'STATE OF THE ECONOMY ADDRESS', PRESIDENT OF MCCI, MR. AZIM CURRIMJEE, ON THE OCCASSION OF THE 168th AGM OF THE MCCI, 30th MARCH 2017, LE LABOURDONNAIS HOTEL, PORT- LOUIS

The Hon Seetanah LUTCHMEENARAIDOO, Minister of Foreign Affairs, Regional Integration and International Trade,
The Hon Ashit Kumar GUNGAH, Minister of Industry, Commerce and Consumer Protection,
The Hon Soomilduth BHOLAH, Minister of Business, Enterprise and Cooperatives
Excellencies of the Diplomatic Corps,
High Officials of the Public Sector,
Chairpersons and CEOs of fellow private sector organisations,
Distinguished Guests,
Members of the MCCI,
Representatives of the Media,
Ladies and Gentlemen,

It is my great honour to welcome you to the 168th Annual General Meeting of the Mauritius Chamber of Commerce and Industry. Thank you for your continuous support to our institution.

I would like to extend my special thanks to our Ministers, who have honoured this function with their presence. This is a strong testimony to the synergy that exists between the public and the private sector, which is so important in our economic model.

The State of the Economy address of the MCCI is entrenched in the traditions of this country. It is an exceptional opportunity for the private sector to reflect on the Mauritian economy from the perspective of the entrepreneurs of our country. Our role here today is a challenging one – we are here to look at our past for a better future.

Honourable Ministers,
Ladies and Gentlemen,

After an interlude of exceptional world growth in the first decade of the 21^{st} century, we are today evolving in a more typical outline of the global economy – similar to the post-Bretton Woods era. Since 2009, after the Global Financial Crisis, the growth rate is close to 3.5 percent.

In 2016, the macroeconomic scenario favoured by the IMF is that global growth should stand at 3.1 percent, the second lowest growth in the recent years. Advanced economies were hit by new shocks bringing another slowdown in their growth rate and emerging and developing economies were unable to pull world economic activity.

Honourable Ministers,
Ladies and Gentlemen,

In Mauritius, Growth is estimated at 3.6 percent in 2016, higher than the 2015 rate. This growth is largely based on the resilience of our internal demand, be it Consumption or Investment.

Indeed, consumption, the largest contributor to our GDP, has increased by 2.9 percent and investment has shown a growth of 5.7 percent, after a total contraction of more than 15 percent between 2012 and 2015. We are pleased to note a positive growth rate for both the private and public sectors, of 6.2 percent and 4.3 percent, respectively.

On the external front, our exports of goods and services has been receding and in 2016, we experienced a contraction of 2.4 percent in our exports after a negative growth of 0.7 percent in 2015.

We are going to come back to these main components of our GDP throughout this speech.

Honourable Ministers,
Ladies and Gentlemen

The IMF, in its last update, points to a shifting global economic landscape. The promise of a return of protectionist measures and domestic looking policies in a number of the largest economies is one of the greatest challenges facing the world economy today. At the back of geo-political tensions and shifting policy-mixes, advanced and emerging economies alike are preparing themselves for this new era of economic development.

We are undeniably in a new economic order.

This analysis is further supported by the PwC in a report entitled " The World in 2050". The economists of the PwC made an important analysis of the economic forecasts of the new economic order.

Three main findings arise from this report.

Firstly, the report clearly shows a shift from the G7 countries to the E7 countries. In 2050, China, India, Brazil, Indonesia, Mexico, Russia and Turkey are going to represent nearly 50 percent of the world's GDP.

Secondly, the era of high economic growth of more than 4 percent is perhaps behind us. The average growth rate over the next 34 years - till 2050 - is expected to be of 2.5 percent in the world economy. The economic crisis of 2008 was in no way simply a cyclical choc.

And finally, the importance of demographics in the world economy. The PwC experts explain this shift in the world economic order in a simple term - demographics. Indeed, the five largest economic superpowers in 2050 - China, India, the Unites States, Indonesia and Brazil, are in 2017, the five most populated countries in the world.

In the years to come, we will have to adapt ourselves to this new economic era. And we believe that Mauritius is at a watershed point of its economic history. Hence this speech will try to put this in context.

Honourable Ministers,
Ladies and Gentlemen

Our own analysts at the MCCI have conducted a projection for Mauritius. We estimate that, in 2050, our GDP per capita will reach USD 30,000 in current prices. This projection is based on an average annual GDP Growth rate of 3.5 percent and a constant replacement rate.

However, the United Nations estimates show that, as from 2030, our population levels will start to decrease, due to a continuously decreasing fertility rate. The Malthusian policies of the last decades have indeed been extremely effective in curbing population growth.

Fertility rate is today at a mere 1.3 and at the rate we are going, our population levels will be of less than 800,000 by 2100.

This ticking bomb will undeniably affect our economic performance. And this is pure demographic dynamism.

Honourable Ministers,
Ladies and Gentlemen

We will be unable to sustain our economic growth rate with a receding population.

We need to adopt bold measures to address this unprecedented situation. Our economic development of tomorrow is shaped by our decisions of today. It will undoubtedly be one of the greatest deceptions of our history if we do not consider, as from now itself, the negative implications of a receding population on our future economic development.

Let me say it plainly here. We need a significant increase in our population level.
Honourable Ministers,
Ladies and Gentlemen

We should not be afraid to open ourselves to foreign skills and talents. Let us not be of those who close ourselves. We need to open up our doors to knowledge, skills, and expertise to attract this famous **KNOWLEDGE FACTOR**.

We need more people to sustain our economic development.

In the next decades, we will not only be faced with the demographic bomb but also a rapidly ageing population. How can we expect an investor to lock its capital over a long period when it will be faced with a lack of labour on the market?

The United Nations study shows that our country's working age population will recede by nearly 150,000 individuals by 2050 and in 2100 the working age population will be less than half of what it is today.

Without foreign labour, the economic development of the country in the next 30 years will be limited, at best.

Let us not forget that we also largely owe our economic development to the foreign workers. And I must add that this openness which we had at the time of the EPZ boom of the must be maintained today. Our current economic growth rests critically on it, as is evidenced in the construction industry as we speak. It will be a tragedy if, after so many years of negative growth, that the Construction Industry is shackled by a restrictive policy on recruitment of foreign workers.

Honourable Ministers,
Ladies and Gentlemen,

When we see what is happening in the world today, when we look at Brexit and the geo-political tensions throughout the world, we have huge opportunities to exploit.

There are many retired individuals in Western countries who are today willing to settle elsewhere. In Europe alone, there are over 400,000 British retirees who are in an uncertain situation due to Brexit.

We need a deliberate policy to attract those foreign retired individuals. We are one of the 10 most peaceful countries in the world and we are a country which makes foreigners 'dream'. Let us exploit this advantage that we have.

Our aim should be to attract 200,000 foreign retired individuals.

Those retired individuals will not be making use of the welfare economy, but rather use their pensions to spend locally, having a massive impact on economic activity- **on average a surplus of one percentage point in our economic growth.**

We need to welcome the world be they students, talents or retired individuals.

Honourable Ministers,
Ladies and Gentlemen

On the domestic side, we cannot go on with our unfair income tax policy which taxes children.

There is today no additional deduction as from the third child for a household with one working individual and the deduction for the second child is much lower than for the first.

Economic experts throughout the world advocate for the use of an equivalence scale where the first adult accounts for one unit of consumption, each additional adult for 0.5 and each child for 0.3 units of consumption. This is what we are proposing today.

Simply by harmonising this income tax threshold, the Government would send a strong signal that we are stopping the Malthusian policy of penalising those who have more than one child.

Honourable Ministers,
Ladies and Gentlemen,

When we talk about demographics in a country, we need to address poverty.

Based on our estimates, more than 100,000 households in Mauritius today have a monthly income of less than Rs. 25,000 and this is not acceptable.

The World Bank's report "**Inclusiveness of Growth and Shared Prosperity**" comes as a wake-up call to all of us. It clearly shows that there has been a decline in consumption expenditure for those at the lower end.

How can we expect couples with an income of less than Rs 25,000 to be incentivised to have children?

When we know that those at the lower end of the ladder have the highest propensity to consume - we understand that policies to increase the purchasing power of those households will have a highly positive impact on our economy.

Honourable Ministers,
Ladies and Gentlemen

We highly commend the Government's initiative of providing a monthly income support to some 12,000 households. But it is not enough. What about the others? What about the other 88,000 households?

In this new economic order, faced with an increasing gap between the have and the have-nots, a number of countries - Finland, India or Sweden - have adopted the negative income tax regime. As a small island economy, Mauritius is the ideal laboratory for the implementation of such an innovative model.

The introduction of this policy will be vital to address poverty, incentivise people to have more children and will provide an economic boost.

Our estimates show that the above measures could increase our GDP growth by one percentage points, ceteris paribus.

Honourable Ministers,
Ladies and Gentlemen

We cannot sustain having more than 30 percent of our children being left out after the end of primary education. If we take into account secondary education, more than 50 percent of our children are unprepared for the working environment.

This lack of education is one of the root causes of poverty. Indeed, according to Statistics Mauritius, an individual without a School Certificate is 10 times more likely to be poor than someone with at least an SC.

The 9-year schooling is a welcomed first step to our education reform, but we need to further build on that.

If we want to adapt ourselves to the challenges of 2050, we need to increase expenditure on education. It is not surprising that the countries with the highest levels of education are Denmark, Iceland, South Korea and New Zealand. These countries spend more than 7.5 percent of their GDP on education.

In 2050, jobs will be completely different from what they are today. We need to prepare ourselves for the Internet of Things, Artificial Intelligence, Robotics, amongst others. For that, we need to continuously re-invent our education model.

Honourable Ministers,
Ladies and Gentlemen

To accompany this transformation and to prepare for the challenges of tomorrow, we need to engage in a broad-based fiscal impulse and rationalisation process.

Ten years after the tax reform of 2006, with a clear aim to rationalise the fiscal policy of Mauritius with a uniform tax rate, we are still faced with more than 40 taxes and levies affecting the business community.

Is it normal that excise duty on just 20 products today contribute to nearly 20 percent of Government Revenue while customs duty, with more than 6000 HS Codes, only contribute to around 1 percent of the country's revenue?

Is it normal that we cannot recover VAT on around 10 percent of products in the country because they are exempt?

Is it normal that some sectors are today paying taxes on their turnover instead of profits?

Is it normal that a number of schemes are provided to some sectors while other sectors are penalised by special levies?

Our message is clear – taxation should be simple, taxation should be on profits and if we need to incentivise, it should be for all of us.

Honourable Ministers,
Ladies and Gentlemen

We need to prepare ourselves for the next 30 years. We will continuously be faced by heightened international competition and will be affected by new shocks in the world economy.

With the shaping of this new economic order, we need to look towards countries having the highest potential growth rate.

We highly commend the Government's initiative of renewing talks with India to conclude a Comprehensive Economic Cooperation and Partnership Agreement (*CEPCA*). India has an expected growth rate of more than 5 percent for the period 2015-2050. It is expected to be the fastest growing economy in the world.

After India, the future poles of growth at Horizon 2050, are Vietnam, Philippines Indonesia, Brazil, Russia but also closer to our home in East and West Africa. The continental FTA at the African Region will allow us to cater for these markets. But more should be done.

We should be proactive and consider signing bilateral agreements with some of those future superpowers.

However, to be able to negotiate with these economies, we need to be extremely careful on our tariff policy. Our scope for granting preferences is already limited given that more than 90 percent of our tariff lines are duty-free. We need to have some margin to negotiate with future trade partners.

Honourable Ministers,
Ladies and Gentlemen,

Negotiating trade agreements to diversify our markets are essential but it won’t be enough. We need a holistic strategy to revamp our production capacity.

In this respect, we highly recommend the initiative, started two years ago, to devise a National Export Strategy for Mauritius. We have been highly involved with the International Trade Centre and Enterprise Mauritius and other stakeholders to devise strategies to address the challenges facing our exports. With the launching of the report, we are fully confident that the implementation of the recommendations will start as from the next Budget itself.

This will surely have a positive impact on our productive capacity, and hence on our economic growth.

A critical element of this export strategy is the development of our Port. We congratulate the Government on the investments in the Port. The deep water quay, and the bunkering project are exciting projects which will put us back as the star and key of the Indian Ocean. However, a solution must be found for the productivity of the Port. We again strongly recommend the privatisation of the Port operations, and if not, a complete reassessment and professionalisation is paramount.

Simultaneously, we need to further deepen our air connectivity. This is a complementary thrust as it is people fluidity as well as goods fluidity which are the fundamental foundations of an export led economy. We commend the Government's initiative to expand air access policy and look forward to seeing daily direct flights to Nairobi, Mumbai and Singapore very soon.

Honourable Ministers,
Ladies and Gentlemen

If we as a nation want to transform our economic model to face the challenges of this new world economic order, we need to make full use of our policy levers. For us to be efficient, let us inspire ourselves with Singapore's Economic Development Board. For each Singapore dollar spent on the institution, 25 dollars are attracted in terms of Foreign Direct Investment (FDI). In Mauritius, the figure is less than Rs. 15 per rupee spent.

Mauritius has the potential to do more by adopting a holistic approach to increase efficiency. Through the rationalisation process, already started by the setting up of Landscope Mauritius, competencies and human resources, which are scarce, will be best used. At the Chamber, We strongly feel that we must use this opportunity to create a single body whose aim and purpose is to support our national strategy to open Mauritius to the World in terms of the Promotions, Capacity Building & Exports, attracting inward investment and talents.

Furthermore, the operation arm of the Government needs to work in a concerted and efficient manner and extensive rationalisation of our trade and promotions institutions would be necessary. To truly become a business-friendly nation, we further need to implement a rapid, efficient and extensive **Single Licensing Unit.** No entrepreneur should have to go through two institutions, two permits, or even two places to do business. A central body where all licenses and permits are delivered is a **MUST**.

Honourable Ministers,
Ladies and Gentlemen,

For us to achieve a dynamic and vibrant economy and face the challenges of Horizon 2050, there is a need to invest in R&D and Innovation. There is no other solution but to innovate, innovate in our product offerings, in processes, in technology and design.

The MCCI highly commends the proposed enactment of an Industrial Property Bill, which makes provision for Mauritius to sign a number of International IP Protocols.

Such a Bill is a huge step for Mauritius in this transition towards an innovation-led economy. The signing of the Patent Corporation Treaty (PCT), the Madrid Protocol and the Hague Convention, as proposed by the MCCI, will give us an enabling framework to move towards an innovation-led model of economic development.

Nonetheless, we would like to express our deep concern as to the provision of the draft Bill on a proposed move towards an international exhaustion of IP Rights regime. Since the release of the draft Bill, we have highlighted the concerns of the business community, through a Memorandum submitted to the different Ministries concerned.

Our position on this matter is clear, public and unequivocal - a move towards an international exhaustion of rights on trademarks will be highly detrimental to the country.

Allowing parallel imports while reinforcing IP rights is a contradiction and sends a wrong signal to operators. It is against the very spirit of the Government's initiative to incentivise R&D and Innovation. Our internal research and international research, whether the OECD, the International Chamber of Commerce (ICC) or the London School of Economics, show clearly that moving towards an international exhaustion of IP rights would disincentive investment in R&D. No operator, with a trademark, will be safe from a free-rider parallel importer who might leverage on existing marketing and brand equity, make use of foreign exchange volatility to flood and disrupt the market.

With parallel imports, how do we ensure traceability, quality control, supply chains and after-sales technical and warranty services?

What do we make of our local manufacturers and importers who have invested their resources, and energy for the development of this country through a number of trademarks?

And what about the eco-system of companies working closely with them to develop their businesses?
Are we saying that we don't need them anymore?

For the past 50 years, these entrepreneurs, comprising of thousands of SMEs, have invested heavily into the economy, adapted themselves to the changes on both the local and the international markets, and continuously improved their skills and capacity.

Let us not make the mistake of putting at stake these sectors, which today employs more than 100,000 people.

We remain convinced that the Government has heard the voice of the business community on this complex matter and will revisit this clause of the Bill.

Honourable Ministers,
Ladies and Gentlemen,

With the strong framework that the IPDP will provide, we need to clearly incentivise innovation activities at all levels.

We have Innovators and IP creators in Mauritius - let us have the incentive to retain these home-grown IP. We have the capacity to attract IP created overseas to be commercialised and managed from Mauritius.

The MCCI has been advocating for the introduction of the Innovation Box Regime in Mauritius, similar to countries such as Ireland and Cyprus. This preferential tax regime has shown its proof in those countries. Ireland headquarters today the likes of Google, Intel, Microsoft and Facebook. We firmly believe that the Innovation Box Regime is the right system to be adopted in Mauritius.

The future of Mauritius lies in a number of high-tech and medium-tech industries such as pharmaceuticals, medical devices, light manufacturing, high precision engineering, food processing and jewellery to name but a few.

If you remember, it was with the help of EPZ act of 1971 that Mauritius pushed itself into the global textile supply chain. Based on what has just been said, it is clear that the much of future of Mauritius's economy will depend on how it can integrate into other regional and global supply chains and thus continue to build its industrial base.

With the Innovation Box Regime, we will further integrate the global supply chain.

Honourable Ministers,
Ladies and Gentlemen,

We are at the dawn of a new economic order.

This is the new normal we have to face.

The onus is on us as the business leaders, the entrepreneurs, the policy-makers of today to look at the future, transform our economy and ourselves and help this formidable country in its quest to become a dynamic, innovation-led economy.

It is why today my message is clear - let us think of the long term.

Where do we see ourselves, as a nation in 2050?

In 2050, we see Mauritius with a highly educated and dynamic population where each and everyone has a decent standard of living. We see this country with a buoyant industrial base as the engine of its economy, with innovative entrepreneurs engaged in high-value added production. We envision an economy at the forefront of the digital revolution, with a fully developed and integrated life sciences industry, and tapping into the vast opportunities of its exclusive economic zones.

In 2050, we shall be amongst the very best in the world in human development, in ease of doing business, in productivity and competitiveness, in education and healthcare, in R&D and Innovation – but also in environment protection and climate change readiness.

This is our vision at Horizon 2050. We shall build on our Mauritian creativity to adapt ourselves to often-unimaginable transformations in the world economy. Yet, keep our identity as this multi-cultural and peaceful society, which has been our success for so many years.

Honourable Ministers,
Ladies and Gentlemen,

There is only one way for us, as a nation, to move forward and face the challenges of tomorrow. We need to review the public-private sector partnership bearing in mind that only a concerted approach to policy making will make us succeed.

Make no mistake, we are in a competitive world and no one will come to rescue us.

Let me assure you that the private sector will not shy away from its responsibilities. Our aim is a common one - the economic success of our country.

My appeal here this morning is that we start this work - this transformation of our economy.

I thank you for your attention.