

CONJONCTURE

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"*Tout l'art de la politique est de se servir des conjonctures.*" - Louis XIV

Does the local manufacturing have a future?

By Gérard Garrioch

At first glance, it would be obvious to say that the local manufacturing sector in Mauritius does not have a future. The country has no raw materials, no significant domestic market which affords economies of scale, no supply of cheap labour anymore, relatively high costs of energy and utilities, an unfavourable geographical situation, far from the main prosperous markets (Europe, Asia and the United States), expensive freight to and from Mauritius, inflexible labour laws, and much more!

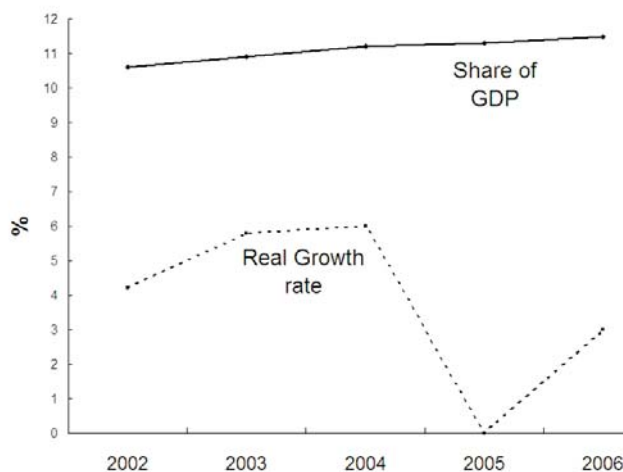
The local manufacturing sector emerged in the late 1960's to create much needed employment. The Government levied high duties (up to 80% in some cases) on imported goods which were in competition with goods produced in Mauritius. Incentives were also given to would-be investors who set up industries to help reduce our dependence on sugar (the Development Certificate Status).

And it worked! Many local investors started up a multitude of manufacturing industries in various sectors: soap and detergents, vegetable oil refining, printing, margarine, television sets assembly, tyre retreading, soft drinks bottling, a brewery, chicken processing plants, food canning plants, paints. The first products faced bias from the Mauritian consumer who always believed imported goods were better, but the high price of imported goods made the local consumer move to locally made products; and the bias gradually disappeared as the quality of locally made goods improved continuously. After forty years, those industries which have survived produce excellent quality products.

Only will survive enterprises that offer niche products or typically "local" products that penetrate export markets

In the late 1970's, the Export Processing Zone sector was launched and immediately benefited from incentives which the local manufacturing sector never dreamed of... In fact, the resounding

Local Manufacturing in Mauritius



success of the EPZ relegated the local manufacturers to a distant second position in the economic landscape.

The local manufacturing sector in those days paid duties on its raw materials, paid its utilities at a higher price than EPZ, had less flexible labour regulations, was under tight price control and paid higher corporate tax. All these rigidities and burdens were not conducive to making local manufacturers competitive enough to risk exporting forays. The result has been a local

manufacturing sector mostly concentrated on the local market and not geared towards exports.

Changes in the external environment started happening in the early 1990's. Mauritius signed a series of regional cooperation agreements tending towards a regional "common market" (COMESA, SADC). Customs duties started coming down on imported goods, and some goods were indeed imported duty free while local manufacturers still paid duties on their raw materials and packaging!

Local manufacturers regrouped to fight for their interests and formed the Association of Mauritian Manufacturers (AMM) not only to lobby in order to slow down removal of "protective" measures, but mainly to eliminate "discrimination" against local manufacturers! Some of its aims were to have duties removed on raw materials, to have price control removed and to insist that the Legal Metrology Act applies to imported goods as well.

After a long struggle, which took ten years, the AMM managed to improve the environment of the local manufacturers. The authorities realised that the sector employs 50,000 people, has had a steady growth of 5 to 6% per annum, and contributes to 12% of the gross domestic product.

Problems on the regional market

The sector is often accused of being shy, risk averse and unable to exist without "protection" (which has become a "dirty" word these days). The regional market is apparently a gold mine waiting to be tapped, and if we have to open up our market to others, then it is a small price to pay compared to the opportunity of exporting to the millions of customers around us... So what are we waiting for?

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Economic spring

By Eric Ng Ping Cheun

Coming between winter and summer, spring starts early October in Mauritius. True, one swallow does not make a summer. However, when the national economy is visited by a flurry of swallows – ten in all –, the birds must logically be a harbinger of hope.

Firstly, economic growth is taking off. Were it not for the vagaries of the weather adversely affecting the sugar production, the overall growth would have exceeded 5% in 2006. The fact is that growth excluding sugar will attain 5%, two percentage points more than in 2005 (3%).

It is worth noting that, in contrast with recent years, the growth is not induced by the state. Real government consumption growth will be only 2.8%, the lowest rate since 1986 and largely inferior to the 6.1% of 2005. Even public investment, excluding the purchase of aircraft, will decrease by 7.2 % in real terms.

A sound and balanced economic growth fuelled by private investment, exports and households consumption

Secondly, private investment is rebounding. On account of big projects in the hotel industry, in the power production and under the Integrated Resorts Scheme, private investment will register a real growth of 9.3%

in 2006 after a decline of 1.1%. Overall investment, exclusive of the purchase of aircraft, will increase by 4.4% and will represent 23.8% of gross domestic product against 21.3% last year.

Thirdly, exports are rising again. After three years of negative growth, exports of goods record a positive real growth of 10% in 2005 and of 9% in 2006. One noteworthy point: they grow faster than imports of goods. Net exports of services too will progress by 5.5% this year.

In brief, the Mauritian economy is underpinned by sound growth fuelled mainly by private investment and exports.

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A turning point in the corporate environment

By *Urmila Banyamdhub Boolell*

The year 2001 saw deep rooted changes in the western corporate world as a result of large scale scandals which shook the very fundamentals of the modern business environment. The breakdown of Enron as an icon of US business followed by the downfall of one of the Big Four accounting firms, Arthur Andersen, rocked the very foundation of the US economic world. One had to go back a long way into modern history to find such a poisonous cocktail of professional malpractice, deceit and fraud oozing into the sanctity of the boardroom.

The further advent of the 9/11 disaster brought about awareness of the fragility of corporate environment and resulted in a more xenophobic approach to business. With the passing of the Sarbanes Oxley legislation and the Patriot Act, considerable restraint was imposed on the operations of banks in the war against terror, more stringent anti money laundering provisions were put in place and a general spring cleaning of the business environment took care of changing the way of doing business.

Concurrently in Mauritius, we were also witnessing an important turning point in our corporate environment with the passing of three main innovative pieces of legislation, namely the Companies Act, the Trust Act and the Financial Services Development Act. At the time of implementation of these laws, we were directly affected by the unusually strong winds of reform blowing from the US and Europe. In particular, the newly set up Financial Services Commission (FSC) saw itself as a necessary buffer against corporate fraud, anti-terrorist movements and anti-money laundering activities and as a result started its own crusade against unwanted business.

In the offing, the FSC yielded to pressure from the Organisation for Economic Co-operation and Development and was strongly influenced by the latter's lists of varying shades between black and white. Stringent regulatory guidelines and practices were adopted in an endeavour to install international best practices in matters of compliance and Know Your Client. The regulatory framework within which operators were called upon to evolve, especially in the global business sector, changed overnight with unfortunately little advance warning or preparation. The result was a very painful awakening which generated tension between the regulator and the operator, incidentally causing a considerable loss of business.

There followed the coming into effect of the Prevention of Corruption Act and the setting up of the Independent Commission Against Corruption in 2002, against a backdrop of political and economic scandals. For good measure, the passing of the Financial Intelligence and Anti Money Laundering Act, introducing the novel notion of intelligence gathering and dissemination at a national and international level.

In the midst of all these changes, the operator has undergone an awesome culture shock and has suddenly had to come to terms with the demands of the modern business environment and the new rules by which it worked – compliance and regulatory supervision achieved a new meaning and the tools for easing this change were not always available.

Mauritius is still very far from having developed a culture of governance

Corporate Governance also has been and remains a live wire in the international business world. Innumerable corporate scandals have shaken the corporate world, leaving gashing and unhealed wounds – Enron and Worldcom heralded a string of financial and corporate disasters, the latest in the making being Hewlett Packard. The case of Hewlett Packard is retaining attention not so much for the fact that it finds itself in the midst of a major boardroom tussle but rather because it was considered a post Enron success corporate governance story – this aura evaporated very suddenly with allegations of spying and fraudulent practices at boardroom level.

Interestingly, ensuing discussions in the Hewlett Packard saga are very reminiscent of the debates presently being ventilated in our own blue chip corporate environment, namely the commercial wisdom of having an executive chairman against the ethical preference for a split between the role of the executive director and that of the non-executive chairman. Indeed, turning to our own local situation, awareness on corporate governance issues has been gradually growing – the Setting up of National Steering Committee, which culminated in a report on corporate governance applicable to all listed companies, public corporations and state owned entities, is a reality and has resulted in some shuffling taking place in our boardrooms.

It is encouraging to note that a number of our major companies have adopted more transparent practices with the setting up of audit committees, remuneration committees, appointment committees – even corporate governance committees. However, the sad reality we have to face is that we are still very far from having developed a culture of governance. Whilst paying lip service to the form and making cosmetic changes, we may be fooling ourselves, but not the foreign investor or the institutional investor who will want to ensure that we nurture and apply genuine norms of governance before giving us the vote of confidence we so badly need.

A quick glance at our current business news will indicate the truly unhealthy situation prevailing in our boardrooms – there are numerous cases of tensions and power struggles between shareholders and board members or board members inter se. Shareholder activism does not really exist and there are only a couple of notable exceptions to confirm the general rule. Cautionary announcements and communiqués

are vindictively issued and exchanged, casting hardly veiled aspersions of mismanagement and corporate irresponsibility. More seriously, the role of the independent director, or non executive director, is not being played to its true meaning, either by reason of the poor choice of the director or his inability to make any difference to the stand of the executive directors.

Our banking sector has not been spared either – we have been very hard hit with cases of takeovers and sales of banks in circumstances rousing suspicion and lacking in transparency. Compounded to this was the major fraud case which sent the whole country reeling in incredibility – we may be licking our wounds and getting over the shock locally, but the extent of the damage we have suffered in the international business community may not yet be fully assessed. Once again new rules were laid down, checks and balances introduced and international practices endorsed – but the real results may not be verifiable yet. The regulatory framework has stretched beyond the banking sector to cover non banking financial activities – a new Insurance Act has been voted and is awaiting to be proclaimed and a new Securities legislation is to come into effect shortly.

Regulator, not persecutor

Against this backdrop, whilst training is necessary in ensuring a smooth transition into a new business order, it can only be beneficial if it is ongoing. In parallel with the general benefits of training, businesses should also be able to seek guidance as to whether they are operating in compliance with regulatory legislations and guidelines. Training should also take the form of addressing the needs of young professionals aspiring to join the financial services sector and to take up employment as Compliance officers or Money Laundering Reporting Officer.

We must bring about added awareness on governance issues and encourage our companies to implement, as painlessly as possible, new and acceptable norms and standards. This is a necessary step for us to take if we wish to be recognised as serious players on the global marketplace. Finally, and most importantly, the aims of the regulator must be transmitted in a user friendly form to the operator.

It is thought that, without this critical link, the role of the regulator may more easily be confused with that of a persecutor, with negative results we can no longer afford to have. Success would come with an upgrading in standards and a change in mindset more receptive to the implementation of the best international practices in our corporate environment.

Urmila Banyamdhub Boolell, barrister-at-law, is a partner in BakerPlatt Boolell, which offers compliance and corporate governance advice, support and training services.

Does the local manufacturing have a future?

By Gérard Garrioch (cont. from Pg 1)

The AMM has been at work to re-establish the facts:

- 1) The region is poor in foreign currency, which affects exports: exporters who do not insist on letters of credit have suffered.
- 2) All members of the Common Market for Eastern and Southern Africa are not democracies: agents in some countries are sometimes not "free" to do business with us.
- 3) Non-Tariff Barriers suddenly spring up to discourage successful exporters.
- 4) Cases of dumping on our local market have been proved, and Mauritius has no anti-dumping legislation.
- 5) Some countries insist on 45% value added to qualify for certificates of origin, which almost no

local manufacturer can achieve.

6) Mauritian industries often end up competing against multi-nationals present in some member countries, as the minimum local shareholding criteria has been abandoned: this is tantamount to removing duties on imports of products from Europe or the USA...

A road map for the transition to services

What is the future then? To be honest, in the next decade or two, I believe the local manufacturing sector will shrink to be replaced by the services sector. Enterprises that will survive will be those that offer niche products or typically "local" products that have managed to penetrate some export markets. With the recent government decision to integrate the EPZ and the non-EPZ into a single manufacturing sector, the future of the local manufacturing sector can only lie in exports.

Innovation and making use of our limited resources is the only avenue open for the local manufacturing sector: the seafood hub industries

can make use of our marine economic zone. The challenge therefore will be to train and to re-skill the thousands of employees presently working in the manufacturing sector. But we must provide a time frame of ten years minimum for the transition to take place.

The next generation will work in the third wave sectors: information and communication technology, knowledge hub, high-tech medical hub, tourism, business process outsourcing. But let us not forget those people who have invested and toiled in the second wave industries and helped raise our standard of living since independence. The TEST exercise that was done with the EPZ textile sector should be undertaken immediately with the local manufacturers to determine the strengths and weaknesses of the sector and to establish a road map for the transition to services.

Gérard Garrioch is a former President of the Association of Mauritian Manufacturers and of the Mauritius Employers' Federation.

La plus forte croissance depuis 35 ans

Par Jean-Yves Naudet

A l'occasion de son Assemblée Générale annuelle, tenue à Singapour, le Fonds Monétaire International (FMI) a publié ses prévisions économiques pour 2006 et 2007, dans sa nouvelle édition du *World Economic Outlook*. Jamais la croissance n'a été aussi rapide depuis 35 ans (soit le début de la décennie 70) que celle que nous vivons depuis 2004. Certes, il faut nuancer selon les pays et la vieille Europe est à la traîne. Surtout, il existe un certain nombre de menaces qui pèsent sur la croissance. Mais pour l'instant, l'optimisme est de rigueur.

Une croissance mondiale de 5,1% cette année

L'économiste en chef du FMI, Raghuram Rajan, est optimiste sur l'économie mondiale et sa croissance et il le fait savoir à l'occasion de l'Assemblée générale annuelle du FMI, tenue à Singapour, qui a par ailleurs adopté diverses mesures pour tenir compte de la place croissante des pays émergents. Les chiffres de prévisions de croissance ont été relevés à la hausse (en moyenne d'un quart de point) par rapport au scénario présenté en avril 2006.

Globalement, le produit intérieur brut devrait progresser en moyenne dans le monde de 5,1% en 2006 et de 4,9% en 2007. Ces chiffres interviennent après les excellents résultats de 2004 et 2005, jamais l'économie mondiale n'aura connue une telle croissance continue et aussi forte depuis le début des années 1970, avant même la crise de l'énergie. Il faut distinguer ensuite suivant les pays, car les résultats sont assez diversifiés d'une région à l'autre du monde.

Sans aucune ambiguïté, la dernière place revient à la zone euro, avec 2,4% de croissance du PIB en 2006 et 2,0% en 2007. La France serait à 2,4% et 2,3%, dans la moyenne de la vieille Europe, et l'Allemagne à 2,0% et surtout 1,3% l'an prochain, payant ainsi son erreur de politique économique consistant à augmenter les impôts (TVA de 16 à 19%). Les Etats-Unis, après deux excellentes années (ce qui les différencie de l'Europe, alors en quasi-récession), connaîtraient un ralentissement, avec 3,4% et 2,9%, restant toutefois un point au

dessus de la zone euro. Le Japon pour sa part en a fini avec sa récession et se situe à 2,7% et 2,1%.

Excellents résultats des économies en développement

Résultats bien meilleurs dans les économies en développement et les économies émergentes en général, avec 7,3% en 2006 et 7,2% en 2007. C'est en particulier un nouvel espoir pour le tiers-monde et cela confirme les excellents résultats que nous avions présentés pour ces pays il y a quelques mois. Le tiers-monde n'est plus un tiers-monde et connaît un vrai processus de croissance. Même l'Afrique, que l'on croyait totalement sinistrée, est à 5,4% cette année et même 5,9% l'an prochain. Bien sûr, il y a des exceptions, comme un recul du PIB de 5,1% au Zimbabwe, comme par hasard un régime totalitaire socialiste.

Inutile d'insister sur les excellents résultats des pays de l'Asie en développement : 8,7% et 8,6%, avec en particulier 10% en Chine en 2006 comme en 2007 et 8,3% et 7,3% en Inde. Même l'Amérique latine se porte assez bien, sans plus, avec 4,8% et 4,2%, et même 8% en Argentine (mais 3,6% et 4% au Brésil). Certains pays d'Amérique latine paient leurs aventures politiques et la croissance y est quand même en moyenne plus faible qu'ailleurs.

Notons aussi les excellents résultats de l'Europe centrale et orientale (5,3% et 5,0%) -8,6% dans les Pays Baltes -, de la Russie (5,5% et 6,5%) sans parler de certaines républiques de l'ex-URSS comme l'Azerbaïdjan (25,6%), aidées par le prix de l'énergie il est vrai. Pour les mêmes raisons, le Moyen-Orient s'en sort bien (5,8% et 5,4%). Au total, en moyenne, ce sont bien les meilleurs résultats depuis 35 ans, avec un essoufflement évident dans les pays les plus riches et surtout dans la vieille Europe, celle de la zone euro.

La croissance menacée par la politique

Pour autant, l'économiste en chef du FMI ne cache pas quelques inquiétudes. Cette croissance n'est pas sans risques et pourrait être remise en cause par certains facteurs inquiétants. Le FMI s'inquiète d'abord des risques inflationnistes. Certes, comme nous l'avons vu il y a quinze jours, la mondialisation favorise la stabilité des prix. Mais le monde est toujours à la merci d'un dérapage monétaire de la part

des banques centrales et certaines d'entre elles font preuve d'une vigilance insuffisante ou ne surveillent pas assez leur masse monétaire. Contrairement à une idée keynésienne, l'inflation est l'ennemie de la croissance et il faut donc que les banques centrales restent vigilantes.

On peut aussi s'inquiéter de la hausse du prix du pétrole, non que ce soit en soi un problème, mais parce que cette hausse vient largement de facteurs politiques (monopole de l'OPEP, tensions militaires et terrorisme) et que l'économie ne fait jamais bon ménage avec la politique, surtout lorsque celle-ci cherche à manipuler les prix. Le FMI s'interroge aussi sur les déséquilibres commerciaux (par exemple entre les Etats-Unis et la Chine). Ici, nous ne partageons pas cette crainte (on sait depuis Bastiat que ces déséquilibres n'ont guère d'importance), mais le FMI a raison quand il regrette l'absence de régulateurs de marché. Cependant il estime à juste titre que certains taux de change ne sont pas suffisamment flexibles, par exemple en Asie (changes quasi-fixes), provoquant des déséquilibres artificiels.

Enfin le FMI voit une autre menace à l'horizon, ce sont les risques de protectionnisme, qui viendraient remettre en cause toutes les perspectives de croissance. Or l'Organisation mondiale du commerce se trouve dans de grandes difficultés avec le cycle de Doha et les tentations protectionnistes que l'on trouve ici ou là sont une vraie menace : le « patriotisme économique » est l'ennemi de la croissance.

Le FMI s'inquiète aussi des politiques économiques inopportunes et ne se prive pas de signaler que la hausse de la TVA en Allemagne va briser toute reprise et entraîner le pays vers le bas. D'une manière plus générale, il est intéressant de voir que les principaux risques qui pèsent sur la croissance, selon le FMI, sont des risques liés à la politique (même si le FMI ne le dit pas de cette façon, pour ne pas heurter les gouvernements). C'est la liberté économique et en particulier le libre échange, parce qu'il pousse à la compétitivité, à l'élimination des privilèges et des tricheries, qui provoque la croissance actuelle, et c'est la politique qui risque de la remettre en cause. Comme toujours.

Jean-Yves Naudet est professeur d'économie à l'Université d'Aix-Marseille III.

As for households consumption, it moderates to 5.9%, a reasonable rate in respect to its impact on inflation. Thus, the economy is enjoying a balanced growth in that its three most important engines (private investment, exports and households consumption) are moving in the same direction and almost at the same pace.

Fourthly, the Export Processing Zone revives. After a contraction of 35%, the industry posts a positive growth of 1.5% in 2006, producing a value added which is Rs 935 million higher than in 2005. Net exports shot up by 23% in the second quarter of 2006 compared to that of 2005.

What is encouraging is that the diversification of the Export Processing Zone in the seafood industry and in the yarn industry has started paying dividends. When comparing the first semesters of 2005 and 2006, one notes a significant increase of 76% in the exports of fish products. In nine months only, from September 2005 to June 2006, the subsector of textile yarn and fabrics has generated 1,287 jobs. In the future, the textile and clothing industry is expected to receive investment totalling Rs 8 billion and the seafood industry, Rs 1.5 billion.

Fifthly, sectors which were under pressure are breathing again. Following a zero growth last year, the local manufacturing recovers at a real growth of 3% now that excise duties on some sensitive goods have been reintroduced and that facilities have been granted to small and medium enterprises.

Were it not for the Chikungunya, Mauritius would have witnessed a tourist boom. Nevertheless, with a 4.8% real growth, the hotel industry is coping quite well. Thanks to a well-thought market diversification and an intelligent liberalisation of air access, 800,000 tourists and Rs 29 billion of gross receipts will flow into the country in 2006.

Following the abolition of fiscal deductions, one could be anxious for the national savings

Economic spring

By Eric Ng Ping Cheun (cont. from Pg 1)

and for the insurance sector. But the saving rate slightly exceeds the preliminary forecasts made at the beginning of the year, while the insurance services keep up a 5% real growth.

Recovery of employment

Sixthly, the construction sector is booming. After a decline of 5.2%, it bounces back at 5% this year and boosts real estate activities (6.1% real growth). There are 1,500 vacant posts in the construction industry.

Seventhly, unemployment has regressed for the first time since 1991. With the creation of 7,200 jobs in 2006, unemployment rate comes down to 9.4% from 9.6% in 2005. Large establishments register a net creation of 1,900 jobs following a net loss of 4,700 jobs between 2003 and 2005.

In the medium term, 4,000 jobs would be created by Compagnie Mauricienne de Textile, 2,600 jobs by Star Knitwear, Tianli Spinning, RS Denim, Toptex and Octagon, and 3,000 jobs in the seafood hub. Currently, the numerous recruitment adverts in the press testify to the recovery of employment.

Eightly, for the first semester of 2006, foreign direct investment in Mauritius hovered at Rs 2 billion, twice the amount recorded in the first semester of 2005. Although it is still a trickle, the effort is laudable, and the budgetary measures have enhanced the country's attractiveness. As a matter of fact, South African and Indian firms are marking or reinforcing their presence in our financial services sector, while the Chinese are interested in using Mauritius as a springboard for exportation.

Ninthly, our external debt servicing capacity is comfortable by international standards. Mauritius' foreign debt stands for only 13.2% of gross domestic product as at 30 June 2006

(against 34.1% as at 30 June 1991), and its servicing accounts for only 9% of total exports. Official reserves amount to 1.4 billion dollars, representing six months of imports. Inclusive of the foreign assets of commercial banks, the import cover is nine months.

Tenthly, the world economy is thriving. Oil price borders on 60 dollars a barrel and could still go down. At 5.1% in 2006, the real growth of world output is the strongest for thirty-five years. Last but not least, the US Federal Reserve has put an end to its restrictive interest rate policy and will surely reverse it in the second quarter of 2007.

Visible signs of wealth

Some people here talk about poverty as though they have just discovered America on the world map. Others see "widespread pauperism" as if doomsday were near. One should be so blind as to be unable to see visible signs of wealth displayed by ordinary Mauritians.

We are living in a country where parabolic antennae show up ostensibly on the roofs of sheet-iron houses; where the sales of DVD and home air-conditioners are increasing; where the number of cars and dual purpose vehicles has almost doubled in ten years to reach 130,000; where 800,000 mobile phones are in use among a population of 930,000 inhabitants aged 15 years and above; where 183,000 Mauritians travelled abroad last year; where the number of credit cards has risen by 90% in seven years to attain 190,000.

All the indicators mentioned above come from the Central Statistics Office, a reputable institution whose credibility and integrity have stood the test of time. Of course, we must always look at the figures with caution for fear of manipulating them. However, just as we trust the figures when they augur bad things, so we must give them the benefit of the doubt when they assume things are going well. And if these figures stem from cold reason, they bring comfort to our heart.

Real Growth Rate

