years 1998 to 2000 and almost brought the country to a social crisis. It was the failure to understand that our exchange rate policy must also cater towards export expansion; and I am very happy that the Bank of Mauritius is conducting this policy admirably and ensuring export competitiveness despite the rise in cost of labour. We must admit that we are now a country that does not offer cheap labour as Bangladesh, China or other countries, but we manage to remain competitive. Today the United States is more comfortable about its trade deficit, because it is going to export massively due to the weakness of the dollar. The Europeans today are very worried about their exports, because of the strength of the euro. Therefore exchange rate policy is one policy instrument, in the arsenal of policies that Government has, to ensure the competitiveness of the export sector.

As regards financial charges, interest rates in Mauritius have declined over the recent years and they are only slightly above the rate of inflation. The real rate of interest in Mauritius is not excessive when you compare it with interest rates worldwide. However, they could go down further as Government has very often drawn the attention to the need for banks to reduce their profit margins in order to better benefit depositors as well as borrowers.

As regards the third part, that is, the cost of utilities, Government is investing massively in utilities to ensure first the provision of a dedicated quality public utility service. That is the primary thing and the second thing is, of course, providing it at an affordable cost, but for Mauritius the priority is to provide uninterrupted high quality of electricity, telecommunications, water, wastewater facilities and other utilities. In some areas like the cost of international telecommunications, Government has brought down rates which is extremely beneficial to companies which have to deal with the rest of the world. As regards the CWA, the improvement in management …

(Interruptions)

Mr Speaker: Order please! Order.

Mr Khushiram: Mr Speaker, Sir, the improvement in management of the CEB, the CWA and other public utilities compared with the bankrupt situation they were in year 2000 will ensure that industries and the population will get these quality services and over the long-term at efficient and competitive costs. The hon. Member should be the last person to speak about the delivery of public utilities.

(Interruptions)

Mr Speaker: Order! Order, please!

Mr Duval: Mr Speaker, Sir, it can be easily proven that Government has done nothing. The High-Powered Committee in February 2002 suggested from the Gherzi Report that a Modernisation Fund be set up to help the EPZ. Where are we with this Fund?

(Interruptions)

Mr Khushiram: Mr Speaker, Sir, calling a Fund by any other name is still a fund. The Equity Fund is doing what the Modernisation Fund was supposed to do, which is to provide finance to cash strapped EPZ firms. The Government Equity Fund will be of Rs 1 billion and the private sector will come up to match with another Equity Fund of an equivalent amount of Rs 1 billion. We hope this will consolidate and help those EPZ firms to modernise.

Mr Duval: The Minister raised the point of the exchange rates which Mr François Woo of the CMT called *"on dirait pé vendre pomme d'amour"*. This is a sufficient opinion delivered on Government rate policy….

(Interruptions)

Mr Speaker: Order!

Mr Duval: Mr Speaker, Sir…

The Deputy Prime Minister: Can I take a point of order, Sir? There is first the ruling of the Chair that names of individuals not present here should not been brandished around. In this case it is a false statement attributed to a stranger; this is wrongly attributed to him. So, the Member should withdraw what he has said.

(Interruptions)

Mr Speaker: Order! That is true. I have said that as far as possible we must avoid mentioning names of people in the House…

(Interruptions)

Order! Order please!

Mr Speaker: Order! Can I be allowed to make my ruling? So, please keep quiet, let me give my ruling. This is true, I have said….

(Interruptions)

Please don't argue with me hon. Leader of the Opposition!

(Interruptions)

Yes, you are arguing!

(Interruptions)

Order! Order, please! Hon. Dr. David! Hon. Dr. Boolell, please! Hon. Leader of the Opposition, this is not acceptable! When I am on my feet, you have to give way; I don't want you to argue with me. Please!

Dr. Ramgoolam: I was not arguing with you, Mr Speaker, Sir.

Mr Speaker: Yes, you were!

Dr. Ramgoolam: No, I am just reminding you, Mr Speaker, Sir, that….

Mr Speaker: I know what I have to do. Yes, this is true. I have said that, as far as possible, Members should avoid mentioning the names of people who are not in this House.

We can mention the post, which that person occupies and people would know who he is.

Mr Duval: Mr Speaker, Sir, I take your point that it is as far as possible.

(Interruptions)

Mr Speaker, Sir, on a day when it has been announced that 3,000 people will lose their jobs on 31st, it is a shame on this Government…

(Interruptions)

…which has done nothing for the last two years to come and make a *raillerie* of this whole question! That's my point and that comes from the heart, Mr Speaker, Sir.

(Interruptions)

Mr Speaker: Order, please!

Mr Duval: Mr Speaker, Sir, they have dealt with the problem of the dollar, which is disastrous. I am sure the firms selling to America will take to heart what the Minister has said regarding the good management of the foreign currency and I'll not comment on it any further.

Concerning the Equity Fund, the hon. Minister knows very well that, last year's budget was striking for one thing. It had absolutely nothing for the EPZ, except for the Equity Fund. My understanding is that, the Equity Fund has not yet been operational. Apparently, this is not the case. Could the hon. Minister tell us when it has begun its operations and where and how much it has invested?

Mr Khushiram: Mr Speaker, Sir, I am not aware of the details on the operations of the Equity Fund.

(Interruptions)

But, I know that it has been actively put into place.

(Interruptions)

I have mentioned, Mr Speaker, Sir, the Rs800 m. line of credit from the Bank of Mauritius.

As the hon. Member is well aware, extending credit from the Central Bank is not the best way of ensuring monetary stability. However, the Equity Fund will raise money from the rest of the economy and it is being actively being set up.

Mr Speaker, Sir, I would like to add that I appreciate the hon. Member's concern for the preservation of jobs and to ensure that jobs are not lost in the EPZ sector.

Mr Speaker, Sir, this is not the first time that EPZ firms are closing. In the year 2002, 7,957 jobs were lost by the closure of firms. However, 7,554 new jobs were created from the creation of new firms and the expansion of existing firms, resulting in the net loss of only 403 jobs.

(Interruptions)

Mr Speaker, Sir, in the conditions of the world textile industry and the difficulties we have experienced in Madagascar…

(Interruptions)

Mr Speaker: Order!

Mr Khushiram: …this feat is nothing, but a miracle!

M**r Duval:** Will the Minister confirm…

Mr Speaker: Time is almost up! I am allowing you a last question.

Dr. Ramgoolam: I have a last question.

Mr Speaker: I'll allow you the last question.

Mr Duval: It's a shame! Mr Speaker, Sir, the net loss in the first quarter of this year is about 1,600 and if you take the gross loss, it's about 3,000 people in the first quarter.

Mr Speaker, Sir, may I ask what Government has done? The High-Powered Committee requested that Government went into an intensive international marketing campaign following AGOA. And, the hon. Minister has just announced it for a few days' time and the Equity Fund has not yet been in operation although it is the only thing that was in the last budget; and AGOA is now three years old. So, may I ask the hon. Minister, why, up to now, Government has not led any international marketing campaign in the USA?

Mr Khushiram: The Board of Investment is conducting numerous campaigns worldwide, China and elsewhere.

(Interruptions)

Mr Speaker: Order!

Mr Khushiram: There are enough promotional activities BY BOI for the hon. Member to rest assured that we are taking care of attracting foreign direct investment. Obviously, international conditions are not conducive to attracting foreign investors at this moment, but nevertheless we have been extremely successful in attracting investments notably in the spinning industry.

Dr. Ramgoolam: When the hon. Minister talks about net figures, he actually knows - I am sure he knows - that the total figure for loss of jobs in the EPZ since September 2000 is well over 12,000., in fact, I think it is 12,278. Does the hon. Minister not agree with what his colleague, hon. Minister Soodhun, had said, that there is a *Classe IV* in the *zone franche* and should he not, therefore, change the disastrous policy that this Government has followed?

Mr Khushiram: Mr Speaker, Sir, I repeat again: there is no need to blacken the picture, to put people aflame around the difficulties of the EPZ sector. Difficulties come and go. We are confident, Mr Speaker, Sir, that all the measures we are taking, the strategies that we have adopted will bring positive results and will ensure the future of the EPZ sector for many years to come.

Mr Speaker: Questions to the Rt. hon. Prime Minister. Hon. Dr. Chady!_