



**THE MAURITIUS CHAMBER OF COMMERCE AND INDUSTRY**  
SERVING BUSINESS SINCE 1850

# **SPEECH OF THE PRESIDENT**

March 2010

It is indeed a privilege and an honour for me to welcome you at the Annual General Meeting of the Mauritius Chamber of Commerce and Industry. Thank you for the interest you take in the activities of our Chamber and for your active support to its mission. I would like to extend the special thanks of the Chamber to our Ministers who have honoured us with their presence and who will, in a moment, share with us their thoughts on issues of great interest to the business community and to the future development of our country.

As you are all aware, our Chamber is celebrating this year its 160<sup>th</sup> Anniversary. In my address at the Gala Dinner of the Chamber in January last, in which many of you were present, I had the opportunity to underline the constancy of our institution in the fulfillment of its mission, its adherence to the principles of its internal governance and its strict respect of the law of the land.

The holding of this AGM is also a vivid example of this constancy. In fact the AGM has been regularly held in accordance with the provisions of the constitution of the Chamber and the prevailing law on associations for the past 160 years.

This is a true ‘ode à la gouvernance’ and we feel that it should also be celebrated. To do so, we shall be launching at the end of this opening ceremony a special issue of the newsletter of the Chamber ‘CCI Info’. And a number of events will be organized during the rest of the year to mark the 160th anniversary of the Chamber.

So much about celebrations. But we are here this morning also for some serious business. The first one is to perpetrate our tradition of good governance by reviewing the activities and the finance of the Chamber for the past year, approving the course of action and the Budget for next year and, yes, holding

elections. At the Chamber the date of elections are known well in advance and are held every year!

The second task of this morning is the Chamber's view on the 'State of the Mauritian Economy'. This is one of the traditions that our Chamber has established since quite some time and has constantly upheld over the years. However, this year I would have preferred to have someone else in my shoes. Not only the global economy is still coming out of the most serious crisis since the Great Depression; the economic theories and practices underpinning the global economic architecture have never been so much challenged since the 1970s.

The financial meltdown has put into question the academic work and the sophisticated modelling on which the whole process of risk assessment and securitization was anchored. Forced state intervention in the economy has given a new lease of life to Keynesian economics and the debate between more regulation and self regulation of markets has taken a new turn.

To add to the confusion, a guardian of orthodoxy like the International Monetary Fund, has come up in recent weeks with unconventional proposals. The first one was that Central Banks should raise their inflation targets, currently at 2% to as high as 4%. The second surprising proposal was that controls on capital flows can be a useful tool for countries facing a surge in foreign funds, a position radically against past prescriptions of the IMF.

In such an uncertain economic environment and wavering policy orientations, you can easily understand the difficulty of a coherent assessment of our economic performance. We have only tried to put together a number of elements, which can

hopefully help you to have a better perspective of the economic fundamentals of the country.

But, first, let us have a look at the global scene. Based on IMF latest figures, global output shrank by 0.8% in 2009, which has not happened for decades. Although the actual GDP growth varies greatly from one region to another and on a country basis, every country has been adversely affected. The most affected have been the developed economies, countries of Eastern Europe, South East Asia and South America. The least affected have been China and India and, to some degree, Africa and the Middle East.

In addition, global trade in goods and services have contracted by more than 12% in 2009, quite evenly distributed across regions and countries. The ILO estimates that some 25 million jobs have been lost worldwide, raising unemployment levels in all countries, and pushing millions below the poverty line.

Let us also remind ourselves that the crisis has taken such a toll on the global economy, in spite of an unprecedented coordinated response by the major players, and stimulus packages representing several points of GDP put into place by governments in many countries. As a result public debt has increased significantly in many countries and the global public debt figure is estimated to have reached the staggering figure of 250,000 billion US Dollars, that is 25 followed by 13 zeros!

It is against this backdrop that we have to consider the performance of the Mauritian economy in 2009 and prospects for the future. For a small and open economy like Mauritius, the overall performance has been more than satisfactory given the prevailing global economic environment. It is true that GDP growth has fallen to 2.8% compared to an average of 5.2% over the last three years. But apart

from contractions in the tourism and textiles sectors, for obvious reasons, growth has been positive in all other sectors, with even double digit growth rates in the ICT and agriculture sectors.

Moreover, there has been a 6% growth in investment and both per capita GDP and final consumption expenditure have continued to grow in real terms. On the employment front there has been a net creation of some 4,800 new jobs, although insufficient to absorb all new entrants on the labour market, which has pushed up the unemployment by a half percentage point. Inflation has gone down to 2.5%.

On the external front, both the Balance of Visible Trade and the Balance of Trade in Goods and Services have registered a lower deficit than in 2008. The Balance of Payments is estimated to have registered a surplus of some Rs. 10 billion, more than double the level of 2008 and Net International Reserves have crossed the bar of Rs. 100 billion for the first time. The revised estimates for the Budget Deficit for financial year 2008/2009 is 3% and that of the July-December 2009 Budget is 4.5%, which are moderate compared to the levels in many countries, some with double digit rates. And the Public Debt has remained within the pre-crisis recommended ceiling of 60% of GDP.

It is on the basis of these figures that the World Bank, the IMF and other cooperating partners have expressed their appreciation of our economic performance during the crisis. Should we then conclude that we have what has been termed a 'resilient economy' and we can continue to do business as usual?

More importantly, once we have implemented our 'exit strategy' to the ASP by the end of this year, should we continue to adhere to our pre-crisis economic strategy as it was framed several years ago?

We believe that there are important lessons to be drawn from the crisis on both counts.

First, on the resilience of the Mauritian economy. You would be probably surprised to learn that our Chamber first spoke about the resilience of the economy in 1995. Comparing the performance of the economy in 1994, devastated by cyclone ‘Hollanda’, to that of 1975, when the country met with the same fate with the passage of cyclone ‘Gervaise’, the then President concluded that the economy had become more resilient. Because the country was on its knees in 1975 but was still standing in 1994. So resilience is only a relative concept. Most probably our ability to resist the global financial and economic cyclone of the last 18 months indicates that the country has achieved a new level of resilience. But let us have a closer look at the strengths which have helped us to mitigate the adverse impact of the crisis.

First, the crisis started in the US and Europe with major failures in the banking and financial system. In Mauritius banks are liquid and well capitalized and fund their operations mainly through domestic deposits. And more importantly, they do not hold toxic assets. The integrity of our banking and financial system and its relatively liquid position throughout the crisis have been a major stabilizing factor.

Second, the crisis has deepened in the hardly-hit countries by severe contractions in demand, which led to business closures, dismissals and consumer pessimism which in turn depressed demand further. This vicious circle has had crippling effects in many economies. In Mauritius a number of factors had a counter effect. Although high inflation between 2006 and 2008 had somewhat eroded purchasing power, the implementation of the fall PRB Report in July of 2008, with an average increase of over 30% in salaries and benefits in the public sector, followed by the salary increase in July 2009 and January 2010, although much more modest, have

provided comfort to consumers. And the significant fall in the inflation rate in 2009 provided further support. The efforts of Government to save jobs through various schemes, especially the MTSP contributed to maintain demand. As a result final consumption expenditure actually increased by 2.5% in real terms in 2009.

Third, the sources of growth were certainly much more diversified in 2009 than a decade ago. If the growth was still as dependent on exports of goods and tourism, the two sectors worst-hit by the crisis, the country would have most probably be in recession.

Fourth, enterprises were generally in good health when they were hit by the crisis. Economic reforms at home, including fiscal reform and business facilitation, major investment and re-engineering in some sectors, especially the export oriented ones, and better market conditions abroad had improved operating conditions and profitability. In addition, when the crisis came in, Government provided timely support to sectors most affected and put into place schemes to enhance the competitiveness of enterprises. As a result, enterprises had the resources to resist the crisis. The fact that only 13 enterprises had recourse to the MTSP is a clear illustration of the internal strengths of enterprises.

Fifth, in 2008 Government had a war chest to sail through the crisis. Tax buoyancy in previous years had resulted in surpluses in the primary balance and the creation of a number of funds. Government could thus conduct an expansionary policy with a 46% increase in investment and almost 5% increase in consumption expenditure in 2009, while suspending some taxes and providing direct support to enterprises. In addition its generous salary and social transfers policy provided support to the economy.

Sixth, the public-private partnership worked very well to devise schemes which respond to the exact needs of business. Be it the MTSP, the LEMS or the Export-Credit Guarantee Scheme, they were all developed jointly.

Last but not least, the combination of the initial strengths of the country and the various measures to support both enterprises and households has prevented widespread pessimism to take root among businesses and consumers, as has been the case elsewhere. This relative confidence, as demonstrated in various surveys carried out last year, was key to keeping the economy on track.

The analysis of the strengths of the Mauritian economy during the crisis does demonstrate greater resilience. However some of these strengths have stood the test of the crisis and represent real assets for the future, whereas others have been weakened in the process. In the first category are the solidity and integrity of the financial system, the more diversified nature of sources of growth and the proactive public-private partnership in policy orientations.

On the weaker side we have, first, the capacity of Government to intervene, second, the health of enterprises and, more importantly, the limits of demand-induced growth. Government has over the past 18 months used up most of the fiscal space built up previously in the implementation of the PRB Report and in the ASP. The primary Budget Balance has already turned negative and the deficit is heading for 5% of GDP.

Bringing down Budget deficits and creating fiscal space are formidable tasks, especially if growth is subdued and tax buoyancy just not there.

It would be inescapable in the medium term to review the recurrent expenditure of Government, especially its wages and social transfers policy, which have for years

been eroding all fiscal space generated by higher levels of revenue. In the absence of such action, the government will not be in the same position to face future economic crises.

What is true for the government is equally true for enterprises. Many of them have been battered by the crisis, most have seen their profitability reduced and some in serious difficulty. Enterprises at their individual level must certainly do more to regain their competitiveness through re-engineering, product and market diversification. But there is also need to reflect on a sectoral basis to support the consolidation of affected sectors. Last week, Enterprise Mauritius organized a two-day brainstorming meeting for the Textile and Clothing sector. Our Chamber is also proposing to organize with the support of EM, in the coming weeks, a similar exercise for the jewellery sector. Other sectors and sub-sectors will have to follow suit. In addition, macro policies should be put in place to support this drive towards higher competitiveness. I shall come back on this aspect later.

As far as the demand-induced growth is concerned, it is not sustainable in the longer term and it does have other perverse effects. We have already seen that the expansionary budget policy has eroded the fiscal space of government. It has also affected the Budget of households. To maintain his consumption pattern, the consumer has had either to draw from his savings or increase his indebtedness. In fact he has done both. The National Savings rate has fallen by three points in 2009 to reach a record low 13.3%. In parallel, the debt of households has continued to increase. In addition, in an open economy like ours, higher levels of consumption impacts on the external account. If the Balance of Trade has not deteriorated in 2009, it is thanks to the drastic fall in the costs of imports of oil and other commodities, which is a temporary phenomenon.

This review does illustrate the fact that the Mauritian economy has reached a new level of resilience. But, as I said earlier, the concept of resilience is relative and in several areas this resilience has to be nurtured.

Let me now come to the last part of my intervention. Has the economic crisis left intact the promises of new economic strategy? Can we expect the country to resume on a high growth trajectory once the crisis is over with the some policies and programmes?

At the outset, let us recall that our Chamber contributed actively in the formulation of this new strategy at the turn of the century, was one of its firmest supporters when it was implemented and actually participated in its translation into policies and programmes. The Chamber also marketed it outside the country.

The post-independence strategy delivered on higher growth rates, incomes and development for three decades. We were hopeful that the new strategy will be our roadmap for at least a decade and probably for longer.

There is absolutely no doubt that the new strategy, by levelling the incentive regimes, introducing the uniform low tax regime, opening the country to foreign investment and talent and significantly improving the business environment ,has delivered in the form of record levels of FDI, higher growth rates , low unemployment levels and greater fiscal space. It has certainly enhanced the resilience of the economy, as I mentioned earlier, which has been a key factor in mitigating the adverse impact of the global crisis.

However, developments even before the crisis and during the crisis proper, have brought to light new elements which have to be taken into consideration if the country has to be put durably on a higher growth path.

First, there is an implicit assumption in the strategy that once the enabling environment is put into place and the country is effectively made open to the world, the forces of entrepreneurship will be automatically unleashed and foreign investment and talent will flock in to take the country to new heights. In practice, things have not worked this way. Yes FDI has increased significantly. But there is a polarization of FDI in two or three existing sectors and the impact on other existing sectors and new sectors remain quite low.

Similarly, opening the country to foreign talent is not working exactly the way it was planned. With only a few hundred foreigners having settled down in Mauritius, we are already confronted to some social problems. How then we will achieve the goal of emulating a country like Singapore in this policy?

The new strategy also provided for the development of a number of new ‘pillars’ which would be new sources of growth and income. Actual promotion of these new pillars is teaching us that it is not a process which boils down to the implementation of a few projects. It entails major changes in existing legislation, institutions, practices and infrastructure, as we are discovering with the education and health ‘hubs’. We do not have the resources, know how and experience to build four or five pillars at a time, as we are trying to do now. We are spreading ourselves too thin and we might be doing a disservice to the long term development of the country.

By the way, in the past 40 years we have never tried to build more than two pillars at a time and we have been successful in fact in building only one at a time. We have to be more realistic and think about sequencing the building of new pillars.

This reflection brings me logically to another thrust of the new strategy: from preferences to global competitiveness. In the new vision of a services-economy based on new pillars, the traditional industries which had served well the nation, but thrived on preferences abroad and protection at home, were given an ‘adapt or perish’ directive.

Several years through the new strategy and after the global economic crisis, we are of the view that the divide between the new promising emerging industries and the ‘sunset’ industries, and the preeminence given to the former at the expense of the latter was not justified. As we have said earlier the new pillars are not there yet and it will take a much longer period for them to materialize. And the supposedly ‘sunset’ industries have demonstrated since then that they can remain valuable assets to our economic architecture for years to come. The transformation of the sugar industry thanks to the MAAS plan and the accompanying measures is a vivid example of the potential of existing pillars. The textile industry has also weathered the phasing out of the MFA agreement and the global crisis and is determined to continue to develop. Similarly, the domestic oriented manufacturing industry has withstood the domestic cuts in import duties.

There is a need to re-balance the emphasis of our policy orientations between the emerging sectors and the traditional sectors which together account for 25% of GDP and employment and 100% of exports of goods. They must remain an anchor in the economy for years to come. And our macro policies should be adjusted accordingly, including our exchange rate policy.

The oil, food and economic crises have also brought to the fore new elements which need to be mainstreamed in the strategy. The new dimensions that food, energy and water are acquiring in the development strategies in forward-looking nations make it compulsory to revisit our own strategy.

These are some of our thoughts on the economic strategy of the country. We are confident that they can help to re-shape our policy orientations to give the economy the maximum chances of getting quickly out of the crisis and to capitalize on the expected rebound of the global economy.

The IMF has recently expressed the view that rebound would translate into ‘une reprise à plusieurs vitesses’. Let us work to be among the forerunners on the road of renewed growth.