

CONJONCTURE

PluriConseil
THINKING OUT OF THE BOX!

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

Penser autrement

Par Eric Ng Ping Cheun

Constitué un vendredi 13 (août 2004), une date qui donne lieu à des superstitions, *PluriConseil* a su s'imposer bien vite dans le monde du service-conseil. Des conférences dans des entreprises aux études de marché, en passant par des baromètres économiques, des services de conseiller d'entreprise, des cours de formation internes et des publications, *PluriConseil* aura tissé un portefeuille de clients venant de divers secteurs. Conscients que nous avons encore un long chemin à parcourir, nous tenons à remercier tous ceux qui nous ont aidés.

Aujourd'hui, notre firme est en mesure de sortir, à l'occasion de son premier anniversaire, un Journal de réflexion qui représentera notre contribution, fût-elle modeste, au débat national. *CONJONCTURE*, c'est le titre de notre publication. Elle paraîtra régulièrement et sera distribuée gratuitement à nos clients et à d'autres institutions publiques et privées.

Notre petite équipe de rédaction est composée de trois collaborateurs de *PluriConseil*, chacun ayant une orientation particulière. Sawkut Rojid, économiste, se consacrera à la recherche et aux prévisions économiques ; Samad Ramoly, entrepreneur, s'intéressera à l'actualité qui fait réfléchir ; et Kris Seeburn, ingénieur, abordera des sujets de management.

De plus, nous avons assuré la collaboration d'institutions étrangères, telles que *Providend* (Singapour) et l'Institut Européen des Etudes Humaines (Aix-en-Provence).

CONJONCTURE portera principalement un regard d'économiste sur tous les enjeux de la société mauricienne. Mais elle est aussi ouverte aux agitateurs d'idées – nous n'avons pas dit intellectuels – qui partagent notre vision du monde. Nous sommes contre la pensée unique et pour la diversité des idées. Celle-ci n'interdit pas que, à l'instar de toute publication, *CONJONCTURE* a une ligne éditoriale et une politique propre à elle. Elle fera corps avec la devise de *PluriConseil* : *Thinking out of the box* ! Penser autrement, c'est le choix que doit impérativement faire une île Maurice en quête d'un renouveau, à un moment critique de son histoire.

La pensée unique est aujourd'hui l'apanage des anti, de ceux qui épousent l'idéologie du refus : refus de la mondialisation, refus du marché, refus de la concurrence, refus du profit, refus du droit, refus de la responsabilité, en un mot refus de la liberté individuelle. Entourés d'un océan d'idées anti-libérales véhiculées par les médias de masse, nous ne sommes point gênés d'affirmer notre mission qui est d'imprimer une pensée

libérale de l'économie et de la société. Le secteur privé mauricien, qui se dit en faveur de la libre entreprise, n'est peut-être pas conscient que les idées anti-libérales font plus de tort à notre économie que l'Etat lui-même. De là la vocation de *PluriConseil* qui, au-delà d'être un cabinet de conseil, se veut devenir un petit *think-tank* pour défendre la liberté économique.

Car n'oublions pas Chateaubriand : "*Tout arrive par les idées : elles produisent les faits, qui ne leur servent que d'enveloppe.*" De même, Keynes postule que les idées mènent le monde. A Maurice, si les gouvernements qui se sont succédé n'ont pas su apporter les réformes essentielles à l'économie, c'est surtout en raison de la complaisance intellectuelle de ceux que les médias considéraient comme des voix d'autorité. Le vingtième siècle nous a enseigné que les idées, lorsqu'elles deviennent obsessionnelles, sont plus mortelles que les fusils. Dans le domaine des idées, *bizin sanzman* aussi.

EDITORIAL

Economic growth rate to be 3.9% in 2005

By Sawkut Rojid, Economist

Continued on page 4 .../

Based on the current economic realities, we expect the economic growth rate for 2005 to hover at 3.9%.

Our growth forecast for year 2005:

Export Processing Zone	-7.1%
Hotels and restaurants	+4.4%
Wholesale and retail trade	+4.6%
Financial intermediation	+8.0%
Overall GDP	+3.9%

The EPZ sector, of which clothing exports is the major activity, is facing competitiveness problems on the world market since the MultiFibre Agreement phase-out at the beginning of this year. GDP of EPZ products in the first quarter of 2005 is 14.8% lower than the same period of 2004 (Rs 2,671 million compared to Rs 3,138 million). In fact, since the past three years, the clothing sector has experienced negative growth rates. The value of garments exports for Mauritius in 2003 has decreased by around 10% compared to the year 2002. Between June 2003 and June 2004 the number of firms in the wearing apparel sector fell from 236 to 222 and the number of employees in that sector fell from 68,099 to 55,032. Taking into account the continuous depreciation of the rupee vis-à-vis the major currencies and based on the above trends, we anticipate the real growth rate for the EPZ sector for 2005 to be -7.1%.

FORECAST

Collective responsibility

By Samad Ramoly

Most of us agree that Mauritius is at the crossroads of its development. Whatever we may have achieved up to now is certainly debatable. But the new global era emphatically suggests that we reinvent ourselves to sustain growth: we must “think outside the box”. To avoid falling into the trap of yet another fad, we must understand its wide implications.

Before we proceed, it is important to sum up the characteristics of our economic growth. Because of the very small size of our domestic market, we were destined to subscribe to an export-led and tourism-based growth. Rightly so, we took advantage of the various preferential trade agreements to manufacture sugar, garments and so on for guaranteed markets. However, by ignoring the sunset clauses of the agreements, we remained stuck in a comfort zone for too long.

As these industries expanded over the years, major players emerged too. To make things even more favourable to their operations and profits, they have been using their powerful lobbies to divert policies towards their narrow interests. Even if with hindsight we can blame them for their short-termism, we must be more critical of our successive governments for giving in too much. Especially the past government which, in a context of a historic market distortion and an ailing international competitiveness, seemed to have an inverted grasp of what “affirmative action” is all about!

“Without persistent currency depreciation, unemployment rate will rocket”, “our hospitality industry must not accommodate cheap tourists”, “only our traditional big players have the know-how to keep up with global business” and many more “truths” have been repeated ad nauseam by so-called experts and echoed devotionally across the media.

One does not need to be a seasoned psychologist to decipher these “conventional wisdom”: they misrepresent goals and are meant to promote a self-centred brand of development.

To these “knots” in the system, citizens feeling excluded responded with a withdrawn attitude that in turn erected “obstacles” such as dramatically low labour productivity, reluctance to join the textile industry and creeping xenophobia. Entrepreneurs frustrated by the parochialism of “national” champions, and hence favoured government interlocutors, now resort to ethnic business unions to channel their grievances and objectives. Once for all, we must rid our discourse of the aberration, source of countless gibberish, which reduces the term “secteur privé” to a few conglomerates in the collective consciousness.

“Putting people first” is definitely the best bet for any proactive enterprise willing to meet its healthy bottom lines

Market failure is inevitable when the regulatory framework of the State is unable to contain the whims of players. Now that the excesses of capitalism have surfaced ubiquitously, there is a popular demand to redress the situation. Despite the waffles from ivory towers shamelessly attempting to muffle the call, the current government was prompt to gauge the mood and built its electoral campaign on the project of “economic democratisation”. More than just an ethical justification, it is an imperative for our very socio-economic equilibrium. The previous government would have been lunatic not to follow suit.

We have yet to be exposed to a

coherent vision of how “economic democratisation” will translate into reality. Truly, the package of measures should have been devised before the elections and the commission launched should have acted as a monitoring body of its implementation. Anyway, the rationale for “economic democratisation” is strikingly alluring. As a matter of fact, if we overlook the populist undertone of the project, it reflects such a desire to enhance economic freedom in the country that rent-seekers must feel threatened!

We have obviously been breeding the elements of an acute “maurisdrosis” that has prevented us from embracing the competitive forces of global capitalism wholeheartedly. Instead of lamenting on its few symptoms, we would better diagnose the “disease”, identify the root causes of what is preventing us from unleashing our full potential and revisit our model of development with a holistic approach. The cycle of egotism and adversarialism must be severed and transformed into a democratic “stakeholder” environment conducive to the emergence of a culture of trust and creativity.

If the impassioned spirit of our new Prime minister is any indication, we are set to embark on a reformist journey. “Putting people first” is definitely the best bet for any proactive enterprise willing to meet its healthy bottom lines. Our business elite would be wise to “enlighten” its “self-interest” and join the movement. Freewheeling cannot last forever. What will make our growth sustainable is our capacity to adapt to change.

Naturally, structural reform will now be a painful process. To convince all forces of conservatism that there is a return on behaving like responsible citizens, it must be driven smartly and boldly.

Global Economy

Oil prices rose to record levels as potential disruptions to supply spooked the market. The recent spike in prices have been attributed to a myriad of factors including, rising tensions between oil exporter Iran and the US over the use of nuclear facilities, a power failure at a US refinery, and warnings of militant attacks in Saudi Arabia. Oil prices may continue to rise further before stabilising.

US non-farm payrolls added 207,000 jobs in July and average hourly earnings posted a 4% gain. These numbers suggest that consumer spending growth will remain strong in the months ahead. While the latest non-manufacturing ISM ("Institute for Supply Management") reading came in slightly below expectations, the index is still in the expansionary zone. The US economy is on track to hit the expected 3.5% this year.

Japan's economy expanded for a third straight quarter, fuelled by strong business and consumer spending. In addition, the index of leading economic indicators rose to a 10-month high of 60.0 in June, suggesting that the economy is on a sustainable growth path. Japan's revised first quarter growth of 5.4% was also the highest since the last quarter of 2003. Japan's stronger domestic economy should help the ruling LDP in the upcoming elections.

Latest economic figures to come out of Europe indicates a continuing strengthening in housing prices and hints at a modest pick up in economic expansion on the back of improvements in retail sales and manufacturing. The Eurozone is still on pace for a 1.25% growth for the year.

Interest rates

The US Fed raised interest rates by another 25 bp in August, bringing rates up to 3.50%. The closely watched accompanying statement gave no hint of we are nearing the end of the tightening cycle as the overall economic environment remains strong amidst benign inflation. Analysts now believe that rates will be increased by further 25 bp increments at each of the three remaining meetings this year.

The ECB kept its rates at 2% and will probably stay at this level for the rest of the year to balance rising inflationary pressures against the sluggish economic activity in the region. The Bank of England however lowered rates to 4.50%, the first cut in two years. This rate cut comes on the back of slowing consumer spending and concerns over the economic impact of the recent terrorist bombings.

China's shift to a managed floating rate regime pegged to a basket of currencies saw the yuan appreciating 2.1% and triggered immediate revaluations amongst Asian currencies. While this is a significant first step in the eventual liberalisation of China's fixed currency regime, this initial move has had minimal impact on global trade and treasury markets.

Technicals

Short-term technical indicators have now turned upwards for equities, suggesting that the recent market rally has more legs to run. The technicals for bonds remain good, notwithstanding the recent rally in equity markets.

Valuation

Earnings for the second quarter continue to come in above expectations, but this has already been factored in by the markets. Global equity valuations are looking a little stretched now as prices have strengthened over the past three months. This is despite forward earnings being in line with expectations.

Bond prices have started to correct on signs of sustained economic growth. 10 year US bond yields are hovering around 4.30% and are starting to look attractive.

Scenarios

Base Case: Equity markets continue to rally as the global economy grows at a sustainable pace. Oil prices, bond yields and inflationary pressures stabilise.

Worst Case: Further terrorist attacks and a spiralling geo-political risk premium paralyses the markets. Oil supplies are seriously disrupted causing oil prices to escalate, boosting inflationary fears.

Tactical Asset Allocation Positions

The bull cautiously treads through rising oil concerns as the fundamental and technical considerations are still supportive of our preference for equities over bonds on a tactical basis. While we were pleasantly surprised by the continued rally in equity markets last month, we recognise that August and September are historically the worst months of the year for stocks. After three months of gains, it would be natural for the markets to pause for breath.



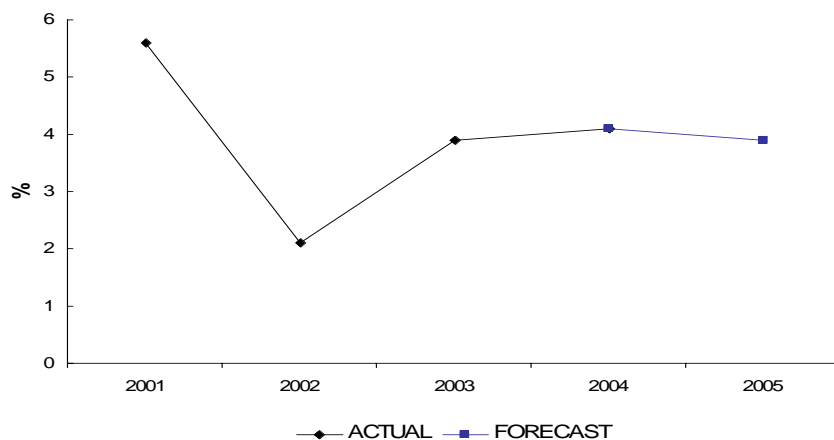
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By Sawkut Rojid, Economist

Continued from page 1 .../

Overall GDP Growth Rate



Methodology used for forecasting

The ARIMA methodology has been used in the prediction process. This method is based on the philosophy of "let the data speak for themselves". In this methodology the dependant variable has the characteristics of both Autoregressive process and Moving Average process.

Keeping in mind that the universal pension scheme will be reintroduced and the provision of free bus travel for students as well as for pensioners, we believe that consumption level will increase slightly. However, combined with the recent cut in tariff rates on 1,850 tariff lines, we expect wholesale and retail trade to grow by 4.6% compared to 4% in 2004. The continuous steep hike in petrol prices on the world market can, however, lead to lower growth rate in the wholesale and retail sector if the world increase in petrol prices manifests itself in Mauritius.

With the increase in activity of the banking sector, particularly the offshore banking sector, the financial services sector is expected to grow at a rate of 8% this year. The recent increase in the Lombard Rate by 50 basis points could slightly lead to a reduction in some financial sector activities.

Taking into consideration all these points, we expect the rate of overall growth for the year 2005 to be 3.9%. Given the difficult economic situation Mauritius is enveloped in (EPZ sector crisis and the cumulative 39% cut in sugar process until 2010), there is an urgency to stimulate economic growth at a rate higher than 6%.

The harvest of sugar according to the Crop Estimate Coordinating Committee would be inferior compared to last year. On 3rd June 2005, the Committee predicted production of sugar to be 550,000 tonnes compared to a production of 572,316 tonnes of sugar in 2004, hence a contraction of around -3.9%. The fall in production is due to a sugar cane yield of 74.2 tonnes per hectare compared to 75.8 tonnes per hectare last year. Sugar cane yield will be inferior to last year particularly because of heavy rainfalls and the passage of tropical storm Hennie in the month of March inducing excessive water retention in various zones combined with dry weather conditions in the month of April and May.

The tourism sector has experienced a low growth rate over the past four years. However, during the first seven months of this year, the number of tourist arrivals rose by 5% compared to the same period of 2004. We estimate tourist arrivals to be around 750,000 for 2005 compared to 718,861 in 2004. The expected overall growth rate in the hotels and restaurants sector will be around 4.4%, as against an average growth rate of 2.8% during the past three years.

FORECAST

The way forward

By Sawkut Rojid

Clustering and niche products have been the key word used for several years in the EPZ sector, but nothing concrete has been done so far. Multi-skilling workers in the textile sector, to make them more productive, the construction of schools of design and the formation of designers have to become a reality for this sector to survive. It is obvious that we cannot beat India and China in cost of producing similar products; therefore we should produce different products.

As far as the sugar sector is concerned, the re-structuring process underway should lay emphasis on diversifying the sector such that it becomes a cane sector rather than a sugar sector. Higher value added by-products should be produced. With the sharp rise in petrol prices, the production of ethanol is more than ever being felt necessary.

Mauritius has the potential of being an educational and medical hub in the African region. Many African students do not have access to reputed universities because all of them do not get access to South African universities, or because going to European countries is very expensive. Mauritius can capitalise on that by providing world-class education at a cheaper rate. The same argument applies for very specific medical treatment like heart surgery.



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