SPEECH OF THE PRESIDENT, MR. AHMED PARKAR, AT THE 160TH ANNUAL GENERAL MEETING OF THE MAURITIUS CHAMBER OF COMMERCE AND INDUSTRY, 24 MARCH 2009, LABOURDONNAIS HOTEL, PORT-LOUIS

It is my pleasure and privilege to welcome you at the 160th Annual General Meeting of the Mauritius Chamber of Commerce and Industry. I would like to thank you for the interest you take in the activities of our institution and for your active support to its mission. My special thanks to our Ministers who have honoured this event with their presence and who will, in a moment, share their thoughts with us on issues of common interest to the Government and the business community.

As you all know the main purpose of our AGM is to review the activities of the Chamber during the past year and to approve our action plan for the coming year. In addition we have established a practice, which is becoming a tradition, alongside other well-established traditions of our institution, to share, on this occasion, with our guests and members, our views on the main economic challenges facing our country. This exercise, which has been dubbed as our predicament on 'the state of the economy', is quite ambitious.

Given the complexities of the unprecedented global economic crisis in which our country finds itself to-day, I would have happily skipped this exercise and moved to the business of the day. But when you are the President of the Chamber you have to observe the tradition, however demanding it can be. And my task this morning is indeed daunting. When Mr. Ben Bernanke speaks of lack of visibility and other world renowned economists are confused, it would be quite foolhardy on my part to attempt to discourse on this global mess.

However, we can have some legitimate interrogations on our own fortunes in this turmoil.

We have been hearing in recent weeks and months how a growing number of countries, mostly the developed ones, entered into recession. We have followed the forecasts of the Bretton Woods institutions, which have turned more pessimistic as the global crisis has deepened.

The latest figures of the IMF, released only last week, are a negative global growth in 2009, ranging between –0.5% to –1%, with a –3.5% for developed countries. These figures compare with a 3.4% positive growth rate in 2008 and 5.2% in 2007. World trade volume is expected to contract by almost 5% in 2009 compared to a growth of 4% in 2008 and over 7% in 2007. It is to be noted that these figures are significantly worse then those released two months ago by the IMF. However, when you are far from the action, these macro figures might not convey the extent of the damage on the ground. I would like to quote an extract from an article in a recent issue of 'The Economist' which illustrates the magnitude of the crisis. I quote "In Germany December's machine-tool orders were 40% lower than a year earlier. Half of China's 9,000 or so toy exporters have gone bust. Taiwan's shipments of notebook computers fell by a third in the month of January. The number of cars being assembled in America was 60% below January 2008". End of quote.

So how are we doing, in this nightmare scenario? Quite surprisingly we did quite well in 2008. And based on existing data, the prospects for 2009 are not that bad.

Let me first review the performance of the economy in 2008. The GDP growth rate of 5.2%, although slightly lower than in 2007, was very satisfactory, especially given that all sectors registered positive growth rates, albeit lower than forecasted for some sectors. Per capita income increased by an impressive 22% in dollar terms, although helped to some degree by the appreciation of the rupee. Investment increased by 3%, with a 9% growth in private investment. Unemployment went down from 8.5% in 2007 to 7.8% in 2008. Foreign direct investment remained almost at the record level reached in 2007 and the overall Balance of Payments showed a surplus of Rs. 4.6 billion.

In spite of the lack of visibility on prospects for the future development of specific sectors, there are no signs of panic among our economic operators, which is a major asset. Some sectors have already been affected, especially the tourism, property development and construction sector. Others are under threat like the textile and clothing sector, the local manufacturing sector or the local trading sector. However, the global picture, which is emerging at this point of time is that the positive growth expected in some sectors, especially the ICT, financial intermediation and other services can compensate the potential negative performance in other sectors to enable the country to remain in positive territory by the end of the year. Will it be the 2% forecast by the IMF in its latest estimates or higher as announced by the Deputy Prime Minister and Minister of Finance? As confessed by the latter, we do not have 95% of the answer. Much will depend on developments outside our control.

But let me hasten to add that the positive growth scenario in 2009, and even better prospects for 2010, will only materialize if the world start coming out of the crisis by end of 2009 and move in a renewed growth path in 2010. Otherwise we shall probably be in recession and confronted to a scale of economic and social problems we have never experienced since independence.

Before I elaborate on the doomsday scenario, which we hope will not happen, it is important to spend some time on the first scenario, under which the Mauritian economy remains in positive growth territory throughout the crisis. If this scenario was to materialize, and there are strong chances of it being so, it will be a testimony to the soundness of the economic strategy launched in 2006 and to the resolve of the various sectors of the economy to proactively address the challenges which confronted them. By leveling the incentive regimes, introducing the uniform low tax regime, opening the country to foreign investment and talent, facilitating business and consolidating the Budget, the new strategy has undoubtedly created the new environment which has delivered in the form of new sources of growth, higher growth rates, lower unemployment rates, lower Budget deficits and greater fiscal space.

The business community, on its part, has taken in its stride the phasing out of the Multi Fibre Agreement, the significant cut in the export price of sugar on the EU market, the deep cuts or elimination of import duties, the changes in the business environment in Mauritius and abroad to deliver higher levels of performance.

It is the combination of these two crucial elements, which explains the greater resilience of the Mauritian economy. It is thanks to them that we might still be standing by the end of 2009 when so many, other countries would have been knocked down.

Resilience is however, a relative concept. We can only resist up to a point beyond which we shall also fall. We have been fortunate to be spared from a financial meltdown experienced by the major developed economies which has led to a severe credit squeeze. On the contrary, in Mauritius our financial system is generally free of toxic assets and is still flush with liquidity. The danger should not come from this direction, at least not in the initial stage. The pressure will emanate from the other factor which has already brought so far many economies in recession : a level of contraction of demand on the local market or export markets that renders the operations of a wide range of enterprises or sectors unsustainable. In some way it is what our tourism industry is currently undergoing, but in a much more extreme manner. The inability to rescue these enterprises leads to closures, mass unemployment and massive defaults on debt obligations both from business and households, which in turn put the whole financial system at risk.

This is the doomsday scenario.

As we said earlier, the dynamics which can lead to such a situation is not in our hands. But again how prepared are we to react to such a situation. I am afraid to say that the nation needs a wake up call : the odds are against us!

First, what is the capacity for Government to intervene, as has been the case in other countries? This capacity is limited because we do not have the resources of the large developed countries.

It is true that the 2006/2007 and 2007/2008 Budgets, by putting the economic rationale first managed to create some fiscal space. However, although income redistribution is a legitimate objective of budgetary policy, in our view, the 2008/2009 Budget did too much and unfortunately too early. The size of the salary compensation, however justified it may be, and other handouts have completely eroded the fiscal space. Just as a matter of comparison, the implementation of the PRB would cost to Government an amount in excess of Rs. 13 billion by December 2010, whereas the total budgeted expenditure under the ASP by that date is Rs. 10.4 billion. Again while the ASP is a one-off expenditure programme, unless renewed, the expenditure under the PRB and other recurrent expenditure are inbuilt in the Recurrent Budget. We were of the view, when the Budget was presented, that any significant reduction of revenue of Government could lead to higher levels of deficits.

With recent adverse developments in various sectors, revenue of Government is already falling behind Budget targets. If the economic situation was to deteriorate further, the fiscal space will just not be there to provide the scale of support needed to lift the economy out of a major recession. Of course, we can always have recourse to higher levels of Budget deficits and Public Debt. Unfortunately we are not the USA which can afford a deficit in excess of 10% of GDP.

Second, taking preventive measures is one thing; but actually dealing with the casualties of an economic recession is otherwise complex. The measures contained in the ASP and the structures put into place to ensure its implementation represent a pro-active response to improve performance in an environment of almost "normal" conditions. So much so that the Chamber would be in favour of making of the National Steering Committee and other supporting structures a permanent feature of the public-private sector partnership in the implementation of the economic programme of the country.

However, because we have been exposed so far to a limited impact of the economic crisis, we have had time to put into place a structure, the Mauritius Transitional Support to Private Sector, MTSP, which tries to address the problems of enterprises threatened by insolvency. But so far, the MTSP has dealt with a few cases and the Co-Chairman, who are with us to-day, can testify how painful and protracted this process is. Just imagine if we had hundreds of enterprises in difficulty, is it feasible to deal with them the way we are doing now? We need to find ways to accelerate the process so that funds can be made available to enterprises at a quicker pace.

This remark brings to my third point : if micro management is an inevitable process to release funds to deserving enterprises, we should also be addressing better the macro-economic fundamentals. On this count, let us make one thing clear. Our capacity to ride through the crisis, and to eventually rebound afterwards will depend on one central pillar : the competitiveness of our enterprises. Therefore, the thrust of our macro-economic policy orientations during the whole crisis should be on this factor. By giving more or equal importance to other objectives, the action of Government to promote the competitiveness of our enterprises is being diluted and in some cases actually undermining its effectiveness.

I shall take some risks and mention two such objectives although we all know how sensitive they are : employment and purchasing power.

It is perfectly legitimate for any responsible Government to promote employment and fight unemployment. But to make the preservation of jobs the main objective of the ASP and other programmes and the central pillar to counter the economic crisis, send the wrong signals to the country. In an economic crisis no country can have the luxury to save jobs at all costs; the reasonable objective should be to save viable enterprises which can continue to employ people over the medium term. Some enterprises will have to cut jobs while others will have to close down in an economic crisis. And jobs will be lost. The emphasis of Government action should be to assist those viable enterprises which have chances of making it and facilitate the closure and redeployment of workers in enterprises which have no future. Let us send the right signals to the business community, to workers and the population at large. Otherwise, if the crisis was to hit us more seriously, not only saving jobs will be an unsustainable policy; the expectations created by such a policy will compound the difficulties of managing the crisis.

The objective of improving purchasing power, although again a legitimate pursuit in normal times, is completely out of tune in a crisis situation. With due respect to both the Minister of Business and the Minister of Consumer Protection, contracting demand in times of hardship automatically forces prices down, eroding margins and forcing traders to sell below costs. And there is no product whose demand is so inelastic to resist that downword pressure. The collapse of the price of oil and other commodities is a clear illustration of this phenomenon. In addition, now that the Competition Commission is being put into place, we should leave to this independent body the task to oversee the workings of the market. Enterprises having to face the challenges of an impending crisis should not be further shackled by unnecessary administrative requirements which impinge on their competitiveness.

The pursuit of higher purchasing power can also have other pernicious effects. We have witnessed last year how the attempts to use the appreciation of the rupee to counter the impact of the dramatic increase in the price of oil and other commodities on the CPI actually resulted in a major erosion of the competitiveness of our export industries and significantly undermined their capacity to face the crisis. The collateral damage done was certainly not in proportion with the gains in purchasing power as the products in question represented only a small fraction of the consumer's basket. There were certainly other means to come to the rescue of consumers.

Another adverse impact of the policy to promote the purchasing power of the population, irrespective of our economic fundamentals has gone almost unnoticed. In an open economy like ours, increasing consumption with stagnant or even falling exports of goods and deteriorating terms of trade have multiplied the balance of trade deficit by 6 over seven years, from less than Rs. 10 billion to Rs. 64 billion. More significantly as mentioned in the IMF Press Release after their recent visit "the Current Account Balance deficit is expected to rise further to 11% of GDP, notwithstanding falling prices for food and fuel". For the sake of comparison, the Current Account deficit of the USA which is considered unsustainable over the long term by most economists, was less than 5% of the American GDP in 2008.

Although the overall balance of payments is still positive thanks to record high levels of FDI and other capital movements, it is clear that the current levels of deficit of the Current Account are unsustainable in the long run. In fact what latest figures indicate is that attempts to counter the effect of the economic crisis by stimulating demand are highly risky.

I have given you some illustrations of the undesired perverse effects that the pursuit of some social objectives, however laudable they are, can have on our ability to face the current crisis. Let me now give you the perspective of our Chamber on the thrust of our economic policy in these troubled times.

As I said earlier, the anchor of our policy orientations should be the competitiveness of our enterprises. This implies in fact three elements : first, support to our enterprises to enhance their internal resilience; second, improvement of the environment in which they operate in Mauritius; and third, a positive contribution in their terms of engagement with competitors both in domestic and export markets.

These three elements have in turn several components. But I shall focus on the critical areas which require urgent policy decisions.

On reinforcing the internal resilience of enterprises, in time of crisis, the key factor is quick access to financial resources on concessionary terms. In spite of the Manufacturing Adjustment and SME Fund having been put into place since nine months, actual disbursements to enterprises to date are very small. The conditionalities attached to qualify for support are so rigorous that they are acting as a barrier. We understand that some due diligence is necessary, but access to funds cannot be subjected to requirements which apply in a normal economic situation. The state and the banks have to take some higher risks as is the case in all countries affected by the crisis. If the crisis, had hit us with the severity recorded elsewhere, the impact would have been crippling, because the response would have been too slow. And this might still happen if appropriate adjustments are not made.

On the improvement of the business environment, we have to recognize that much has been achieved in recent years. But there are some areas which require decisive action : economic infrastructure and utilities and the regulatory environment. On economic infrastructure and utilities there still seem to be a systemic issue regarding the decision process to implement major projects, and the actual design and implementation of these projects. As a result all major projects regarding the port, the airport, the road infrastructure and the provision of energy and water continue to register huge delays. And this is reflected in the latest figure regarding public investment, which has fallen by 19% in 2008 after a 25% fall in 2007. I am not sure that the structures put into place to implement the ASP can alone unblock the situation.

On business facilitation the road traveled so far is impressive, as illustrated by the various "Doing Business Indices". And the decision, taken in 2008/2009 Budget, to give a moratorium to various authorities issuing trade permits to justify their existence or they would be otherwise abolished, is certainly a bold one. We do hope Minister Gowressoo, that the Committee established for that purpose and chaired by your Ministry will deliver according to expectations.

However, while we are all busy working to make the regulatory framework more business friendly, we have noticed that there are some unilateral initiatives in some quarters to bring new barriers through the back door. The regulations on melamine free imports last year and the ban on advertisement on alcoholic drinks this month are two illustrations of such initiatives. Whatever be the motivation for such initiatives, it is clear that they have been initiated without due consideration to their impact on the business environment. To prevent such occurrence, we feel that there is need to put into place a system of Regulatory Impact Assessment, on the model designed by UNIDO, before any new regulation is promulgated.

Finally, on the terms of engagement with foreign competitors, the new economic environment call for novel approaches. Maybe the time has come for the provision of direct support to our exporters, as being done increasingly by many countries to get their enterprises out of the crisis. On the domestic front, the possible impact of the global economic crisis combined with the food crisis of last year should trigger a new approach to our trade liberalization policy. The ASP has provided for a freezing of the program of reduction of duty on import for the next two years. Beyond this temporary measure consideration should be given to a rethink of the liberalization program in the light of recent developments while maintaining our commitment for a more open trading system.

And then there is the exchange rate policy. The large swings noted since 2006 are destabilizing for our economic operators. And a significant appreciation of the rupee as a prelude to the global economic crisis was the last thing that our exporters needed in the circumstances. Although we are aware that the movements of the exchange rate do obey to a number of variables, the monetary authorities should pursue a policy which put the maximum chances on the side of our economic operators.

We are confronted with an exceptional adverse economic perspective. Our message this morning is let us focus on our prime asset : the competitiveness of our enterprises. Let put the economy first. Not in words. But in deeds.