

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

The future of the Stock Exchange of Mauritius

By Sunil Benimadhu

In this article, I will refrain from giving my views on the stock market's future outlook, but rather leave such thoughts and reflections to market practitioners like brokers and asset managers. I will rather dwell on operational, developmental and strategic issues that will shape the future of the Stock Exchange of Mauritius (SEM) in the years to come.

In a nutshell, my intervention will focus on the following three key issues: a brief overview of the evolutionary path of the SEM since its inception in 1989; a few key issues that we need to address in the short-to-medium term to scale up our Exchange to another level of development; and my vision of the SEM in the future.

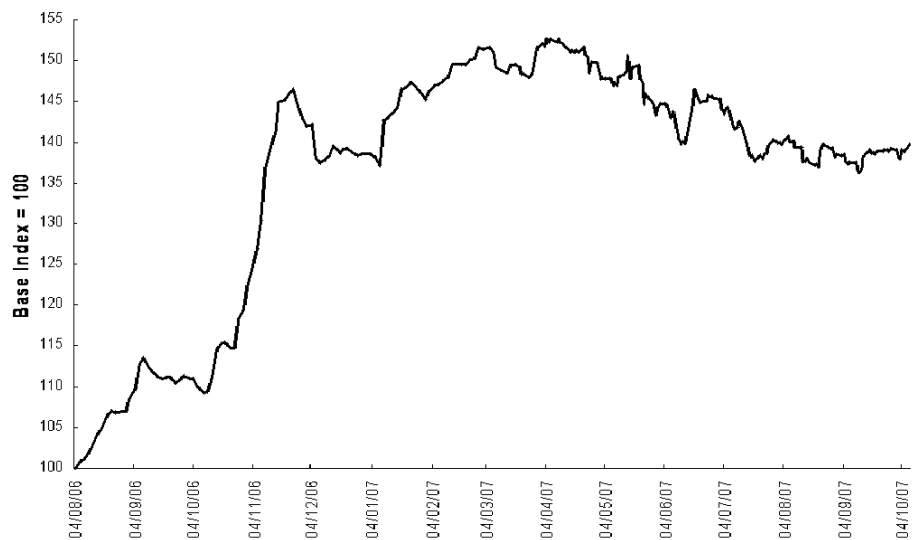
From a pre-emerging market with six listed companies, a market capitalisation of Rs 1.1 billion and total value traded of only Rs 14 million rupees at the end of its first year of operation in 1989, the SEM has emerged in recent years into a reference exchange on the African Continent. Some 93 companies

spanning across numerous sectoral activities are listed on the two markets we operate.

Total market capitalisation currently stands at Rs 180 billion, that is 85% of Gross Domestic

Product, a ratio which is very much in line with statistical ratios observable in large emerging markets with much more sophisticated and diversified economic bases.

DEMEX - Development & Enterprise Market



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A highly open economy

By Eric Ng Ping Cheun

Throughout its economic history, Mauritius has always been dependent on openness to trade to ensure its economic prosperity. Getting access to foreign markets has constantly been a major policy orientation for every successive government. Since the country gained independence in 1968, its foreign policy has centred on its economic and trade interests.

Mauritius has judiciously used its colonial ties with Britain and France to draw their support in the negotiation of preferential agreements (duty free and quota free access) for Mauritian sugar and textile exports on the European markets. It also managed to secure from the United States duty-free access to their market under the Generalized Scheme of Preferences and, later, some derogations under the Africa Growth and Opportunity Act.

Mauritius has naturally transformed its cultural ties with India into economic dividends: the non double taxation treaty between the two countries continues to boost up the island's global business sector through which international investors channel their funds into the Great Peninsula without paying capital gains tax. Concurrently, Indian investors are present in Mauritius in practically all economic sectors from banking and insurance to informatics, tertiary education, oil, media, beer and agriculture.

In the wake of the emergence of China as a global economic power, Mauritius now discovers the importance of its cultural ties with the Middle Empire to become a privileged partner for foreign direct investment: the Tianli group is going to invest US\$ 500 million in the island over the next five years to create a Trade and Development Zone for the manufacture of Made in China products which will be exported to the African continent. Rightly so, as a member of several regional groupings, namely the Southern African Development Community and the Common Market for Eastern and Southern Africa, Mauritius positions itself as a stepping stone to the African market for Asian investors.

This open door foreign policy approach has paid off. After having gone through a scarcity phase prior to its independence, the island witnessed massive socio-economic transformations and is today cited as a model of economic success. It has carved out special niches in textile, tourism and financial services. The information and communication technology sector is now slowly emerging as the fifth pillar of the economy.

From about US\$ 200 in 1970, per capita income stands at US\$ 5,400 in 2007, which classifies Mauritius as an upper middle income country. Favourable internal and external factors have contributed to transforming a monocrop economy

based on sugar cane for two and a half centuries into an open, diversified and export-oriented economy. Total international trade for the year 2007 was valued at Rs 200 billion (US\$ 6.5 billion), representing 86% of gross domestic product (GDP).

The present government is opening up the economy further to international trade and to foreign investors to put it on a higher plane of development. Following the 2006-2007 national budget, the maximum import tariff has been lowered to 30% while a string of measures has been implemented to attract foreign talents, to facilitate foreign investment and to ease doing business in Mauritius.

Land owners of French descent

Mauritius was discovered by the Portuguese in 1510. The Dutch gained control of it in 1658. Even though there were no settlers, the island was a stop over for traders on the route to and from India and the Far East.

When the first permanent settlement was established in 1722 under the aegis of the French East India Company, the French settlers initiated sugar plantations. Slaves from Madagascar and East Africa were brought in to work the land.

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La loi de la jungle

Par Jacques Garello

« La concurrence, c'est la loi de la jungle ». C'est cette citation d'Edouard Balladur que l'ancien gouverneur de la Réserve fédérale américaine Alan Greenspan a choisie pour illustrer l'ignorance dans laquelle la plupart des Français, et notamment les dirigeants politiques, tiennent les principes économiques.

Dans une interview donnée au *Figaro* du 24 septembre dernier, Alan Greenspan donne une grande leçon de science économique : claire, simple et concrète. Il n'a aucun mal à expliquer les raisons pour lesquelles l'économie française bat de l'aile, et le niveau de vie des Français ne cesse de baisser par rapport à celui des autres pays de l'OCDE : la mondialisation nous trouve dépourvus devant nos concurrents, parce que nous ne comprenons ni la concurrence, ni le marché, ni la mondialisation.

Qu'il me soit permis de commenter et prolonger cette leçon ; je suis en effet persuadé, comme Lawrence Parisot, la patronne des patrons français, qui en fait son thème favori, que l'ignorance économique est un mal français qui nous coûte cher. Comme quelques autres, j'ai beau m'employer depuis cinquante ans à combattre ce microbe, il est toujours aussi virulent – il est vrai que l'Education Nationale et les médias sont des bouillons de culture.

La concurrence se confond avec l'art d'entreprendre

La concurrence, nous dit Greenspan, n'est pas un jeu où les uns doivent démolir les autres, mais un processus dynamique qui ne fait que des gagnants. Ce n'est pas la loi « du plus fort », mais la loi « du meilleur ». Elle oblige chaque concurrent à faire mieux que les autres, et pour cela à innover, à trouver des produits, des techniques, des procédés qui correspondent mieux aux attentes de la communauté des consommateurs.

Comme l'avait fait remarquer Frédéric Bastiat, « elle nous pousse l'aiguillon dans le flan ». Les producteurs, ajoutait-il ne l'aiment pas trop parce qu'ils préfèrent une situation de « vivre et laisser vivre ». Dans un monde immobile, sans progrès majeur, il est vrai que l'on ne peut gagner que si quelqu'un autre perd : l'économie ressemble à un jeu à somme nulle. Il en est ainsi dans une économie de guerre, ou une économie planifiée : chacun essaie de trouver « sa » solution, et ce qu'on prend pour soi l'est au détriment du voisin. Les Français se croient-ils toujours à la belle époque des restrictions, des tickets, du marché noir ?

Dans une économie de progrès, les gains de productivité permettent à tout le monde de vivre mieux. En tant que producteurs, nos revenus (salaires, intérêts, profits) augmentent, et en tant que consommateurs les prix baissent. Suivant l'intensité de la concurrence, la répartition entre gains de revenus et gains de prix se modifie.

Peu de concurrence, c'est bon du côté des revenus, mais pas du côté des prix. Trop de concurrence, c'est l'inverse : en tant que producteur je me serrerai la ceinture, mais en tant que consommateur je bénéficierai de tous les gains de productivité réalisés par les autres. La concurrence est le processus de diffusion le plus large possible des progrès réalisés ; je dirai même, pour faire plaisir aux gens de gauche, de « socialisation » ou de « démocratisation » du progrès. Dans un climat concurrentiel le consommateur est roi et le producteur est à son service.

Mais il y a mieux. S'il y a économie de progrès, gains de productivité, c'est parce qu'il y a concurrence. Suivant Israël Kirzner, la concurrence se confond avec l'art d'entreprendre. Car la tâche de l'entrepreneur n'est autre que d'innover, conformément à la vocation de tout être humain de créer, de prendre des initiatives, que d'ajouter un plus à ce qui existe déjà.

Les détracteurs du profit devraient savoir que l'entrepreneur ne vole rien à personne, parce que c'est lui qui a créé la valeur nouvelle, en donnant une valeur à des choses qui n'en avaient pas ou accru la valeur de ces choses existantes en leur trouvant un nouvel arrangement, une nouvelle destination. Conséquence inéluctable : quand il innove, l'entrepreneur a un monopole, puisqu'il est le premier à réaliser ce que personne n'avait pensé jusque là.

Dire qu'il n'y a pas concurrence parce qu'il y a monopole, comme l'ont dit les juges européens de Microsoft, n'a aucun sens. La concurrence ne se définit pas comme la présence en un moment de plusieurs compétiteurs, elle existe dès qu'il y a liberté de rechercher et de découvrir, pour mieux satisfaire les besoins exprimés ou implicites. Si certains pays ont acquis un haut niveau de développement, si les progrès dans tous les domaines se sont multipliés à certaines périodes, c'est que la concurrence a été plus active : l'élargissement de l'espace des échanges (allant jusqu'à la mondialisation) donne davantage d'occasions d'innover.

La peur de perdre des privilèges

Face à cette dynamique, bienfaitante pour le consommateur et excitante pour l'innovateur, les Français prennent peur. D'une part cette peur est due à l'ignorance, comme on l'a dit. Dans un pays comme la France dont la tradition est celle des paysans et des artisans, les choses du commerce et les règles de l'échange sont mal comprises.

On a du mal à admettre que la valeur est « marchande », c'est-à-dire que c'est le marché qui donne à chaque produit sa valeur, et que le marché n'est lui-même que la rencontre de gens qui ont tous individuellement une opinion personnelle sur la valeur qu'ils veulent donner au produit. Les Français sont davantage enclins à recevoir la « valeur travail » qui a fait les beaux jours du marxisme, alors que « travailler » à un produit dont personne ne veut n'a évidemment aucune valeur, et ne justifie aucune rémunération : pas de service rendu, pas de revenu.

D'autre part cette peur est aussi celle de perdre des privilèges. Dans un pays dominé par la politique, il y a plusieurs décennies, voire plusieurs siècles de droits acquis, de passe-droits consentis, de statuts intouchables, de vaches sacrées. Voilà bien longtemps que ces nantis n'apportent plus rien à la communauté, et vivent de vraies rentes. Ils savent pertinemment que la concurrence va faire exploser ces rentes, et leur peur de la concurrence n'est autre que la peur d'avoir enfin à se mettre au travail, la peur d'avoir à servir pour survivre.

Les hommes politiques, par ignorance ou par calcul, flattent ces sentiments et se présentent comme les boucliers contre la concurrence. Contre la concurrence internationale on invoquera le « patriotisme économique », c'est-à-dire le pur protectionnisme, facteur de stagnation à terme. Contre la concurrence nationale on invoquera le service public et les droits sociaux.

Voilà la vraie loi de la jungle : tuer ceux qui menacent la chasse gardée, tuer la concurrence.

Jacques Garello, Professeur Emérite à l'Université d'Aix-Marseille III, préside l'Association pour la Liberté Economique et le Progrès Social (ALEPS).

Les pays en voie de développement font la course en tête

Par Jean-Yves Naudet

Royaumes de la désinformation économique : les pays en voie de développement (PVD). La cause est entendue : ils sont ruinés par la mondialisation et les écarts avec les pays riches ne cessent de s'accroître.

Les libéraux ne sont pas écoutés quand ils soutiennent le point de vue contraire, et pourtant les faits sont là, et les évidences statistiques sont criantes. C'en est au point que la CNUCED (Conférence des Nations Unies sur le commerce et le développement), qui ne passe pas pour un think tank libéral (pas plus que le Fonds monétaire international ou l'Organisation mondiale du commerce) vient de déposer un rapport sans nuances : depuis le début des années 1970 jamais la situation économique n'a été aussi favorable dans les pays en développement. C'est justement la mondialisation qui a permis cette croissance sans précédent et qui sort peu à peu des peuples entiers de la misère. C'est la liberté économique qui assure le développement.

Jamais la conjoncture n'a été aussi favorable aux PVD

Le rapport annuel de la CNUCED n'a pas eu beaucoup d'échos dans la presse française, en dehors d'une excellente analyse dans *Les Echos* et d'une présentation fort peu objective dans *Le Monde*. On y trouve pourtant des informations très intéressantes. L'article des Echos résume fort bien le rapport : « *Jamais, depuis le début des années 1970, la conjoncture n'a été aussi favorable aux pays en voie de développement (PVD)* ».

Non seulement ces pays profitent au maximum de la croissance mondiale qui se produit depuis 2002, mais encore ce sont eux qui jouent le rôle moteur dans la croissance, puisque en moyenne leur taux de croissance est deux ou trois fois supérieur à celui des pays développés. En 2007, la croissance sera au total de 6,4% en moyenne dans les PVD, contre 2,4% pour les pays développés (et 1,8% seulement en France, qui fait la course en queue de peloton). Il n'y a que deux pays du « tiers-monde », comme on ne devrait plus dire d'ailleurs, dont le Zimbabwe (qui s'enfoncé dans la dictature marxiste), dont le PIB a reculé.

Mieux encore, car il ne faut pas juger sur une seule année, entre 2003 et 2007, le

produit intérieur brut des pays qu'il faut appeler maintenant émergents a progressé de 30% contre 10% seulement pour les pays les plus riches (le G7). Ce n'est donc pas, contrairement à ce qu'on dit, quelque chose de limité à la Chine et à l'Inde, mais bien un phénomène qui touche tous les continents, même si l'Asie se développe plus vite que l'Afrique ou l'Amérique latine.

Le rôle du commerce mondial

Pendant des années on nous a rebattu les oreilles avec « la dégradation des termes de l'échange ». Les pays exportateurs de matières premières se feraient piller par les pays riches. Aujourd'hui on constate d'abord que le prix des matières premières a fait des bonds considérables, ensuite que les pays « pauvres » exportent bien d'autres produits que des « matières premières ».

En réalité, on observe un redressement spectaculaire de la balance commerciale de ces pays, ce qui est au moins le signe d'une amélioration de compétitivité. En moyenne, leur balance commerciale est désormais équilibrée ; les comptes courants sont en excédent, alors qu'ils étaient fortement déficitaires il y a dix ans.

Plus intéressant encore, le poids global des pays en développement dans le commerce mondial est passé de 29% en 1996 à 37% aujourd'hui ; en valeur, leurs exportations ont doublé en huit ans et celles du G7 n'ont augmenté que de moins de 50% : c'est bien le commerce international qui tire la croissance de ces pays. Quant aux investissements dans ces pays, ils ne cessent de progresser. Ces pays investissent même dans les pays occidentaux et donc ne manquent pas d'épargne.

Il est vrai que la CNUCED met un bémol à ces nouvelles. Si une récession devait se produire dans les pays riches, cela se répercuterait sans doute sur les pays en développement, ce qui amène *Le Monde* à titrer « Les pays pauvres sont exposés à un retournement de la conjoncture » et qui permet à ce journal de ne pas titrer sur les bonnes nouvelles. Mais ce n'est pas une découverte ; tout pays est exposé à un retournement de la conjoncture, surtout dans une économie mondialisée où les pays sont liés les uns aux autres.

Mais la mondialisation a l'avantage

d'amortir aussi et de rendre moins importants les retournements de conjoncture, les échanges internationaux soutenant la croissance. De plus, les échanges entre pays émergents se développent de plus en plus, créant une authentique globalisation.

Seules les institutions de la liberté permettent le progrès économique

Evidemment, les bonnes âmes soutiennent que le prix à payer serait un accroissement scandaleux des inégalités. De quelles inégalités ? S'agit-il de l'écart pays développés et pays émergents ? La croissance est deux ou trois fois plus rapide chez ces derniers : les écarts donc se resserrent (en termes de revenu par tête ils sont passés depuis 1980 de 1 à 23 à 1 à 18). S'agit-il des écarts de revenus à l'intérieur des pays considérés ? Il est certain que les classes moyennes et aisées se développent encore plus vite, le progrès se diffusant peu à peu à tous les groupes sociaux. Le rattrapage est progressif mais réel.

Comment expliquer cette croissance sans précédent ? La réponse est double. Il y a d'abord le rôle des échanges internationaux. Le commerce, fait de services réciproques, est la meilleure forme d'aide au développement : c'est un système gagnant/gagnant. C'est la mondialisation et donc la multiplication des échanges qui booste la croissance.

Il y a ensuite les conditions internes : les seuls pays qui sont à la traîne sont les pays les plus étatistes (à commencer par les pays marxistes) et les pays en guerre : comme le montrent les indices de liberté, le développement est affaire d'institutions (plus la liberté économique est grande, plus la croissance est rapide) et nécessite un état de droit (sans stabilité politique et juridique, il n'y a pas de droits de propriété et de contrats efficaces). Comme toujours, c'est la liberté et ce sont les institutions de la liberté qui permettent le progrès économique.

Jean-Yves Naudet, Professeur d'Economie à l'Université d'Aix-Marseille III, dirige le Centre d'Ethique Economique et de Déontologie Professionnelle.

The future of the Stock Exchange of Mauritius

By Sunil Benimadhu (cont., from Pg 1)

Total turnover during the financial year 2006-2007 on the official market amounted to Rs 10.7 billion.

We have also during the last 18 years spearheaded a number of innovative initiatives on the operational and infrastructure fronts and pioneered the change process that have since modified the Stock Exchange landscape in Africa.

In 2005, we became the second exchange in Africa, after the JSE Securities Exchange, to become a full-fledged member of the World Federation of Exchanges (WFE) and in June this year, "Africa Investor", a financial magazine of international repute, highly commended us as an innovative Exchange and ranked us as the No 2 Exchange in Africa.

On the market performance front, notwithstanding the normal cyclical evolution of stock markets and the roller-coaster swings observed recently, investors, both retail and institutional, have been handsomely rewarded as attested by the whopping price gains of 1,375% and the total return gains of 3,735% since 1989.

The key questions we need to address, now, is how do we build up on these relatively strong foundations so as to enable the local market and the exchange to better support the change process currently underway on the micro and macro-economic fronts and, more importantly, how do we address a few key short and medium-term issues to overcome the structural constraints of a small country and of a small economy?

Liquidity can be improved through the simultaneous implementation of demand-side and supply-side measures

I think that the first issue of interest to us concerns the implementation of liquidity-enhancing initiatives. The 2006-2007 statistics indicate that total turnover as a ratio to free-float on the Official market was about 32%, a figure which has improved substantially in recent years, but which is still below the threshold of at least 50% or more which characterises many of the larger emerging markets. More importantly, the top ten stocks on the Official market accounted for more than 75% of total value traded in 2006-2007.

True, that even in developed markets, according to WFE statistics, the top 20% of

companies listed account for more than 50% of trades. But over-concentration of trading activities on some bellwether stocks can expose our market to the fortunes of these underlying stocks, hence the importance of increasing overall market liquidity and reducing concentration of trading activities on a few stocks.

How can liquidity be, therefore, improved? Liquidity can be improved through the simultaneous implementation of demand-side and supply-side measures. On the demand-side, our recent sensitisation campaign aims at increasing the number of retail investors from the current 75,000 to a potential of about 300,000 in the long term.

The SEM and the Central Depository & Settlement (CDS) are also currently working with the Financial Services Commission (FSC) on a project to introduce Securities Lending and Borrowing and the concept of Turnaround trades. Turnaround trades will enable investors to undertake intra-day buy and sell decisions and will undoubtedly set the stage for enhanced liquidity over time.

A third initiative that we have been aggressively pursuing on the demand side is the promotion of SEM at the international level. We have undertaken targeted roadshows and we play a very active role in different international seminars and international meetings to increase our market's visibility with regard to the international investment community.

On the supply side, solutions to the liquidity issue include attracting more listings on the two markets that we operate, increasing free-float on many of the listed stocks beyond the minimum 25% on the official market and the minimum 10% on the Development & Enterprise Market (DEM), encouraging listed companies to use the market to raise capital to fund their growth. It may appear strange to an outside observer that in spite of the strong appetite for equity products during the last five years and the stellar performance of the equity market, listed companies have not resorted to capital raising activities through the market in a meaningful way.

My explanation to this situation is that many listed companies' controlling shareholders are wary of diluting their controlling stake through capital raising activities on the exchange. Some of them are rich in assets, but may not dispose of the required cash resources to

support expansion without dilution. There is little doubt that capital-raising on the market in a bull environment can only reduce costs of financing for listed companies and improve their capacity to maximise shareholders wealth.

Another initiative which listed companies can resort in order to improve liquidity conditions in their shares is to contemplate stock splits, especially in an environment where certain company's shares are trading at high absolute levels and in some cases have reached levels as high as Rs 11,400 per share on the DEM.

We need to diversify our product base

Another key issue that needs to be addressed relates to the scope of products currently available and traded on the SEM. Our core products during the last eighteen years have been, essentially, locally-based equity products. Investors are already quite heavily loaded with these products and there is a demand for new products.

In my view, there may be some 20 meaningful companies out there from both the private and public sector that can be good candidates for listing. Our listing department is already busy trying to entice these companies to list. The listing of Mauritius Telecom and other well-governed state-owned companies can certainly make a meaningful contribution to liquidity enhancement.

More fundamentally, we would need to diversify our product base to include not only cash-products but also derivative products. From a purely technical standpoint, creating derivatives products is not a difficult task, but ensuring that the derivative product created is a success is the most difficult part of such an initiative.

The success of derivative products is tributary of certain pre-conditions of which the most important ones are: 1) high intra-day volatility on the underlying cash instrument; 2) high time-series volatility on the underlying instrument; 3) very high liquidity of the underlying instrument; and 4) existence of a large number of players who hold significant positions on the underlying instrument.

As many of these conditions are not yet met on cash instruments which are locally traded, our challenge would be to strike agreements with other exchanges to trade derivative

products on underlying instruments which are traded on these exchanges, provided that such products are in demand by local investors. We are already working on these issues.

Shifting to quarterly disclosure

A fourth issue that would need to be addressed, but at a more national level, is how do we go about attracting more international players to our financial services sector at every level of the value-chain? This, in my view, constitutes a critical issue because the experience of other jurisdictions clearly indicate that these international players can make a meaningful difference in terms of: 1) product innovation, 2) scaling up our financial services sector to another level, and 3) expansion of the investor-base.

In my view, Mauritius will graduate to the level of an international financial services centre the day that it is successful in attracting some big names, be it in wealth management, asset management, investment banking and other related activities.

A last issue where progress needs to be made relates to the frequency and quality of disclosure. There has been substantial

improvements in the level and quality of disclosure in recent years, but there is still scope for further improvement. We will soon be shifting to quarterly disclosure for all listed companies and we will do away with waivers given in the past to companies whose businesses are of a seasonal nature.

Towards a multi-product based Exchange with a growing international flavour

To conclude, my vision of the SEM in the next five years is that we will move away from an essentially single-asset class Exchange with a heavy local bias towards a multi-product based Exchange with a growing international flavour both in terms of products and players. In other words, the Exchange will need to trade and/or list a variety of products, ranging from local equities, local debt-instruments, derivatives on local underlying instruments to derivative products on underlying instruments traded on other markets, Exchange-traded funds on foreign indices, global funds originating from other jurisdictions and, why not, securitised assets like asset-backed securities, even if these instruments are a bit out of favour nowadays in the wake of the sub-prime crisis.

The achievement of this vision will require that we strike some agreements with other

exchanges of international repute, something that we are busy working on and the active involvement of many stakeholders ranging from the FSC, which has been very supportive of all development initiatives that we have undertaken in recent years, to market operators in the stockbroking, asset-management, wealth management and investment banking business. Mauritius, as a country, will need to attract a few international players who can bring in their expertise and innovative drive to take our financial services sector to another level of its development.

The achievement of this vision also requires that investors and local players are ready both technically and operationally to play an active role in this change process that we are keen in pursuing. In most countries, market players have been the driving force of innovation and change to capital market activities, and Exchanges have ensured that they can accompany this innovation process by providing market players with the necessary market instrument and the appropriate regulatory environment. We would need market operators to work hand in hand with the SEM, to walk the talk and to make of our vision a reality.

Sunil Benimadhu is the Chief Executive Officer of the Stock Exchange of Mauritius.

The challenge to intellectuals

By Anil Gujadhur

It is with pleasure that I see the considerable efforts CONJONCTURE must be putting in to regularly disseminate views on the state of affairs in the country and how to address the challenges facing us. My first thought is therefore to commend this journal and those who support it in its action. It does not matter whether I agree with all that you say so long I believe that you are engaged on an honest enterprise.

The contents of the last issue of CONJONCTURE is, to my mind, based on the shared anxiety of many of us as to how Mauritius should break from all that is holding it back from making progress. It is a healthy anxiety because it is this kind of thinking that could emancipate us. Independence was not the only fight for emancipation. There have been many and there will be many others in the future. Unless, therefore, we keep the brain engaged in searching for new solutions, we cannot disengage ourselves from being content with what we have.

The challenge to intellectuals is to keep questioning the *bien-fondé* of policies that are being pursued, irrespective of who the political power is vested in. It is this exercise that will finally help us identify the factors that are keeping us from embarking on the train of sustainable growth. We are not there so long our strategy on interfacing with global markets in a socially stable environment remains unclear.

Making politics a subservient tool

Having said this, I liked CONJONCTURE meticulous attachment to trying to decipher the prevailing local market code and to read the future from it. I quickly went through the write-up by Bernard Yen, which is rooted in the same anxiety to see an improved condition for the country in the future. Not many over here seek to read the future from present happenings, at least not far enough to imagine what we would wish 2018 to look like.

In my view, the immediate task is to set about identifying a number of actual paralysing decisional factors (you will be surprised how many there are!) that handicap our potential for re-positioning the economy and society. Many people still think that politics is the over-riding factor and that an appropriate communal representative in each sector could secure their future in a collective communal straight-jacket.

In Singapore, the politicians decided to convert themselves to pragmatism in the conduct of policies, making politics a subservient tool to achieve this purpose. Could we dream that this kind of change-over is possible in Mauritius so that we stop the destruction of competence for reasons of incompetence?

Anil Gujadhur is a former Managing Director of the Bank of Mauritius.

A highly open economy

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

As sugar production rose, indentured workers came in from India to cater to the growing demand of labour.

Mauritius became a French colony in 1766. Till today, the sugar estates (factories and plantations) belong to people of French descent. They control about 55% of the land area under sugar cane cultivation. Sugar profits have been reinvested in new economic activities with big returns, thereby reinforcing the concentration of economic power in the hands of the Franco-Mauritians who hold interests in the sugar sector.

A few big planters together with many small and medium planters are of Indian origin. There are also those who originate from Indian field bosses, known as *sirdars*, who enriched themselves by leasing sugarcane lands, supervising workers and lending

to India much shorter, and the arrival of the steamship, which the Port Louis harbour could not handle, caused a slowdown of the shipping trade. On the other hand, Great Britain ended its preferential system in 1846 and, worse, imposed a duty on all sugar imports in 1854. This tariff was removed in 1874 but reimposed in 1901.

Thanks to the creation of the Imperial Preference System in 1919, which once again provided some protection to the sugar market, sugar prices and output rose. But the economic recovery was short-lived. The economy was crippled with diseases such as malaria and so many other difficulties that it fell back into a depressed state until after World War II.

In 1951, when the Commonwealth Sugar Agreement granted Mauritius a sugar quota at preferential prices, it gave a fillip to the economy. In the following years, the country was relatively prosperous and became a highly open economy with exports and imports contributing in total to nearly 90 per cent of Gross National Product. The island began enjoying greater autonomy.

By 1958, malaria was eradicated and general sanitary conditions greatly improved. While mortality rate declined, fertility rate was high with an average of 6 children born to a woman. As a result, the population growth rate edged up to 3 per cent a

year.

Mauritius was in a Malthusian trap. Without natural resources, it imported most of its consumer goods. Sugar plantations, vulnerable to recurring cyclones, could not create more jobs. And in a country geographically isolated and with little manufacturing experience, prospects for export-led industrialisation were bleak.

So in separate reports published in 1961, James Meade and Richard Titmuss, who later both won the Nobel Prize for Economics, predicted disaster for Mauritius. The latter went as far as to forecast a population of 2,869,000 by 2002!

But the two world-renowned economists were wrong in seeing the future as an extrapolation of the past. The Mauritian economy renewed with growth in the early post independence years while two private family planning schemes introduced in 1963 achieved success in population control. Mauritius has today around 1,260,000 inhabitants.

To its credit, the Meade Report had advocated export-led industrialisation, but instead the government put in place an import substitution scheme in 1964. Seeing the limited scope of developing a domestic oriented industry in a very small market, the government passed in 1970 the Export Processing Zone Act which provided strong incentives, such as fiscal, credit and import duty exemptions, to manufacturers involved only in exportation.

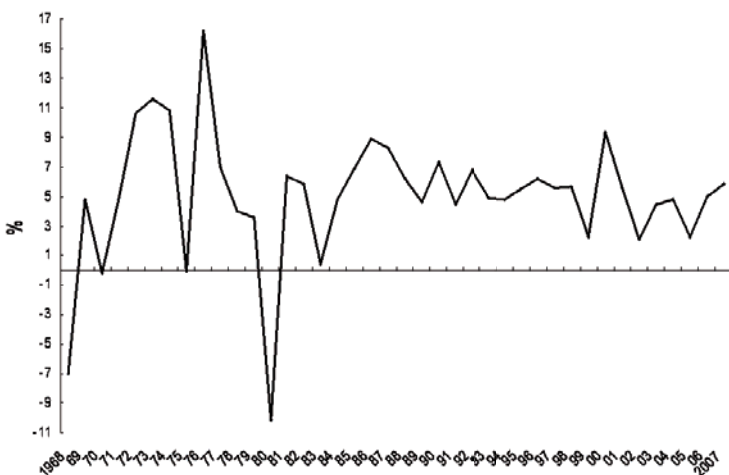
However, export development remained slow in spite of the fact that Mauritius signed in 1976 the Lomé Convention which gave its manufactured products free access to the European Economic Community (EEC) markets. Since the UK had joined the EEC, a sugar protocol was attached to the Lomé agreement, assigning a large sugar quota to Mauritius in the EEC markets at a guaranteed price. Over 90 per cent of Mauritian sugar was exported to the European Union, and the rest to the United States, at prices exceeding the world free market price by a factor up to 3.

In the 1970s, therefore, the sugar sector was still the backbone of the economy while the manufacturing sector consisted almost exclusively of small factories producing for the domestic market. Between 1968 and 1979, notwithstanding the tenfold increase in local fuel prices due to the first oil shock of 1973, the economy grew at an average of 6 per cent per year.

In fact, a sugar boom triggered this spectacular growth as world sugar prices more than tripled from 1972 to 1975. At that time, the UK accounted for 75 per cent of Mauritius' external trade, and the Mauritian rupee was linked with the pound sterling. In January 1976, the government broke that link and instead pegged the rupee to a basket of currencies underlying the special drawing rights (SDR).

The problem was that the government overspent needlessly to stimulate the economy further, bringing about an increase in real wages. Also, the real exchange rate of the rupee appreciated by about 4 per cent from 1975 to 1978. All these encouraged consumption and imports, for most of the consumer

Annual Real GDP Growth



them money. Towards the end of the nineteenth century, *sirdars* and planters of Indian origin bought lands, albeit marginal and less productive ones, from plantation owners who were losing money because of falling sugar prices and increasing labour costs. The former were thus able to upgrade their social status.

The artisans working in the sugar factories are descended from slaves. The slaves did not have the possibility of becoming land owners and refused to stay on the sugar plantations after the abolition of slavery in 1835. But some Creoles acquired property, were educated and took on administrative, professional or commercial jobs.

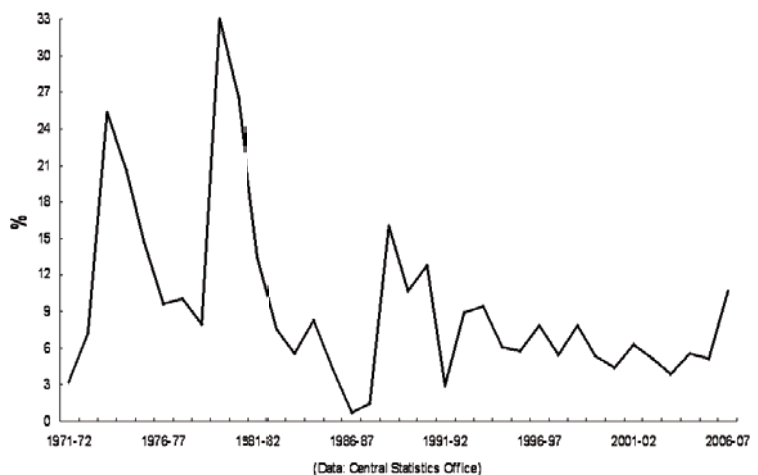
Land ownership in Mauritius is one of the most concentrated in the world, such that it has become a political issue. That is why the incumbent government vows to democratise the economy through better land access to small and medium entrepreneurs. Land reforms are being envisaged to broaden the circle of business opportunities.

King Sugar under British rule

Before the British conquered the island in 1810, it was already a busy port by way of entrepôt trade. Sugar plantations were also flourishing. In 1826, the United Kingdom (UK) granted Mauritian sugar a privileged import duty status that only the British West Indies had enjoyed so far. Consequently, sugar producer prices more than doubled, thereby fuelling an economic boom which lasted till the late 1860s.

Economic growth decelerated in the subsequent decades. On the one hand, the opening in 1869 of the Suez Canal, which made the route from Europe

Annual Inflation Rate



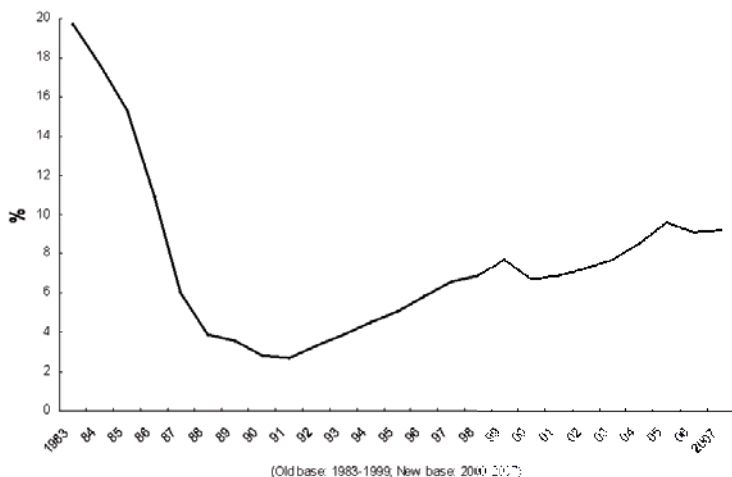
goods were imported. Worse, sugar prices fell rapidly after 1976.

The result was a sharp deterioration in Mauritius' terms of trade and a drawing down of its official reserves. Government's attempt to cushion the subsequent recession by extensive foreign borrowing failed. Henceforth, the economy collapsed under heavy foreign debt, large internal and external deficits, high unemployment and rising inflation.

Economic boom

A stand-by agreement signed in October 1979 with the International Monetary Fund (IMF) enabled Mauritius to draw a total of SDR 73 million over a two-year period. In return, the government had to devalue the rupee by 22.9 per cent and to implement an austerity programme aimed at reducing the fiscal deficit and the current account deficit.

Unemployment rate



Unfortunately, during the period of December 1979 to March 1980, the island was struck by four cyclones which destroyed a third of the crop and caused widespread damage to housing. Furthermore, local fuel prices shot up fourfold following the second oil shock of 1979.

Unable to adhere to IMF conditions, the government had to sign several new stabilisation programmes. After a further devaluation of 16.7 per cent in September 1981, the rupee was severed with the SDR and pegged to a trade-weighted currency basket in February 1983. Finally, Mauritius agreed with the IMF and the World Bank on a structural adjustment programme to reform the economy and liberalise it gradually.

The austerity measures coupled with a sharp reduction in the corporate tax rate from 66% to 35% in 1984 paved the way for an economic boom in the second half of the 1980s. Annual real GDP growth was 7 per cent on average during that period, with a peak at 8.9 per cent in 1986.

As world economic recovery improved export prospects, the Export Processing Zone (EPZ) sector, concentrated on textile and apparel products, expanded rapidly, and by 1988 it accounted for 13 per cent of GDP, triple the share of 1980. The EPZ thus outpaced the sugar industry as the main generator of foreign exchange.

Foreign capital flowed in the textile industry, particularly from Hong Kong investors who feared the consequences of the transfer of sovereignty over Hong Kong to China by 1997, which was agreed by Margaret Thatcher, then Prime Minister of UK, in 1984.

Not only did Hong Kong investors get a Mauritian passport but they circumvented the restrictions imposed by the EEC and the United States on exports from the colony.

Tourism also took off. Within only three years (1986-1989), the annual number of tourist arrivals rose by 100,000, an increase which was previously achieved in a span of thirteen years (1973-1986). The hotels and restaurants sector enjoyed a record real growth of 21.1 per cent in 1987.

Gross tourist earnings passed the Rs 1 billion mark in 1986, Rs 2 billion in 1988 and Rs 3 billion in 1990.

Air Mauritius, the national flag carrier, played a major role in the development of both the EPZ and the tourism sectors. In line with its policy to attract high income tourists, the authorities deliberately chose to prohibit chartered flights, relying instead on scheduled airlines. Now that the present government endeavours to diversify the tourist markets with the objective of attaining 2 million arrivals per year by 2015, air access is being gradually liberalised and special flights are allowed in peak seasons.

Diversification into the services sector

By the late 1980s, Mauritius had significantly diluted its economic dependence on the sugar sector. It embarked on a diversification strategy focused on consolidating and modernising the traditional sectors and on creating new areas of growth in the financial services sector, which was too concentrated on banking and insurance. For a country having no natural resources but endowed only with human resources, there was a need to develop the services sector.

To begin with, the Banking Act was amended in 1988 to allow offshore banking. The following year, a stock exchange was launched. To consolidate the position of Mauritius as a business hub, a Freeport was established in 1992.

In the same year was enacted a comprehensive legislation relating to non-banking offshore business activities, and various fiscal incentives were adopted to induce international investors to set up offshore vehicles in the Mauritian jurisdiction. At this stage, the liberal economic reforms initiated by the Indian government were a real boon to the Mauritian offshore sector which later emerged as the principal conduit for foreign investments to India.

While the last decade had set the pace for the liberalisation of the financial sector, which accelerated in 1994 with the abolition of the exchange control, the current one has witnessed the coming into force of financial regulations. Various institutions have been set up to protect the financial industry against money laundering and to combat corruption.

A new Banking Act passed in 2004 provides for a single banking licence to cover both the domestic and the offshore banking. The Mauritian financial industry is evolving towards a uniform platform called Global Business. New financial services are emerging in the area of wealth management.

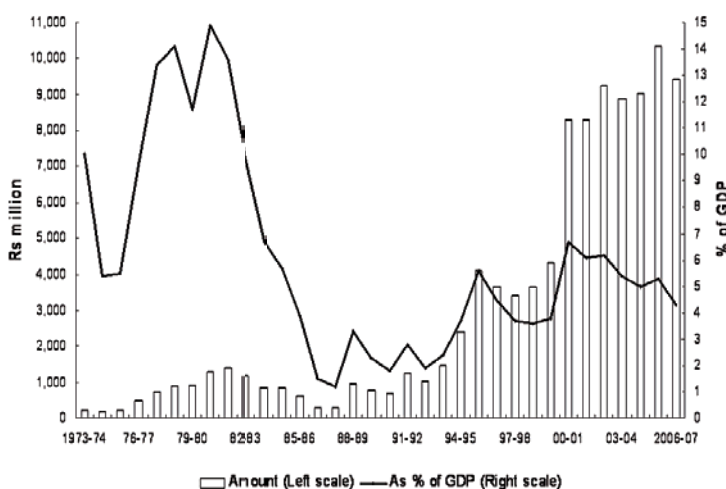
To become a credible hub, the financial industry must be well regulated. More importantly, it can only thrive in a stable and predictable monetary environment. In December 2006, the Bank of Mauritius introduced a new monetary policy framework (the repo market) which is expected to align interest rates and exchange rates more closely with market expectations. The economy has not yet achieved a low and stable inflation which is a prerequisite for a sound rupee. Currency depreciation can no more be a panacea for the country's lack of industrial competitiveness.

True, as trade preferences are being eroded rapidly in this era of globalisation governed by the rules of the World Trade Organisation, the Mauritian textile industry faces fierce competition from high volume and low cost producing countries like China, India and Bangladesh. The country will suffer in 2009 from a significant shortfall in foreign exchange due to a cut of 36% in the previous guaranteed sugar price of 523.7 euros per tonne. Meanwhile, oil prices are likely to remain quite high.

Besides, there are domestic constraints. The current account has turned back to deficit, total public sector debt hovers around 61 per cent of GDP, skills mismatch has rendered unemployment structural, and wage increases are not aligned with productivity gains.

To live up with all these challenges, the government is trying to reconcile economic efficiency with social justice. It has earmarked Rs 5 billion to an Empowerment Programme to train the unemployed,

Budget Deficit



to encourage entrepreneurship among them and to empower women. It has positioned the country as a low-tax jurisdiction by introducing a flat tax of 15 per cent on both personal and corporate income. Last but not least, it has designed a multi-pillar growth strategy whereby information and communication technology, business process outsourcing, seafood industry, real estate development and medical tourism have been identified as potential growth engines.

By the nature of these activities, there is no doubt that openness will remain the hallmark of the Mauritian economy.

A much shorter version of this paper was published in an official document entitled "Slavery, Indenture and the Making of the Mauritian Nation" and distributed on the occasion of the Wilberforce Lecture on the 200th anniversary of the Abolition of the Slave Trade Act delivered by the Prime Minister, Dr Navin Ramgoolam, in Hull, England.

A plea for free access to national sites

By Roland Pepin

In the last issue of CONJONCTURE, which I took pleasure reading, the article by Bernard Yen "A vision of Mauritius in 2018" was really touching and eye opening. I wish that our country could reach such vision as it would attract many expatriates now contributing to their respective country of adoption instead of theirs which remain so dear to them in their minds and hearts.

Incidentally, I read with interest the article "Musées, îlots, jardins : Accès payant ou gratuit ?" which appeared in *l'express* of 17 September. In my opinion, I believe that access to all museums and areas of leisure belonging to the nation should remain free to not only Mauritians (tax payers) but to who ever visit our beautiful island.

I agree that somebody must pay for the upkeep and running costs of these infrastructures which are our heritage. This can be done by imposing a nominal charge in entry tax for all tourists and Mauritians entering Mauritius. This tax would not even be noticed and should be channelled to an Non Government Organisation with responsibility and accountability to the Ministry of Tourism.

Furthermore, these places of interest to be run by the NGO could raise substantial funds by implementing in house shops selling artefacts proper to the museum, public gardens and pleasure resorts such as our numerous mini islands around the country. Speaking of these islands, I ask myself why these sites, which belong to our nation, should be sublet to private companies whose primary goal and objective are to make a profit.

When I was growing up, my father had a radio repair shop in Port Louis, right opposite the Museum. Whenever I accompanied my father to his shop during school holidays, I spent hours in our then well kept museum and as a result learned so much about our endemic fauna, insects, birds and other artefacts of our beloved Mauritius. This experience no doubt enriched my life and I strongly believe that all Mauritians and visitors to our shores should be able to share these treasures and wonders of our past which will remain the foundation of our future.

Options to raise funds

An entry fee will not, in my view, provide adequate funds to these sites for its upkeep and maintenance. It will act as a deterrent to visitors including tourists and locals. There are other means to raise indirect revenue for these sites, and these could include:

1) Fund raising in schools and hotels;

2) An additional tax could be levied on the sale of the Mauritian lotteries. Such a tax could be so small and not even noticed, but would provide a regular income to the NGO;
3) In house shops providing trade marked articles only available at those sites. History books, CDs and DVDs specially written and produced for the respective site made available for purchase;
4) Donation boxes at entry and exits.

Incidentally, when I visited Mauritius some four years ago with my daughter, a visit to the Port Louis museum really saddened and shamed me for its state of upkeep and the conditions under which its artefacts were kept. One has no right to charge for entry into substandard museums and sites of interests.

In developed countries where the standard of living is high, and where the great majority of people can afford it, I fully agree that user must be payer for leisure and education. In United Kingdom and in Australia, most museums and many parks are now free. These are either looked after by NGOs or local governments and they are highly subsidised by tax payers. Incidentally, free entrance to these places attracts more people and revenue derived, are higher than fee paying institutions and parks. The quality has not diminished but improved in the great majority.

Unfortunately, this does not appear to be the case in Mauritius. I recall that the poor (a great majority of the population) have very few free leisure infrastructures available to them. A museum or a park is not only a place of leisure as it is also a place to relax and to learn the national heritage.

I tend to think that for a large number of Mauritians, a museum may be classified as a vestige of the past and a symbol of the rich. It might sound simplistic and to my thinking this is totally wrong. One must learn from the past to build the future. In this process, no exclusion should be "de rigueur" and all should enjoy the riches of our national heritage.

Governments are the keepers of our national heritage

I once went to Grand Bassin and I was filled with pride to see the quality of facilities made available to visitors. There was no fee payable and donations were welcomed as it should be. One might say that Grand Bassin is a sacred place akin to churches. In my opinion, these places including temples and churches are by definition not only sanctified places as they are symbols of our past and present (museums) as is Père Laval.

I cannot conceive either the catholic church (or the high priest of Grand Bassin) charging for an entrance fee at the Tombeau Père Laval or temple (or the waters at Grand Bassin). To my surprise, the Chinese pagoda in Port Louis (rich in beauty and culture) was not on the list of places to visit. This is to my chagrin, as I would have loved to show this temple to my daughter to complete the diversity of our mixed culture.

If governments past and present are the cause of the degradation of our heritage, it is time that the people of Mauritius take them for account as they are the keepers of our national heritage which is our show case to the world. National heritage is the responsibility of governments and should be entrusted to the government to manage and to share to one and all, this irrespective of status, ethnic, colour, age, poor or rich.

We should not forget that tourists' revenue in Mauritius is growing and represents a considerable contribution to the Mauritian economy. Tourists visit Mauritius for leisure, to enjoy our wonderful beaches, our fauna, our biodiversity, our climate, our people's hospitality and the diversity and intensity of our mixed culture. Why not therefore provide them and us too a place to understand our roots and the base of our cultural heritage which museums are there for?

I hope that my observations are not viewed as an apology for the poor but as a mean to share. The great majority of people would see a fee paying infrastructure as a place for the rich. A contribution from the Mauritius Lottery (as an example of revenue contributor) is not dissimilar to the United Kingdom lottery, whose contributions are made available to a great number of social NGOs, not to forget museums.

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