

**SCHOOL OF ECONOMIC AND BUSINESS SCIENCES  
FACULTY OF COMMERCE, LAW AND MANAGEMENT  
THE UNIVERSITY OF THE WITWATERSRAND**

**THE CONTRIBUTION OF THE EPZ TO THE ECONOMIC GROWTH OF  
MAURITIUS**

A thesis resubmitted to the School of Economics and Business Sciences, Faculty of  
Commerce, Law and Management of The University of the Witwatersrand in fulfilment  
of the requirements for the degree of Doctor of Philosophy (PhD) in Economics

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Johannesburg: October 2014

## **DECLARATION**

I, Jaysen Kovalen Ramasamy, declare that this thesis is my own unaided work. It is submitted for the degree of PhD in Economics at the University of Witwatersrand, Johannesburg, School of Economic and Business Sciences. It has not been submitted before for any other degree or examination in any other University.

**Signed by:**

**Jaysen Kovalen Ramasamy**

**Date:**

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## **ACKNOWLEDGEMENTS**

*“It always seems impossible until it’s done” Nelson Rolihlahla Mandela*

I would like to express my appreciation and heartfelt thanks to all those people without whom I would not have been in a position to start, sustain and complete the PhD. First, I wish to express my gratitude to my first supervisor, Dr. Neil Rankin who provided me with guidance throughout the major part of the thesis by way of invaluable comments and suggestions which gave a sense of direction and deep thinking to the whole research process. His guidance on *inter-alia* the econometrics analysis and interpretation of results parts were of tremendous help.

After Dr. Rankin left the University all of a sudden to take up other assignments elsewhere, Professor Stefan Schirmer very kindly accepted to supervise my thesis until the end. I am greatly indebted to him for his availability and his suggestions on the structure and the way forward and for his comments on my written style which transformed my ideas into the proper academic language worthy of a PhD level. With his profound knowledge of economic history, we were able to present the EPZ creation in Mauritius from a political economy perspective.

I am grateful to Ms. Lené Kraft (professional proof reader) who accepted to proof read my final manuscript.

I would also like to thank my lovely wife Kiran for providing me the physical space and inspiration to start and proceed with the PhD by way of suggestions and encouragement especially during tough times when I felt like dropping out of the whole process. Thanks also to my two wonderful children Yash and Rhyah who in different ways kept me going through their presence and the immense joy that they bring to me on a daily basis. I also hope that this work will inspire both of them to achieve great things in their life-long education. A special mention goes to my two brothers Azaghen and Dravindren for their support throughout the whole process.

Last but certainly not least, my deepest gratitude and love goes to my mum and dad who have constantly provided me with the emotional and financial support and for showing their confidence in my potential to complete the thesis.

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## **ABSTRACT**

The story of the Export Processing Zone (EPZ) in Mauritius from its creation in 1970 through to its take-off and success is seen as an exception on the African continent. In the 1970s, very few African nations were able to create an EPZ and those that did were not as successful as Mauritius. We start off by investigating whether Mauritius had the unique characteristics of being blessed with the necessary political economy factors that provided an environment conducive to the creation of the EPZ. Factors such as inclusive institutions prior to and after independence, ideas, luck, leadership, dual-track economic strategy, ethnic diversity/diaspora and protection of vested interests contributed to the unique framework within which the Mauritius EPZ was created. Using an integrated approach where all factors have their own weight, we see that the protection of vested interests played an important role in determining the strategy of Mauritius to move towards the EPZ.

The take-off and sustainability of the Mauritius EPZ throughout the 1980s are explained through the New Trade Theories, in particular the Krugman and Venables model, which explains success in terms of transport costs and low wages. We developed the hypothesis that it was a combination of both trade preferences and low wages that contributed to the exceptional EPZ growth in Mauritius.

Using cross-country data to examine the association between the EPZ and economic performance, it seems that although those countries adopting an EPZ tend to be globally more successful, a more in-depth analysis shows that this hypothesis cannot be proven statistically and adopting an EPZ does not necessarily lead to the general effect of making a country successful. This should, however, not stop us from thinking about possible scenarios regarding the effect of EPZ on success. The first scenario, which was confirmed by the probit results, is that those countries that were successful and had an EPZ would have experienced some success anyway with or without an EPZ. The second is the possibility that EPZs were adopted by countries that were already set up for success, but EPZs nevertheless contributed in some way to the scale of success. The question remains as to whether Mauritius would have been as successful as it has been if it had not adopted the EPZ.

Finally in the wake of liberalisation and the removal of trade preferences, we use difference-in-difference estimation to show that the Mauritius EPZ did not actually

experience the failure that the prophets of doom had predicted; on the contrary, Mauritius was able to cope effectively with the removal of preferences. Actually, the removal of preferences did have an impact but the negative effect on the performance indicators was less than expected.