

170th ANNUAL GENERAL MEETING

Thursday 28th March 2019, Labourdonnais Waterfront Hotel, Port- Louis

'State of the Economy Address' by Mr. Marday Venkatasamy, GOSK, CSK, President of MCCI

I am delighted to welcome you to the 170th Annual General Meeting of the Mauritius Chamber of Commerce and Industry. Oui, vous avez bien entendu. 170^{ème} Assemblée. Et Nous célébrerons le 25 janvier 2020 les 170 ans de la MCCI !

I would like to extend my special thanks to the Ministers, the Ambassadors and public sector officials who have always honoured this function with their presence. It is yet a strong testimony to the synergy that exists between the public and the private sector in our country and our close collaboration with international organisations, development partners and partner countries.

The State of the Economy address is a time of the year, where, the MCCI's President has the ever-challenging task of reflecting on the state of the Mauritius economy. It is an opportunity, as the voice of the private sector to **assess the general direction in our economy**. At a time where uncertainties and transformations are at a peak— be they worldwide or in Mauritius, it would be easy to shy away from delivering this address. **Yet, it is our role, more than ever, to live up to our mandate of playing a leading role in the economic development of the country.**

Policy transitions, fiscal stimulus and strong business and consumer confidence in a number of countries have continued to support the recovery in the global economy, despite rising downside risks to world economic expansion. In 2018, with a deceleration in world trade growth, tightening of financial conditions, and policy uncertainties, the IMF expects expansion in economic activity to have reached its peak, with global growth projected to remain at 3.7 percent, similar to the 2016 and 2017 figures.

Despite tensions and uncertainties, as well as unpredicted policies having dampened the growth in world trade and industrial production, growth in advanced economies has increased from 2.3 percent in 2017 to 2.4 percent in 2018 driven by the pro-cyclical fiscal expansion in the United States. In emerging economies, economic growth rates have reached a sustained level at 4.7 percent.

Yet, the broad-based recovery observed in 2017 is today less balanced, with challenges to steady growth. In 2019, the IMF, the World Bank and the OECD all point to an increased period of uncertainty in the world economy with downside risks linked to the tightening of financial conditions globally,

geopolitical and trade tensions, the uncertainty surrounding Brexit and an accelerated slow-down in the Chinese economy.

Has the world economic expansion reached a plateau? Or are we, as Christine Lagarde, the head of the IMF, recently warned – at the brink of a **perfect economic storm**. And if it is so, how far is our economy ready to face it?

Amidst this global economic landscape, the Mauritian economy has been growing steadily at approximately 3.8 percent last year and we estimate growth of 3.9 percent in 2019. The **resilience** of the economy has been largely due to an expansion in internal demand. Indeed, the Mauritian economic growth is largely the result of a continued improvement in consumption expenditure, which has improved by more than 3.4 percent coupled with a recovery in both public and private sector investments. After negative growth since 2012, there has been a pick-up in private sector investment since 2016, with an accumulated increase of more than 16 percent over the last three years.

But the investment growth figures are showing weaker prospects, with growth in 2018 at only 3 percent. Our investment growth over the last three years combined has not been able to match what was achieved in 2007 – double digit figures of more than 20 percent over just one year. With weaker private investments, and as we engage in a public sector investment boost, we need to be prudent on our public debts to ensure we meet our targets set for next year. We should adopt strategic partnerships between the public and private sector on high value investment projects – the Build Operate Transfer (BOT) is one example of the mechanisms which can be used. At the same time, our recurrent expenditure debts should be minimised to ensure greater efficiency and use of public resources.

On the external front, our exports of goods and services has been affected by the prospects in the global economic environment – the slowdown in world trade growth combined with lower growth figures in the UK and EU – two of the countries' largest markets for both our goods and services. For 3 years now, exports of goods and services has been contracting. It is also the first time in over more than 10 years, that imports of goods have been on the decline.

Inflation rates in 2018 is estimated at approximately 3 percent and unemployment at 6.9 percent. Our estimates for 2019, as you shall see in our Economic Review publication, is that inflation shall remain contained at less the 3 percent and unemployment will continue to decrease to achieve 6.6 percent in 2019.

Now that the broad assessment of the economy has been made, let me delve into those main socio-economic issues that, we as the Chamber, believe are the priorities to look at in 2019.

Firstly, we cannot shy away from the debates on global cooperation. We cannot afford to remain unconcerned about trade tensions between US and China. Since the post Cold War era, it is the first period of retreat of globalism – trade tariffs are no longer going down, and there is a move towards less integration in the world economy. As a small island economy, highly dependent on our trade and investment relations, we will undeniably be affected by changes in the world economic model. It is one of the most pronounced periods of uncertainty in the world since the Cold War.

The closest of those uncertainties to us is **Brexit**. Despite the extension to Article 50 which means that the United Kingdom will not leave the EU with or without a deal tomorrow, the economic effects of Brexit are already here today. **With an impact on the purchasing power of the British population of more than £400 per week, it will undeniably affect a number of sectors in our local economy.**

- Tourist arrivals from the UK – which account for some more than 10% of our tourist arrivals has been showing slower growth
- Our exports of consumer goods to the UK, which remains our largest export market is on the decline
- Whilst in the financial services sector, the slowdown in U.K. economic activity will inevitably affect us.

Mesdames et Messieurs,

Il y a également des incertitudes liées au phénomène des « gilets jaunes » en France métropolitaine et à l'île de la Réunion. Les effets combinés de ces protestations et du ralentissement de la croissance économique de l'Union Européenne, ont eu un impact sur un certain nombre de secteurs clefs de notre économie. Pour la seule année 2018, le nombre de touristes réunionnais a baissé de 7,600 et le nombre de touristes arrivant de la France a stagné. Par ailleurs, nos exportations de marchandises en France ont chuté de presque 1.5 Milliard de roupies en 2018. Il y a sans aucun doute une conséquence liée au ralentissement de l'économie européenne, notamment couplée avec les protestations en France qui affectent directement notre économie.

Ce sont que quelques exemples qui démontrent notre vulnérabilité vis-à-vis de la situation de l'économie mondiale.

Ladies and Gentlemen,

Secondly, the Mauritian economy is more than ever going to be affected by weather disruptions and the effects of climate change. Last September, the IMF published a working paper which shows that for emerging countries like Mauritius, a one percent increase in temperature **lowers growth in the same year itself by 0.9 percentage points**. We have all noticed the paralysis of the country with the recent flash floods since 2013. In the last few days, we also saw the damage that the cyclone Joaninha has done and we stand in solidarity with our fellow countrymen of Rodrigues in this difficult situation. Those phenomena are here to stay, and we have to swiftly and urgently take the necessary measures to adapt to this changing landscape.

In priority, we have to implement the Land Drainage Master Plan and consolidate our infrastructure systems. And as we move forward, Urban Planning is essential to making our economy resilient to weather changes and disruptions. Our economy can no longer afford to engage in erratic infrastructural development. A comprehensive and coherent masterplan for urban planning is indeed key.

When talking about climate change and the international economic environment, it should make us rethink our Food Security strategy and this is clearly linked to our industrial policy. In 2018, to meet our domestic demand, we imported more than 80 percent of our food consumption – i.e. nearly Rs. 35 Billion. Whilst this is reflective of our openness strategy, it also reflects our vulnerabilities to any disruptions in international trade or weather disruptions affecting freight operations.

Self-sufficiency, more than an environmental issue, is intrinsically linked to **de-industrialisation and our strategic local enterprises**. Can we afford, in such an international context of uncertainty to have such a high reliance on imports for our domestic consumption? Or should we not ensure that we have an industrial base to produce and supply a minimum of our domestic consumption? We cannot afford to become a de-industrialised nation. Even as we move towards a services-led economy, we need to keep an industrial base in order to ensure our self-sufficiency. And to do so, Government should give the necessary support to enable those enterprises to invest in machinery, and Innovation, but also to compete on a level playing field with imported products through high quality standards and norms and minimum shelf lives imposed to mitigate against any possible dumping practices.

For the development of the Mauritian economy, it is also essential that our public infrastructure – be they the port or the airport be the drivers of the development of our economic model. With the recent unprecedented challenges, our port operations have been affected with more than 30 days of port closure in 2018 alone. It is vital to adopt innovative mitigating measures at the port including the construction of a breakwater.

Regionally, it is also critical for us to enhance our connectivity to the African market through a regional feeder vessel. It is inconceivable that it is quicker for goods to reach Europe than certain African countries which are much closer to us!!

Ladies and Gentlemen,

Let me stay on the topic of **connectivity**. Air access and connectivity is primordial for the development of our tourism sector – but also for our ability to attract investors to the country. We need a coherent open air access policy that enables us to be connected to our principal but also emerging markets with a high frequency. It is not conducive to do business if we have to fly for more than 36 hours to markets such as Nigeria, which are not far from us. How can we expect to tap into the African market if our flights to the region are minimum?

On air access, we are all aware of the near saturation of our airport capacity. During the last Budget, we witnessed the Government's commitment to expand the airport capacity to 8 million passengers annually. We look forward to the rapid implementation of this project which is of national importance for our economy.

Ladies and Gentlemen,

These are linked to one of the main sectors of our economy – the **Tourism** sector. When we analyse the economic impact of travel and tourism on our economic eco-system –the sector brings about 24 percent of our GDP and 131,000 of our jobs. But, after a decade of exceptional growth, we are seeing signs that the sector is being affected by the international context.

We, at the MCCI, are pioneering new technology and aiming at creating an eco-system around the tax free shopping experience. It is today essential to integrate the tourism value chain in order to create the value proposition for tourists to come to Mauritius. At the same time, we should ensure that we are competitive in our package offerings be they in terms of air access, costs but also in the tourism experience. It is a rethinking of our tourism strategy. Today, the tourists arriving from the Middle East, and Asian regions have a high potential in our effort to boost the tourism expenditure.

Let me touch on one of the most important issues facing our economy – the Demographic trend. Last year, my predecessor stressed on this urgent issue which we are going to face in the next 5 to 10 years. Let us be clear - it is practically impossible to achieve a dynamic economic development with a declining and ageing population. During our consultations under the NESC with the Prime Minister, we proposed a three-pronged agenda.

Firstly, a long-term strategy to do away with the Malthusian policies set-up in the 1980s by harmonising income tax deductions in respect of each and every additional child. At the same time, we need to ensure that the necessary support systems are provided for women. We need to adopt child support policies and education incentives, parental leaves as well as income tax deductions for individuals to access crèche services, the provision of Government incentives through the operationalisation of flexible Work@Home Schemes.

Thirdly, one of the crucial aspects of our strategy for Mauritius is about having a Migration and Openness Policy. It is clear that our decreasing working age population will impact our labour force whilst measures to reverse our declining fertility rate will only have an effect in 15 to 20 years. In the short term, we need to look at our labour market integration through the targeting of specialised foreign talents. Let us not shy away from this crucial need for our economy and its development. It is about attracting the right professionals – some 20,000 of them - in Blockchain, Fintech, AI, Fund & Asset Managers, Software Engineers, Agripreneurs, IP Specialists over the next five years! Let us clearly define our openness strategy with a targeted approach.

Whilst we conduct a targeted openness of our economy, we should in parallel address the growing skills mismatch in our labour force. It is not normal for an economy with an unemployment rate of less than 6.9 percent that more than 25 percent of those aged between 16 and 25 years old are unemployed! It is also not normal that 45 percent of our unemployed do not have a School Certificate. Structural changes in our economy have created a skills mismatch in our labour force. Prioritising quality education based on skills development, and self-development of the individual should be the priority of all.

Ladies and Gentlemen,

Let me address one of the sectors in a transition phase today – the financial services. Let me, at the very outset, congratulate the Government and all stakeholders in the challenging reforms upon which the sector has been going through since the OECD-BEPS initiative was put forward. We are now considered as a compliant jurisdiction with the OECD. This should give us the necessary gravitas to retain and attract firms. Nonetheless, with the questions raised by the EU on our partial exemption system and the effects of the new India DTAA, maybe we should think forward on a comprehensive alignment of all sectors in terms of corporate taxation? We are all aware of the benefits of flat taxation in economic development. And a flat taxation regime, with certain adjustments has proven itself in the past. Let us not think that by lowering the taxation rate, Mauritius would lose in revenue. These are the big questions we should be pondering on as we approach the Budget presentation.

At the same time, we should nonetheless maintain the development of new services in order to remain competitive. At the start of this month, Mauritius was the first jurisdiction worldwide to provide for a Digital Assets license – this should be applauded, and we should continue in this direction with innovative solutions to establish ourselves as an international financial centre in the region. We are a country where there is rule of law, and a stable economy - we should be able to leverage on this in order to use Mauritius as a platform into Africa...

Honourable Ministers

Ladies and Gentlemen

SMEs and Entrepreneurs are at the heart of the economic development strategy. They account for approximately 35 percent of the GDP and nearly one in two jobs are in SMEs today! It is crucial for us to address the recurring issues facing SMEs – Access to Finance, High levels of administrative hurdles but also getting the right skills and technology. It is about democratising the economic landscape.

The operationalisation of the movable collateral registry and the recent small loan scheme for women entrepreneurs are welcomed step. More can however be done by promoting an economic eco-system of ‘intrapreneurship’ where larger enterprises partner with SMEs but also crowdfunding in a world of blockchain.

One aspect of our strategy for development is undeniably innovation and R&D. It is unconceivable that in our economy, only 0.2% of our GDP is spent on R&D! Our aim should be 2 to 3 percent of our GDP on R&D expenditure at least! The double deduction of R&D expenses is highly welcomed but it is important to clarify and issue clear guidelines to ensure its operability. It is equally important to re-engineer the Innovation Box Regime – a successful regime in a number of countries and which has a great potential in Mauritius.

Concurrently, it is critical to adopt the Industrial Property Bill at the earliest!!

This is a plea of the Chamber to the Government! A coherent and strong IP legislation will enable Mauritian entrepreneurs to get involved in innovative and higher-value added activities. Our accession to the three WIPO protocols of Madrid, PCT and Hague is critical for operators today. It is equally important for the financial services hub – Mauritius can become an IP registration hub for Africa! We would thus urge the Government to prioritise the IP Bill legislation in the parliamentary calendar before the Budget.

At the level of MCCI, we are already working in collaboration with the European Union to set up an innovative platform for technology transfer between Mauritian and European companies. However, just as we push towards an IP-led economy, we should brainstorm on the issues surrounding international exhaustion of trademark rights! We have had consultations with our members and the consultant and we look forward in this respect to the publication of the socio-economic study by the Ministry of Foreign Affairs.

Before I conclude, few words on **inclusive growth**. The development of strategies and policies to enhance the socio-economic processes of the country is at the core of our mission. It should be clear that economic development in Mauritius should be an inclusive one.

2019 shall be the year of outstanding challenges for the economy. We are living at a time where the debate on the economy has been ignited again. From the budding economists to the individual in the shops, everyone today has a view on the economy. And it is a good thing. The state of the economy should be the concern of each and everyone!

When it comes to the economic indicators, it is more than ever critical to have independent source of analysis to assess the state of the economy and to guide the Government in its economic strategies.

We can all debate on whether economic growth in the country has been of 3.8 or 4 percent. We can all debate on whether the unemployment rate truly reflects the reality of the economy. These are all genuine debates, as knowing the state of economic indicators enables planning.

What is more important, however, is how can Mauritius achieve 5 to 6 percent of economic growth? How can we raise the standards of living of each and everyone? How can Mauritius attain full employment? These are the debates which we should have!

And to have these debates, what is **key** is economic planning!! In 2017, we proposed a Strategic Economic Directorate at EDB to conduct economic planning. We did so because we have observed, too often, contradicting policies implemented, and this creates too much uncertainty amongst economic operators. **Regulatory and economic impact assessments should be the priority before the implementation of business-related legislations.** At the same time, we should be clear on our economic strategies for the next 5 years in terms of priority sectors of development, Demographics, labour and openness strategies, R&D and Innovation, business facilitation, climate change, etc...

Let us clearly define our strategy at Horizon 2025!

Let me reassure you, that we at the MCCI, are fully committed and prepared to help the Government in devising this strategy. It should be an economic strategy that is devised by both the public and private sectors – it is only then that we can ensure the commitment of each and everyone for the implementation of our strategy for the upcoming years.

Honourable Ministers,

Ladies and Gentlemen,

We are at a turning point and an unprecedented moment of uncertainty in the development of the economy. We can either reinvent ourselves to become ever-more resilient or we can become an economy that is stuck for years in the middle-income trap.

The choice is ours! We have to seize this unique opportunity to devise and implement bold and forward-looking strategies for an inclusive, sustainable, and innovation-driven economy.

Thank you for your kind attention.
