



THE LONDON SCHOOL  
OF ECONOMICS AND  
POLITICAL SCIENCE ■

# **Sustainability Impact Assessment in Support of Negotiations with Partner Countries in Eastern and Southern Africa in view of Deepening the Existing Interim Economic Partnership Agreement**

Case Study: Textiles and Garments • May 2021



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## Abbreviations

AGOA	African Growth and Opportunity Act
CGE	Computable general equilibrium
CSR	Corporate social responsibility
EAC	East African Community
EDBM	Economic Development Board Madagascar
EPA	Economic Partnership Agreement
ESA	Eastern and Southern Africa
EPZ	Export processing zone
EURATEX	European Apparel and Textile Confederation
EU	European Union
FDI	Foreign direct investment
GDP	Gross domestic product
GEFP	Groupement des Entreprises Franches et Partenaires (Madagascar)
GEM	Groupement des Entreprises de Madagascar
ILO	International Labour Organisation
MCCI	Mauritian Chamber of Commerce and Industry
MEXA	Mauritian Export Association
R&D	Research and development
SADC	Southern African Development Community
SIA	Sustainability Impact Assessment
SME	Small and medium-sized enterprises
STEM	Science, technology, engineering and mathematics
The Framework	Industrial Policy and Strategic Plan for Mauritius 2020-2025
TSD	Trade and Sustainable Development

## Executive summary

This case study provides an overview of the textiles and garment sectors in Mauritius and Madagascar. It highlights the benefits that the interim Economic Partnership Agreement (EPA) has offered both countries in the growth and development of their respective industries. It also identifies key policy developments that intend to leverage the deepened EU-ESA5 EPA for future growth, improved competitiveness, and investment gains in their countries. In doing so, the case study highlights Mauritius' plans to become a textile regional hub and to grow their textile industry through greater value-addition, higher use of new technologies and improved competitiveness in European Union (EU) markets. For Madagascar, the challenges facing the growth of the textile industry is more systemic and rooted in the country's overall economic challenges, such as poor infrastructure, slow customs processes, and complicated administrative requirements. While a deepened EPA can help grow the Malagasy garments and apparel industries, its full impact will be limited if domestic constraints are not simultaneously addressed by the Madagascar government. In terms of the deepened EPA's impact on EU stakeholders, there did not appear to be great levels of awareness of the interim agreement. For others, while there is a desire to explore new markets, it is important that Mauritian and Madagascar stakeholders implement a deepened export strategy, undertake trade promotion activities, and actively seek investors. Mauritian and Malagasy private sector representatives also indicated their desire for greater networking and peer learning opportunities from their European counterparts.

Findings from a wide range of stakeholder consultations reveal the following concerns and recommendations for a deepened EU-ESA5 EPA:

- Under the interim EPA a Single Transformation is already on offer to ESA5 countries. Under a deepened EPA, it is requested from ESA5 stakeholders that the rules of origin negotiations should support and facilitate greater cumulation from across the African continent, which will enable higher value-added production in the textile and apparel sectors.
- It was requested that the development of technical training centres be explored under a deepened EPA that would act as a one stop shop to assist small and medium sized enterprises (SMEs) with information on exporting, meeting EU standards, and other related information.
- EU textile companies, specifically SMEs, would like to see simplified and harmonized rules of origin that enable EU companies to import from the five Eastern and Southern African (ESA5) countries.
- Stakeholders expressed a desire for greater private sector collaboration and networking between EU and ESA5 private sector stakeholders. Creating a matchmaking facility under the auspices of a deepened EU-ESA5 EPA can support Mauritian and Madagascar companies to partner with EU companies can support networking between the parties and further joint investments between the two regions.
- Stakeholders expressed a desire to see the implementation of support to the ESA5 countries as underscored by the development cooperation commitments under the EPA, particularly in meeting the requirements of the Trade in Sustainable Development (TSD) chapter.
- In addressing some of the environmental and labour concerns raised by EU stakeholders, the EU could design a similar set of eligibility preferences as per section 104 of the African Growth and Opportunity Act (AGOA), that determines minimum requirements that third party countries will have to meet in order to be a part of future EU trade agreements.

## 1. Introduction

This report is part of the project to prepare a Sustainability Impact Assessment (SIA) in support of negotiations with partner countries in Eastern and Southern Africa (ESA) in view of deepening the existing interim EPA. Under this project, a brief evaluation of the existing, interim EPA has been prepared.

In 2009 four countries (Madagascar, Mauritius, Seychelles and Zimbabwe) signed the interim EPA, which has been provisionally in place since 2012. The EPA foresees consecutive rounds of liberalisation over 10 years, with the tariff liberalisation process concluding in 2022. Although a late joiner, Comoros is now partied to the negotiations to deepen the EPA, having signed the agreement in July 2017 with ratification and entry into force in January and February 2019 respectively. Currently, the interim EPA between the EU and the ESA5 countries includes the following chapters: abolition of EU duties and quotas for imports from these countries; gradually opening up of EU exports to these countries; a protocol on rules of origin; provisions on fisheries and trade defence; commitments to cooperate on technical barriers to trade, and standards on animal and plant health; rules and commitments on development cooperation; and mechanism for settling disputes. The new rounds of negotiations are intended to reach an agreement that would boost bilateral trade, investment flows, and contribute to the socio-economic growth and sustainable development across the ESA5 countries.<sup>1</sup>

The purpose of this case study is to provide an overview of the textiles sector and its importance to ESA5 countries, specifically Madagascar and Mauritius. For both countries, the textile industry is an important export revenue generator, although growth has been unstable for the past several years. This case study identifies specific interventions on how a deepened EU-ESA EPA can contribute towards value-added activity in the textile and apparel industries in Mauritius and Madagascar, thereby harnessing EU stakeholder interests. It provides findings on the environmental, social, gender and human rights vis-à-vis the textile industry, and concludes with findings and recommendations on how the deepened EPA can promote trade and the further development of these industries across Madagascar and Mauritius.

## 2. Context and purpose

The purpose of this case study is to explore how the EPA can be used to strengthen the textiles sector in Mauritius and Madagascar and promote economic growth. It identifies how the negotiations could assist Mauritius and Madagascar to grow their textile industries through value-added products and market diversification, and market access that is not detrimental to EU interests. It concludes with recommendations for consideration in the process of negotiations and deepening the existing EU-ESA5 EPA.

Although Zimbabwe has a fledging textiles industry, this case study focuses only on Madagascar and Mauritius. Textiles have been historically important for both countries and continue to retain a large share of their respective export baskets to the EU. For Mauritius, it is important to consider how the sector, which has diminished in size, can be resuscitated with the support of a deepened EPA. For Madagascar, the full benefits of a deepened EPA can only become a reality if Madagascar's context-specific economic realities – such as doing business conditions, improvements to infrastructure, and simplification of administrative requirements – can be improved and made investor friendly.

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<sup>1</sup> LSE Consulting, *Sustainability Impact Assessment in Support of Negotiations with Partner Countries in Eastern and Southern Africa in view of Deepening the Existing Interim Economic Partnership Agreement: Final Inception Report, October 2020.*

### 3. Methodology and approach

This case study attempts to answer three key questions:

- 1) How have the provisions of the interim EPA affected the textiles and garment sectors in the ESA 5 countries?
- 2) What are future considerations for a deep EPA that could help improve the competitiveness and growth of the textiles and garment industries in these countries?
- 3) What will be the impact of a deepened EU-ESA5 EPA on EU industry interests and where are the potential avenues for collaboration amongst the parties?

The methodology consists of a mix. We use existing information from Phase II reports, conduct a desktop literature review, and analyse supplementary stakeholder interviews that provide important takeaways in relation to proposed recommendations for consideration in the deepened EU-ESA5 EPA negotiations.

### 4. State and coverage of EPA and negotiations for the textile industry

This section provides an overview of the development and status quo of the textile industries in each country. It offers findings from the ex-post evaluation and stakeholder interviews regarding the impact of the interim EPA on the textiles and garments industries thus far. It examines some of the challenges facing the growth and development of these sectors and provides insights on how the future negotiations and a deepened EPA can meet the needs of both the ESA5 partners and the EU in supporting the growth and development of this sector.

#### 4.1 How have the provisions of the interim EPA affected the textiles and garments in Madagascar and Mauritius?<sup>2</sup>

Both countries have gained from the interim EPA based on findings from computable general equilibrium (CGE) modelling undertaken by DG Trade, as detailed below. The EU-ESA5 EPA provides free market access to the EU market for all products made in the ESA5 countries. There are flexible rules of origin and cumulation that enables companies to benefit from duty-free access to the EU market.

In particular, both Mauritius and Madagascar are beneficiaries of a **Single Transformation Rule of Origin**,<sup>3</sup> which was introduced under the interim EPA. The Single Transformation Rule provides more favourable conditions than the earlier Double Transformation Rule, which restricted the sourcing of raw materials to other African, Caribbean and Pacific countries and the EU. As a result, Mauritius and Madagascar have capitalised on the EPA preferences made available to them through the agreement. For example, the Single Transformation Rule has enabled Malagasy companies to benefit from tariff reductions in less skill-intensive manufacturing sectors, such as garments, that go beyond the preceding preferential tariffs.<sup>4</sup> In doing so, the country has also moved ahead and has capitalised on its preferential EU market access by making products

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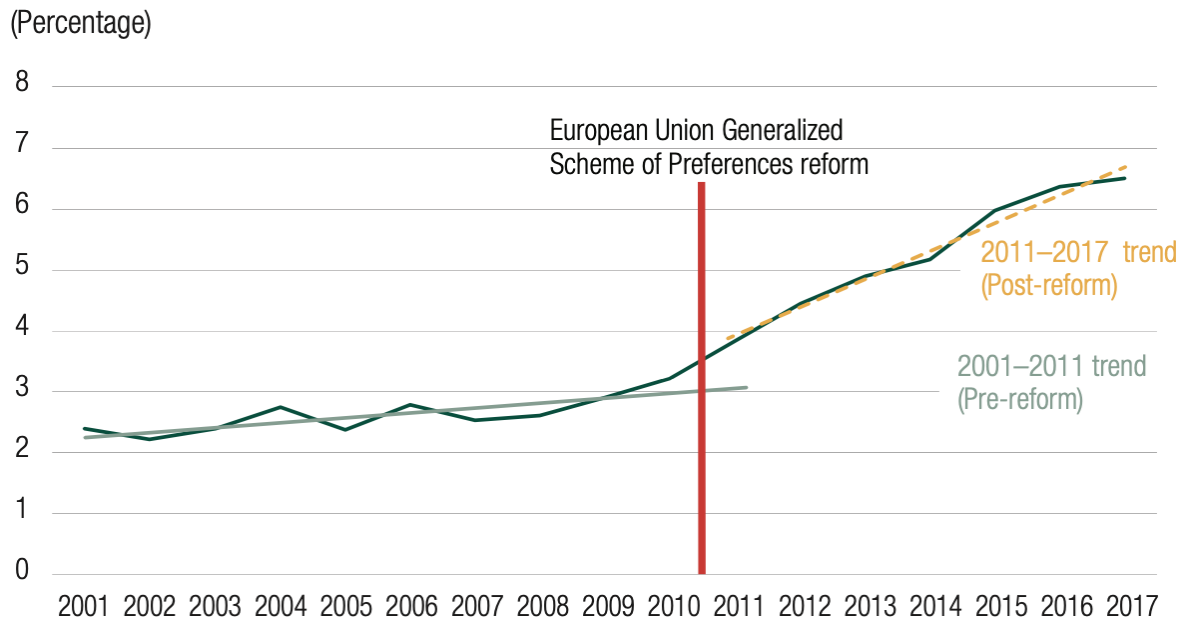
<sup>2</sup> See Appendix I.

<sup>3</sup> This means that clothing companies in the ESA signatory countries can source fabrics from all over the world, undertake any operations and export to the EU market free of duty and quota restrictions, and same for imports.

<sup>4</sup> Interview with representatives from the *Groupement des Entreprises Franches et Partenaires (GEFP)* and *Groupement des Entreprises de Madagascar (GEM)*, 14 May 2021.

that also benefit from the double transformation rules of origin.<sup>5</sup> In general, this EU reform was accompanied by a significant boost to the market share of least-developed countries in the EU, as well as by improvements in the rate of preference utilisation (Figure 4.1).<sup>6</sup>

**Figure 4.1: Share of least developed countries in apparel imports in the European Union, 2001-2017**



Source: UNCTAD *Economic Development in Africa Report 2019*.

For both countries, textiles and garments were among the top two exported products to the EU in terms of trade value in 2019. Benefits from the interim EPA for Madagascar and Mauritius include the following:

- 1) Textile exports from Madagascar, already the leading export category to the EU (accounting for 1/5 of Madagascar's total exports to the EU), increased during the interim EPA period. In 2019, Madagascar's top 20 exported goods to the EU accounted for about 85 per cent of the country's total goods exports to the EU, of which jerseys, pullovers and cardigans account for 9.7 per cent of exports.<sup>7</sup> Exports of jerseys, pullovers and cardigans have remained largely unchanged since then. Madagascar has
- 2) For Madagascar, export-orientated Mauritian and European diaspora investors (primarily French) with established regional production networks and sourcing strategies are generally more locally embedded in Madagascar, resulting in greater spill over effects for local firms through sub-contracting.<sup>8</sup>
- 3) Madagascar's garments and apparel industry has managed to benefit from the double transformation rules of origin when they existed by encouraging firms with vertical integration to import yarn, make fabric and then make garments.<sup>9</sup> This illustrates how the country's textile sector has taken advantage of preferential EU market access and improved its competitiveness through vertical integration that enabled value-added production in Madagascar.

<sup>5</sup> LSE Consulting, *Final ex-post evaluation report*, April 2021.

<sup>6</sup> UNCTAD *Economic Development in Africa Report 2019*

<sup>7</sup> LSE Consulting, *Final ex-post evaluation report*, April 2021.

<sup>8</sup> *Ibid.*

<sup>9</sup> van der Ven C (2015) 'Where Trade and Industrial Policy Converge: How Developing Countries Can Utilize Trade Preferences to Generate Sustainable, Local Growth in the Garment Sector.' *The International Lawyer*, Vol. 49, No. 1.



- 4) The production and export of textile products is important to the Mauritian economy and represents the second largest export to the EU in 2015 and 2019. CGE modelling shows that textile exports from Mauritius were estimated to expand by 6.3 per cent (textiles) and 5.7 per cent (wearing apparel) due to the interim EPA.<sup>10</sup> Therefore, the interim EPA boosted the export of textiles in Mauritius that would otherwise have been significantly lower in the absence of an interim EPA. In 2019, Mauritius' top 20 goods exports to the EU accounted for about 82 per cent of the country's total goods exports to the EU, of which t-shirts, singlets and vest constitute 8.2 per cent of the export basket. The country's highest export growth rates are registered for men's or boys' shirts, which increased by an annual growth rate of 28 per cent, and exports of other garments, which increased by 43.5 per cent annually.<sup>11</sup>

The concessions granted under the interim EPA have been beneficial and have provided greater market access to the EU as detailed above. However, it is important for Malagasy and Mauritian exporters to diversify their range and quantity of exports, and move beyond the Single Transformation Rule. The overall performance of the sector is inconsistent in Mauritius and fluctuates in Madagascar too. This is partially the result of a lack of diversification efforts amongst Malagasy and Mauritian textile and clothing producers, and the result of saturation of specific types of clothing and textile exports from these countries into the EU. For example, Mauritian stakeholders are of the opinion that because the rules of origin have remained more-or-less the same over the years (Lomé Convention and the Cotonou Partnership Agreement), the types of exports to the EU have stagnated owing to the concentration of particular goods in the market, which has resulted in the long-term decline of Mauritian textile exports to the EU.<sup>12</sup> As a result, Mauritian apparel production is characterised by a lack of product diversification and is reliant on four key items: t-shirts, shirts, pullovers and trousers.<sup>13</sup>

The concessions, while useful, have not necessarily been able to mitigate the economic fallout experienced by all countries as a result of the COVID-19 pandemic, as highlighted below. However, this downturn cannot be attributable to the interim EPA alone but instead is a result of the impact of COVID-19 on global value chains and the accompanying economic constraints.

- In 2020, textile and clothing imports from Madagascar into the EU were valued at 281 million euros (representing 32.1 per cent of total imports from Madagascar), down from 343 million euros in 2019 and reflecting an annual growth rate of -3.2 per cent.<sup>14</sup>
- In 2020, EU imports of textiles and clothing from Mauritius accounted for 98 million euros, compared to 139 million euros in 2019, reflecting a -9.5 per cent change in annual growth.<sup>15</sup>

Lastly, as noted above, Madagascar reflects a decrease in trade value over the period 2009-2016, followed by an increase in the following years, although accompanied by a less than proportional increase in quantities trade.<sup>16</sup> For Madagascar, overall exports to the EU would largely remain unchanged in absence of the EPA. Total EU imports from Madagascar are estimated to be 2% higher with the EPA.<sup>17</sup> This is because market access for Madagascar to the EU would not fundamentally change in the absence of the interim EPA – the country would still be eligible for duty-free, quota-free market access under Everything But Arms provisions.

<sup>10</sup> *Ibid.*

<sup>11</sup> *Ibid.*

<sup>12</sup> Interview with MCCI representative, 27 April 2021. See also interview with representative from the Mauritian Ministry of Foreign Affairs, 29 April 2021.

<sup>13</sup> Ministry of Industrial Development, *SMEs and Cooperatives / UNCTAD The Industrial Policy and Strategic Plan for Mauritius 2020-2025*.

<sup>14</sup> DG Trade European Union, *Trade in goods with Madagascar, 2020*

[https://webgate.ec.europa.eu/isdb\\_results/factsheets/country/overview\\_madagascar\\_en.pdf](https://webgate.ec.europa.eu/isdb_results/factsheets/country/overview_madagascar_en.pdf)

<sup>15</sup> DG Trade European Union, *Trade in goods with Mauritius, 2020*

[https://webgate.ec.europa.eu/isdb\\_results/factsheets/country/overview\\_mauritius\\_en.pdf](https://webgate.ec.europa.eu/isdb_results/factsheets/country/overview_mauritius_en.pdf)

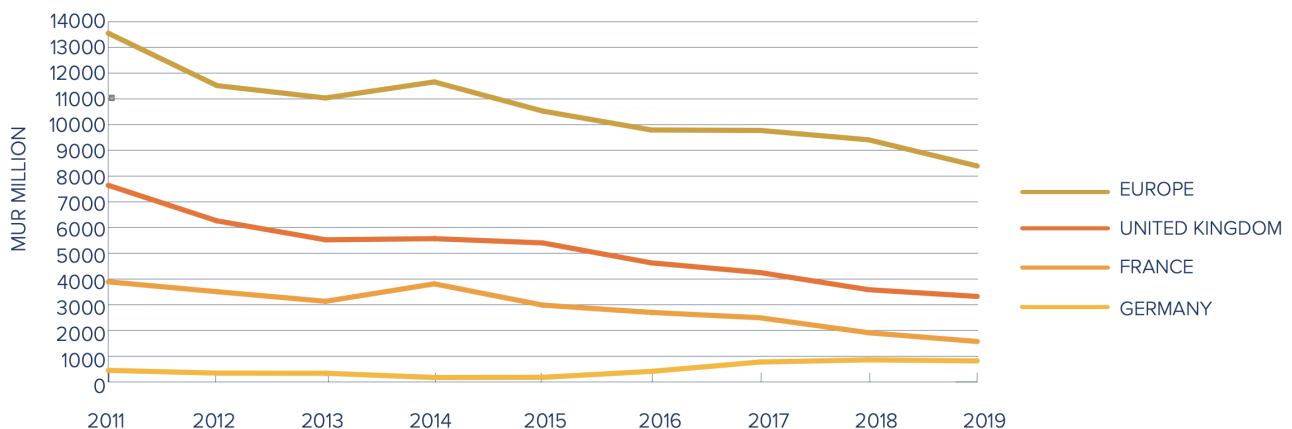
<sup>16</sup> *Ibid.*

<sup>17</sup> LSE Consulting, *Sustainability Impact Assessment in Support of Negotiations with Partner Countries in Eastern and Southern Africa in view of Deepening the Existing Interim Economic Partnership Agreement: Final ex-post evaluation report, April 2021*.

Exports of specific classes of apparel and clothing accessories from Mauritius to the EU fell between 2010 and 2019 (falling from first to second place) (Table 1 in Appendix I). The textile industry’s contribution to the country’s gross domestic product (GDP) has declined from 6.7 per cent in 2006 to 3.4 per cent in 2019,<sup>18</sup> but still represents approximately 45 per cent of domestic exports. In the same period, exports value decreased from EUR 340 million to EUR 210 million (Figure 4.2 below).<sup>19</sup>

Mauritian exports to the EU are concentrated in a handful of countries. The main export markets for the textile and clothing sector are South Africa, the United States, followed by the United Kingdom, Madagascar, France and the Netherlands (Table 3 in Appendix I).<sup>20</sup> The exit of Britain from the EU has resulted in a contraction of exports to the UK, and market diversification should be an important strategy for Mauritius under the deepened EPA. One stakeholder commented that when compared to peer countries with similar operating conditions and limitations (such Sri Lanka), Mauritius has made insufficient use of export promotion and selling the textile and apparel industries’ unique strengths to the advantage of growing their market access under the interim EPA.<sup>21</sup>

**Figure 4.2: Mauritian Exports of Articles of Apparel & Clothing Accessories**



Source: Cheun E, Sun A, Twimukye E (2020) *Strategic Options for the Mauritius Textile and Apparel Industry: Discussion Paper*, December 2020. UNDP Mauritius, UNECA sub-regional office for Southern Africa, African Development Bank.

## 4.2 What does deepening the EPA mean for Madagascar?

For Madagascar, the initial loss of the AGOA preferences was not completely disadvantageous. Upon losing preferential access to the United States market, Madagascan plants increased production for Europe and South Africa. This shift in end markets “led to shorter-run (i.e. shorter product development cycles focused on specific styles) and more complex products with positive impacts on upgrading of processes, quality and skills.”<sup>22</sup> This is because the South African and European markets demand smaller batches of differentiated products with higher unit values, which requires greater processing and production capabilities.<sup>23</sup> Local

<sup>18</sup> Cheun E, Sun A, Twimukye E (2020) *Strategic Options for the Mauritius Textile and Apparel Industry: Discussion Paper*, December 2020. UNDP Mauritius, UNECA sub-regional office for Southern Africa, African Development Bank.

<sup>19</sup> *Ibid.*

<sup>20</sup> Ministry of Industrial Development, *SMEs and Cooperatives / UNCTAD The Industrial Policy and Strategic Plan for Mauritius 2020-2025*.

<sup>21</sup> Interview with International Apparel Federation representative, 6 May 2021.

<sup>22</sup> Staritz C; Morris M; Plank L (2015) *Clothing Global Value Chains and Sub-Saharan Africa: Global Exports, Regional Dynamics, and Industrial Development Outcomes. A Draft Policy Briefing Paper for the Trade Division Commonwealth Secretariat*.

<sup>23</sup> Balchin N; Calabrese L (2019) *Comparative country study of the development of textile and garment sectors. Overseas Development Institute*.

investors have thus been able to leverage relational, local and regional assets to enter and upgrade in apparel global value chains by building technological capabilities linked to specific export strategies.

Under a deepened EPA, the EU market, followed by the United States and South Africa are likely to remain the primary export markets for Malagasy garments (Table 4 in Appendix I).<sup>24</sup> The interim EPA is a substantial part of the revenues for some textile companies. For example, Epsilon generates 80 per cent of its turnover from apparel exports to the EU alone.<sup>25</sup> However, there are general questions as to what extent a deepened EPA will enhance Malagasy's competitiveness and general market access to the EU. In the absence of significant changes to existing terms under the interim EPA, some stakeholders do not think a deepened EPA can offer meaningful new gains to what has already been achieved under the interim EPA. Another stakeholder questioned whether Malagasy apparel companies are genuinely competitive at a global level in the absence of the preferential terms offered by the EU-ESA EPA thus far.<sup>26</sup> As a result, Malagasy stakeholders interviewed indicated that a deepened EPA may not necessarily effect any meaningful changes to the sector compared to what it has already experienced under the interim EPA. Greater flexibility than Single Transformation Rule may not be possible under a deepened EPA. This raises questions as to how the Malagasy government intends to implement policies and offer support mechanisms that would assist its private sector to build competitiveness and improve its range of exports to the EU under a deepened EPA.

This is more the result of structural economic challenges in Madagascar, rather than challenges on the part of the EU-ESA5 EPA negotiations. For example, inadequate infrastructure to support industrialisation, customs procedures that are time-consuming and slow, as well as general administrative challenges in doing business conditions means that a deepened EPA may not be leveraged to its full potential by Malagasy apparel companies.<sup>27</sup> The lack of strategic intervention and development of policy frameworks on behalf of the Madagascar government to support the growth of the textile sector was identified as a specific impediment to the potential benefits that a deepened EPA could offer Malagasy apparel and garment companies.<sup>28</sup> Therefore, any enhanced benefits that a deepened EPA could offer Malagasy apparel and garment manufacturers will have to be cognisant of what can be realistically achieved against challenging operational realities.

Despite domestic challenges in Madagascar, there is an opportunity for the deepened EU-ESA5 EPA to support the development of a bilateral textiles and apparel value chain between Madagascar and Mauritius. This is widely recognized as a positive contribution of the EPA amongst stakeholders interviewed. Shared EU market access has enabled the two countries to work together for the growth of the textile and apparel sectors in both countries.<sup>29</sup>

In Madagascar, the presence of foreign apparel firms offered possibilities for collaboration between local and foreign entities, while proximity to Mauritius has provided important regional assets that local firms can draw upon, including experienced production managers and access to textile and related inputs. In addition, the Single Transformation Rule and flexibility offered under the interim EPA allows each country to play to their respective strengths in their textile exports to EU markets.<sup>30</sup> The Madagascar government has set aside 80 hectares of land to co-develop, with the Mauritian government, the Moramanga Textile Park (i.e. an export processing zone, (EPZ), valued at US\$ 60 million.<sup>31</sup> Once established, Mauritius and Madagascar, which together represent two billion dollars' worth of exports, can continue developing bilateral regional value chains, in terms of production of yarn, fabric and high value-added garments in Mauritius and; production of low-end garments in Madagascar.

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<sup>24</sup> Interview with representatives from the GEFP and GEM, 14 May 2021.

<sup>25</sup> Interview with representative of Epsilon, 14 May 2021.

<sup>26</sup> *Ibid.*

<sup>27</sup> Interview with representatives from the GEFP and GEM, 14 May 2021. See also Interview with representative of Epsilon, 14 May 2021.

<sup>28</sup> Interview with representative of Epsilon, 14 May 2021

<sup>29</sup> Interview with Mauritian Chamber of Commerce and Industry (MCCI) representative, 27 April 2021.

<sup>30</sup> Interview with the Director of the Mauritian Export Association (MEXA), 30 April 2021.

<sup>31</sup> Cheun E, Sun A, Twimukye E, *op. cit.*

The deepened EPA can contribute to this venture by assisting Madagascar to enhance its productive capacity, mobilise capital for the private sector to engage with higher value-addition production, and promote joint ventures with Mauritian and European investors.<sup>32</sup> Making this a reality will require public-private cooperation in Madagascar and real commitments on behalf of the Malagasy government. Private sector stakeholders indicated that – despite the growth potential and opportunities – the apparel EPZ can offer Madagascar the government is not particularly interested in growing the sector (there is no textile strategy masterplan or something similar in place), and there is a lack of consultation by the government with the apparel and garments companies and their representative sector associations.<sup>33</sup>

### 4.3 What does deepening the EPA mean for Mauritius?

Mauritius has a historical track record of developing its industries to take advantage of preferential market access opportunities offered by the EU even prior to the introduction of the EPAs. However, Mauritius now has to identify new ways to grow its textiles industry, which is facing a strong decline in growth over a number of years.

From 2006 to 2019, “textile value addition in manufacturing fell from 37 per cent to 27 per cent, and was to contract further by 45 per cent in 2020 owing to the impact of the COVID-19 pandemic.”<sup>34</sup> The period 2012-2019 has seen manufacturing attract less than 5 per cent of foreign direct investment (FDI), in part the result in the overall contraction of manufacturing activities over this period.<sup>35</sup> Like other African countries, Mauritius’ manufacturing export sector has developed few linkages to the local economy. Many smaller companies have closed down in recent years, while larger firms are vertically integrated with knitting, weaving, dyeing and garment making (including printing and embroidery).<sup>36</sup> The number of enterprises in the textile and clothing sector (covering both export-orientated enterprises and domestic orientated enterprises) decreases significantly from 250 companies in 2010 to 148 in 2019.<sup>37</sup>

Mauritian skills levels have not kept abreast with global competitors, resulting in an unsustainable dependence on migration labour – both for unskilled and STEM-related occupations.<sup>38</sup> The absence of skills has negatively impacted the growth of the Mauritian textile industry. Addressing these challenges will help ensure that the clothing and textile industry, which represents a major scalable global export opportunity in Mauritius, is well positioned and able to take advantage of a deepened EPA.

Stakeholder consultations highlighted a broad acknowledgement amongst public and private actors alike as to the diminished competitiveness, insufficient exploration of new export markets, and low levels of technology use in the Mauritian textile industry. As a result, the launch of the new Industrial Policy and Strategic Plan for Mauritius 2020-2025 (the Framework) in December 2020 should be viewed as a commitment from the Mauritian government to address these deficiencies. The Framework aims to rejuvenate the country’s manufacturing sector, focusing on accelerating product diversification and high value-added production. The framework recognises the importance of upgrading manufacturing capabilities in Mauritius, addressing 4<sup>th</sup> Industrial Revolution concerns, enabling investment in supporting the growth of new industries, and providing for research and development (R&D) to improve the various sectors’ competitiveness.

Negotiations for a deepened EPA dovetails with Mauritian policymakers’ decisions to reconfigure the country’s industrialisation strategies as reflected by the Framework. As a result, a deepened EPA should feature as a

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<sup>32</sup> Interview with representative from the Economic Development Board Madagascar (EDBM), 10 May 2021.

<sup>33</sup> Interview with representatives from the GEFP and GEM, 14 May 2021. See also interview with representative from Epsilon, 14 May 2021.

<sup>34</sup> Cheun E, Sun A, Twimukye E, *op. cit.*

<sup>35</sup> *Ibid.*

<sup>36</sup> *Ibid.*

<sup>37</sup> Ministry of Industrial Development, *SMEs and Cooperatives / UNCTAD The Industrial Policy and Strategic Plan for Mauritius 2020-2025.*

<sup>38</sup> *Ibid.*

cornerstone of the Mauritian industrialisation strategy for higher value-added production across the country's manufacturing sector.<sup>39</sup>

Overall, stakeholders confirmed the importance of a deepened EPA for the growth of the Mauritian economy at large, but also the opportunity to revitalise the stagnating textiles industry. For many Mauritian stakeholders, a deepened EPA that supports the growth of the textile industry requires comparative duty advantages and flexible rules of origin.<sup>40</sup> A deepened EPA could support Mauritius' long term goals to grow the country as a hub for yarn and fabric for the region and, through leveraging existing long-term relationships with European purchasers, for the EU market too.<sup>41</sup> Together with flexible rules of origin, stakeholders believe that Mauritius apparel and textile exports can position itself competitively against Chinese, Vietnamese and Turkish exports to the EU (Mauritius actively benchmarks its own performance against Turkey).<sup>42</sup>

The issue that the East African Community's (EAC) rules of origin under the EU-EAC EPA are more flexible than those on offer to the ESA5 countries was mentioned by more than one stakeholder, and there are concerns that the rules of origin under a deepened EPA will not be as generous as those offered under the interim EPA. In general, interviewees believe that greater cumulation flexibility under the EU-SADC and EU-EAC EPAs can encourage wider sourcing for inputs and attract new investors to a stagnating industry.<sup>43</sup> However, the Single Transformation Rule is the most flexible currently on offer by the EU and the ability to provide more generous terms are not a guarantee. As a result, a strategic consideration for a deepened EPA is how th Mauritian stakeholders intend to leverage the next iteration of the EPA to diversify their exports and enhance their competitiveness through continued EU market access.

Reigniting growth in the textiles industries requires FDI, whereas growth of Mauritian textile and yarn exports requires greater levels of capital investment. Attracting investments also requires market diversification. Mauritian exports to the EU have a historical French connection and European buyers that continue to source from these countries have a historical tradition of doing so.<sup>44</sup> As a result, textile exports are concentrated in select EU member states (France, Spain, Italy, Germany) and the interim EPA was not sufficiently utilised to expand the sector's outreach to non-traditional EU markets, such as Eastern Europe.<sup>45</sup> Combined with a comprehensive export strategy a deepened EPA can open up new EU markets to Mauritian exports and could lead to the establishment of new operations in Mauritius, as per GymShark's recent opening of a regional office in Mauritius.<sup>46</sup> This will support Mauritius' participation in global textile value chains and help the industry to attract new and diverse sources of capital investments. Enabling such efforts requires provisions in the deepened EPA to support export promotion activities and networking and collaboration opportunities between EU and Mauritian companies.

Another important area is the potential for a deepened EPA to offer Mauritius the opportunity to develop a textile services sector.<sup>47</sup> Pursuing a comprehensive trade in services component in the deepened EPA is a strong priority for Mauritius. Developing a textile services industry offers Mauritius the opportunity to participate in higher, value-added offerings and e-commerce retail and services that can compensate for its unfavourable geographical location and high labour costs. As identified by Mauritian and EU stakeholders alike, making this a reality requires commitment from the Mauritian government and investment from both domestic and foreign

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<sup>39</sup> Interview with representative from the Mauritian Ministry of Foreign Affairs, 29 April 2021.

<sup>40</sup> Interview with the Director of the MEXA, 30 April 2021

<sup>41</sup> Interview with MCCI representative, 27 April 2021. See also Interview with Business Mauritius representatives, 7 May 2021.

<sup>42</sup> Interview with the Director of the MEXA, 30 April 2021.

<sup>43</sup> Interview with MCCI representative, 27 April 2021. See also interview with representative from the Mauritian Ministry of Foreign Affairs, 29 April 2021.

<sup>44</sup> Interview with International Apparel Federation representative, 6 May 2021.

<sup>45</sup> Interview with the Director of the MEXA, 30 April 2021.

<sup>46</sup> Ibid.

<sup>47</sup> Interview with MCCI representative, 27 April 2021.

investors in new technologies, improved R&D for the sector, as well as a strong marketing plan for the industry's growth and transition to a textiles services industry.

#### **4.4 How can the negotiations and a deeper EPA reconcile EU industry interest with the needs of the textile sectors in Mauritius and Madagascar?**

Although the European Apparel and Textile Confederation (EURATEX) has expressed general concerns on the distortive effects of subsidies that are provided for by non-EU governments / third country competitors, it does not appear that such concerns extend to Madagascar and Mauritius. The EU textile industry is characterised by technical designs and strong brands in the high-end industries, and competitiveness is retained by outsourcing labour-intensive activities to the Euro-Mediterranean area.<sup>48</sup> It is likely that there is little direct competition between the Mauritian and Madagascan textile and garment industries, and their European counterparts. Instead, there could be avenues for complementarity instead, provided there is a conducive business environment to support such engagements.

For a country like Germany, the textile sector comprises mostly SMEs, which has implications for their sourcing patterns and market access.<sup>49</sup> As a result, inputs out-sourcing occurs in regional proximity to Europe, such as in Turkey and the southern Mediterranean (i.e., North African) countries. Although there is interest in exploring opportunities in the textile sector with African markets the presence of non-tariff barriers (such as a lack of trade facilitation infrastructure and insufficient levels of trade liberalisation) makes the region less attractive for smaller EU enterprises.<sup>50</sup> Another stakeholder noted that the EU's rules of origin are complicated and do not enable smaller enterprises to explore export opportunities in new markets.<sup>51</sup>

Although European stakeholders have expressed a broad interest in exploring the potential to build new relations and to tap into new markets represented by Mauritius and Madagascar, they also expressed a clear need for export promotion to be better utilised to highlight the country's selling points for potential investors. Engaging with their European peers will require building awareness of the Mauritian and Malagasy markets, focus group consultations, identification of potential buyers before physical trade missions are conducted, and strong marketing to EU companies that might otherwise be disinterested in exploring new markets and avenues for collaboration.<sup>52</sup> Enhancing trade relations with European textile and apparel companies could facilitate Mauritian and Madagascan access to EU consumers wanting high-valued, niche apparel, which is dependent on strong seller-consumer relationships.

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<sup>48</sup> EURATEX <https://euratex.eu/>

<sup>49</sup> Interview with the German Textile and Fashion Industry representative, 27 April 2021

<sup>50</sup> *Ibid.*

<sup>51</sup> Interview with International Apparel Federation representative, 6 May 2021

<sup>52</sup> Interview with the German Textile and Fashion Industry representative, 27 April 2021. See also Interview with International Apparel Federation representative, 6 May 2021

## 5. Environmental, social, gender and human rights impacts

Deepening the EPA will provide an opportunity for the Agreement to contain a dedicated chapter on TSD, for which the Commission has already presented a draft text. In furthering the provisions of this draft text, it is important to take stock of the TSD issues in the textile industry, in order to identify solutions on how future negotiations can address these concerns in the deepened EPA.

### 5.1 TSD concerns for Madagascar

In Madagascar, it is estimated that more than 173,000 people work in the textile supply chain, of whom at least 50,000 are employed in the cotton fields and over 120,000 are employed in textile factories. The manufacture of garments for export is expanding rapidly and any transgressions in labour law provisions affect a largely female workforce, of which 71 per cent are factory workers and occupy 85 per cent mostly unskilled and temporary jobs.<sup>53</sup> Reports suggest that EPZ companies prioritized setting a production target that was generally difficult to attain and penalized workers with various sanctions, such as unpaid overtime, disciplinary action, or even dismissal.<sup>54</sup>

As part of remedying these challenges, Malagasy stakeholders indicated that compliance within EPZs includes environmental standards to adhere to as well as the satisfaction of corporate social responsibility (CSR) requirements. According to them, because EPZs are geared towards export to European and other markets they are required to ensure compliance with quality standards, sustainability of operations and labour concerns, and are audited annually by independent certification bodies that have higher thresholds than local Malagasy rules in this regard.<sup>55</sup> Workshops related to TSD concerns have been conducted, and the Groupement des Entreprises Franches et Partenaires (GEFP) and Groupement des Entreprises de Madagascar (GEM) (as private sector apex associations) have undertaken various meetings and initiatives with workers unions for information exchange, discussions on issues related to the apparel industry, and provide training as is necessary on exporting to the EU territory.<sup>56</sup> Lastly, Madagascar has also adopted the International Labour Organisation (ILO) Decent Work Programme.

### 5.2 TSD concerns for Mauritius

The Mauritian textile industry is characterised by a high presence of migrant workers while the Madagascar sector is dominated by a largely female workforce who are mostly unskilled and have historically faced constraints on their employment and collective bargaining rights. Estimates from 2018 position total clothing employment at 49,316 workers, making the clothing and textiles sector the largest contributor (with more than 50 per cent) of all manufacturing jobs in Mauritius.<sup>57</sup> While the sector is the most important in terms of employment levels, its employment trajectory continues to face significant pressures, with large clothing manufacturers decreasing their total employment levels from 51,149 to 33,625 in 2018 (Table 2 in Appendix I).<sup>58</sup> As at the end of March 2020, a total of 30,615 people (including 17,371 migrant/expatriate workers) were employed in 87 wearing apparel enterprises and in 23 textile yarn and fabrics manufacturing firms.<sup>59</sup>

<sup>53</sup> SIA Report on the TSD Chapter, Annex to TSD chapter.

<sup>54</sup> US Department of State, *Madagascar 2018 Human Rights Report (2019)*.

<sup>55</sup> Interview with representatives from the GEFP and GEM, 14 May 2021.

<sup>56</sup> Interview with representatives from the GEFP and GEM, 14 May 2021. See also Interview with representative from Epsilon, 14 May 2021.

<sup>57</sup> Ministry of Industrial Development, *SMEs and Cooperatives / UNCTAD The Industrial Policy and Strategic Plan for Mauritius 2020-2025*.

<sup>58</sup> *Ibid.*

<sup>59</sup> Cheun E, Sun A, Twimukye E, *op. cit.*

Historically, Mauritius has been criticised for incidents of ill-treatment of migrant workers, of which 90 per cent are employed in the textile sector.<sup>60</sup> In this respect, Mauritius has taken several steps towards improving the labour conditions of migrant workers, as detailed below:

- 1) Adopting legislation that improves employees' rights (for example, the *Occupational Safety and Health (Employees' Lodging Accommodation) Regulations 2011*) and the ILO's Decent Work Country Programme.
- 2) Introduction of the national minimum wage in 2017, which resulted in the average compensation of textile workers increasing by 8.5 per cent in 2018 and by 13.6 per cent in 2019 – a cumulative increase of 23.3 per cent over the past two years.<sup>61</sup> While this is a positive development for labour rights, it is worth noting that smaller enterprises struggled to cope with the increased costs, which partially explains the closure of some textile factories.<sup>62</sup>
- 3) Tripartite discussions between the Mauritian government, private sector and representatives from the embassies of expatriate workers (Malagasy, Indian and Bangladeshi) for the purposes of sharing information on the treatment of expatriate workers and plans on improving their working conditions in the country.<sup>63</sup>
- 4) The Mauritian Export Association has approached the ILO and the International Organisation for Migration to assist it in developing a code of conduct and management standards for migrant workers. This code of conduct will be developed into an ILO recognised certification scheme, in terms of which Mauritian textile companies will have to implement and will be assessed for their adherence with such standards in order to be certified.<sup>64</sup>
- 5) The latest initiative for the sector is to ensure insurance covers for accidents, for which there are plans underway to make this a normal feature in the textile sector. This means that all new contracts of employment will have insurance cover, compulsory for death, accidents, etc for expat workers.<sup>65</sup>

Mauritius intends to leverage the deepened EPA to grow its textile market share by addressing sustainability-related issues prioritised by the EU market. One EU stakeholder acknowledged the high quality of production by Mauritian companies, their ability to address sustainability concerns that are important for EU buyers and consumers, and their efforts to improve working conditions.<sup>66</sup> Under a deepened EPA, TSD concerns are seen as an important criterion in promoting the investment attractiveness of the Mauritian industry (and thereby enhancing the country's competitiveness). Mauritius intends to pursue an overarching sustainability strategy to be addressed through several key ways, including the launch of a sustainability assessment for the textile and apparel industry as well as greening the industry. The latter is focused on upgrading EPZs and industrial parks to be made 'green' compliant, vis-à-vis circular economy concerns, waste management, renewable energy and digital facilities.<sup>67</sup>

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<sup>60</sup> CA Chan Sun, H Chitto, KS Sukon (2016) *The Labour Market: A Mismatch in the Clothing and Textile Industry in Mauritius*. *Global Journal of Management and Business*, Vol. 16 Issue 8.

<sup>61</sup> Cheun E, Sun A, Twimukye E, *op. cit.*

<sup>62</sup> *Ibid.*

<sup>63</sup> Interview with the Director of the MEXA, 30 April 2021.

<sup>64</sup> *Ibid.*

<sup>65</sup> Interview with the Director of the MEXA, 30 April 2021.

<sup>66</sup> Interview with International Apparel Federation representative, 6 May 2021.

<sup>67</sup> Interview with Business Mauritius representatives, 7 May 2021.



## 6. Conclusions and recommendations on negotiations

Overall, a deepened EU-ESA5 EPA has the potential to support the further development and growth of the textile and garment industries in Mauritius and Madagascar. Making this a reality requires Madagascar and Mauritius to implement policies and strategies that support the growth of their domestic industries and identifying opportunities to enhance their competitiveness and attract FDI. A deepened EU-ESA EPA can provide them with the opportunity to diversify their EU market access, implement export promotion strategies and improve their networking with their European counterparts. **Recommendations for future negotiations, as identified through stakeholder consultations, are detailed below.**

### On the rules of origin and cumulation:

- 1) ESA5 exports continue to be dominated by traditional sectors and the interim EPA has not fully succeeded in contributing toward export diversification (in general) or product diversification in the textiles industry specifically.
  - Under the interim EPA a Single Transformation is already on offer to ESA5 countries. Under a deepened EPA, stakeholders have requested that the rules of origin negotiations facilitate and enable greater cumulation from across the African continent, which will enable higher value-added production in the textile and apparel sectors.
  - Mauritian stakeholders have also requested an alignment of agreements (i.e. that all EPAs should offer the same terms for the same products) in order to enable sourcing to take place across the African continent. They see the risk that a deepened EPA that does not take these concerns into consideration will undermine the regional integration agenda on the continent.

### On making the deepened EU-ESA EPA more SME-friendly:

- 2) SMEs often require assistance on multiple fronts to leverage export opportunities. Although there have workshops and technical assistance provided for SMEs wanting to export to the EU, there is a general lack of information and an inability for SMEs to obtain the necessary certification requirements to meet EU market standards.<sup>68</sup> Stakeholders noted that SMEs would be better prepared to take advantage of a deepened EPA and to be export ready if they knew how to satisfy the required thresholds and that development cooperation can play a role in this regard.
  - a. It was requested that the development of technical training centres be explored under a deepened EPA that would act as a one-stop-shop to assist SMEs with information on exporting, meeting EU standards, and other related information.<sup>69</sup>
  - b. It would be useful if information on each step of the export process to EU markets is widely available and accessible online through digital platforms.<sup>70</sup>
- 3) EU textile companies, specifically SMEs, would like to see simplified and harmonized rules of origin that enable EU companies to import from ESA5 countries. Simplification of EU rules plays a major role if there is to be a real commitment in getting the EU private sector interested in investing in the Madagascan and Mauritian textile industries.<sup>71</sup>

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<sup>68</sup> Interview with Business Mauritius representatives, 7 May 2021. See also Interview with representative from EDBM, 10 May 2021.

<sup>69</sup> Interview with representative from the EDBM, 10 May 2021.

<sup>70</sup> Interview with Mauritian Ministry of Foreign Affairs representative, 29 April 2021.

<sup>71</sup> Interview with the German Textile and Fashion Industry representative, 27 April 2021

**On export promotion activities and enhancing bilateral private sector and industry association engagements:**

- 4) Stakeholder consultations conducted in preparation of this case study revealed that many EU industry associations and private sector bodies have little awareness about the EU-ESA5 EPA. The deepened EPA offers an opportunity to facilitate greater collaboration between the private sectors in the ESA5 countries and EU industry associations and private companies.
  - Mauritian stakeholders expressed the desire for greater private sector collaboration and networking between EU and ESA5 private sector stakeholders.<sup>72</sup> Improved collaboration between the two parties could foster deeper trade and investment relations and provide an opportunity for ESA5 stakeholders to engage their European peers on technical know-how and R&D related issues. Greater collaboration between their private sectors could foster new relations, business opportunities, and market access for ESA5 and EU companies alike.
- 5) Creating a matchmaking facility under the auspices of a deepened EU-ESA EPA can support Mauritian and Madagascan companies to partner with EU companies and thus harness networking between the parties and further joint investments between the two regions.
- 6) It was also recommended that Madagascan and Mauritian companies join international apparel and textile organisations, build an online presence in terms of production and marketing in order to further their networking and brand building, which can then be used to engage potential EU investors.<sup>73</sup>

**On TSD concerns:**

- 7) Stakeholders expressed a desire to see the implementation of support to ESA5 countries as underscored by the development cooperation commitments under the EPA. Specifically, platforms developed to support export promotion activities and implementation of TSD concerns (such as the 'greening' of industry practices) are critical. Technical and technological assistance in improving and modernising the textile manufacturing sector, and enabling access to R&D is also expressed as a desired outcome of a deepened EPA.<sup>74</sup> Development cooperation to support such efforts can be undertaken through general workshops and information dissemination platforms and in the provision of joint grants by the European Commission and ESA5 countries, tailored to the needs of specific industries.<sup>75</sup>
- 8) In addressing some of the environmental and labour concerns raised by EU stakeholders, the EU could design a similar set of eligibility preferences as per section 104 of the AGOA Act, that determines minimum requirements that third party countries will have to meet in order to be a part of future EU trade agreements.<sup>76</sup> Adherence to (or the progressive realization of such standards amongst partner countries, with active monitoring and reporting) could form a part of future TSD chapters and a basis for entering into trade negotiations with third countries.

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<sup>72</sup> Interview with MCCI representative, 27 April 2021. See also interview with Mauritian Ministry of Foreign Affairs representative, 29 April 2021.

<sup>73</sup> Interview with International Apparel Federation representative, 6 May 2021.

<sup>74</sup> Interview with Mauritian Ministry of Foreign Affairs representative, 29 April 2021. See also Interview with Business Mauritius representatives, 7 May 2021.

<sup>75</sup> Interview with Business Mauritius representatives, 7 May 2021.

<sup>76</sup> Interview with the Director of the MEXA, 30 April 2021.

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## Appendix I: Additional trade data

Table 1: Textiles and apparel as a contributor to the Mauritian economy, 2010-2019

Textiles and apparel as a contributor to the economy	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Share of manufacturing as a per cent in the economy	15.9	15.7	15.5	15.7	15.3	14.7	14.0	13.4	12.9	12.5
Share of clothing and textiles as a per cent in the economy	5	4.9	4.7	4.7	4.6	4.6	4.1	3.9	3.6	3.4
Textile, yarn, fabrics and made-up articles (in rupees billion)	2.43	3.24	2.97	3.48	3.67	3.78	3.62	3.79	3.75	4.62
Articles of apparel (in rupees billion)	23.94	23.87	23.92	23.35	24.65	25.73	23.46	20.80	20.89	19.50

Source: Ministry of Industrial Development, SMEs and Cooperatives / UNCTAD The Industrial Policy and Strategic Plan for Mauritius 2020-2025

Table 2: Export orientated enterprises (EOE) and domestic orientated enterprises (DOEs): relevant indicators

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total textile and wearing apparel EOE exports (valued rupees billion)	24.44	25.67	25.17	25.22	26.45	25.78	24.29	22.86	22.80	22.36
<b>Enterprises and employment in the textile sector</b>										
Number of EOE	175	171	158	145	140	132	131	129	121	107
Number of DOEs	75	74	72	70	63	60	43	42	42	41
Total	250	245	230	215	203	192	174	171	163	148
<b>Employment amongst EOE and DOEs</b>										
EOEs	42,200	41,594	40,717	40,077	41,102	39,952	39,462	38,859	36,502	30,970
DOEs	2,575	2,643	2,553	2,442	2,356	2,444	1,744	1,714	1,685	1,478
Total	45,775	44,237	43,270	42,519	43,458	42,396	41,206	40,573	38,187	32,448

Source: Ministry of Industrial Development, SMEs and Cooperatives / UNCTAD The Industrial Policy and Strategic Plan for Mauritius 2020-2025

**Table 3: Main export markets of textile and clothing in 2019 for Mauritius**

Export market	Exports (rupees billion)	Export Share (per cent)
South Africa	5.8	24.1
United States	4.5	18.6
United Kingdom	3.7	15.5
Madagascar	2.2	9.1
France	1.7	6.9
Netherlands	1.1	4.5

Source: Ministry of Industrial Development, SMEs and Cooperatives / UNCTAD The Industrial Policy and Strategic Plan for Mauritius 2020-2025.

**\*\* All Mauritian data taken from Ministry of Industrial Development, SMEs and Cooperatives / UNCTAD The Industrial Policy and Strategic Plan for Mauritius 2020-2025.**

**Table 4: Madagascan textile exports to EU and Mauritius, 2018**

Partner name	Export (US\$ thousand)	Export Product Share (per cent)
Austria	49.46	24.36
Belgium	10,163.42	29.2
Czech Republic	103.95	24.96
Denmark	18.82	1.12
France	154,477.27	24.31
Finland	4,950.39	93.63
Germany	63,211.12	29.89
Greece	79.06	5.55
Hungary	4.03	3.63
Italy	5,352.34	20.21
Luxembourg	5.05	68.24
Latvia	0.2	0.07
Netherlands	6,876.13	4.56
Mauritius	3,611.54	4.39
Portugal	1,327.07	59.83
Spain	12,534.67	33.28
United Kingdom	35,604.62	88.75

Source: WITS database:

[https://wits.worldbank.org/CountryProfile/en/Country/MDG/Year/2018/TradeFlow/Export/Partner/all/Product/50-63\\_TextCloth](https://wits.worldbank.org/CountryProfile/en/Country/MDG/Year/2018/TradeFlow/Export/Partner/all/Product/50-63_TextCloth)