

Mauritius and the New Global Economic Reality

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Synopsis

Irrespective of who we are, what we feel, believe or assert, we can't deny the inescapable fact that we have been affected by the global financial crisis and the ensuing recession. We may not have been battered as some other countries, including a number of developed European nations and the United States, but we have not been left unscathed either. All sectors of our economy have been bruised, albeit some more so than others. The adverse economic environment created by the crisis and resulting recession have not spared anyone but have had less devastating effects on developing and emerging economies including members of the BRIC (Brazil, Russia, India and China) and the Southern African Development Community (SADC) of which Mauritius is a signatory. It's been over three years since the financial crisis began to unfold and yet countries all over the world are still reeling under its unexpected and overwhelming consequences with some still facing the spectre of national bankruptcy while others are limping to a very unsteady and uncertain recovery. How are we faring in this context? Are we still in recession? Are we still labouring under the negative impact of the crisis? Or have we already worked our way beyond its destabilizing and distressing influence?

In his New Year's Day address to the nation, our PM maintained that the world economic recession has not affected the island economy and that his government has taken the necessary measures to end the economic slump and lead the country to prosperity. However, even a cursory, objective analysis and evaluation of our current economic condition and performance would reveal that our recovery is slow, anaemic, and that long-term economic prospects are uncertain although banks are healthy and highly profitable, the stock market is rebounding while corporate profits are back albeit at the expense of individual households which are hurting under heavy debts and an ever increasing higher cost of living. Paradise Island is faced today with the biggest national debt in its history, sustained declining government revenues, alarming reduction in our primary economic activities (textile, tourism and services), negative monthly balance of payments, significant drop in Foreign Direct Investment, especially in the real estate and commercial markets, higher unemployment, higher inflation, a debilitating credit crunch, and a palpable lack of public confidence in the government's wherewithal, resolve and lack of political will to deal effectively with the aftermath of the crisis. The island is also feeling the unrelenting effects that the global crisis is still having on its historical economic partners like France, Britain and the United States, the lurking danger of a new surge of protectionism, as well as the unparalleled challenge coming from the powerful emerging economies of the BRIC and the ASEAN-China Free Trade Area, considered as the largest regional emerging market in the world.

So how should we react to this critical current economic situation? What can we do and what should we expect from our government beyond band aid measures and vague, empty and bland political rhetoric? The following prescription may not be the panacea to all our economic ills, but it may be effective enough to deal with some of their symptoms and alleviate accordingly their painful effects.

A Framework for Sustained Economic Recovery

First and foremost, the powers that be must demonstrate convincingly that they have the political will to come to grips with the aftermath of the financial crisis come what may. They need to come up with a new concrete, comprehensive and innovative economic policy that is free of partisanship, cronyism, casteism or communal favouritism. They need to mobilize and motivate both the nation and the private sector to join forces and work concertedly for the common good. They should not only pay lip service to fighting corruption and bringing to justice anyone, however high and mighty they might think they are, they should deliver a brand of justice that is the epitome of impartiality, honesty and integrity. The powers that be, from the PM down, should lead by example. They should demonstrate through their behaviour and performance that they genuinely have the interests of the nation at heart and that they are fully committed to do their utmost to ensure that our economy recovers completely from the effects of the global financial crisis. Politicians of all colours need to set aside their differences, merge their strengths and power and come up with a credible common economic reform package that will infuse into the people a fresh breath of faith, confidence and trust that would hopefully galvanize them through a patriotic fervour to acknowledge the hard times we are going through, to accept the sacrifices that they are being asked to make, and be accordingly ready and willing to do their share to improve significantly our economic performance and productivity. Only under these binding conditions would any economic reforms have the slightest chance of having a modicum of success.

So where should we begin? Which problem should we tackle first? In our humble estimate, we feel that initially all government efforts should be focused on getting the economic engines back on track again to ensure that our post-crisis/recession economic performance can weather the damage already caused and the effects of any austerity measures imposed on our defenceless population. To that effect, we propose the creation of an Economic Forum consisting of all stakeholders, but primarily of government departments, the Bank of Mauritius, parastatal bodies, all segments of the private sector, including banks, sugar, textile, manufacturing, construction, media and retail industries, NGOs, consulting firms, and professionals of all walks of life, to discuss objectively, intelligently and professionally our situation and to come up with a comprehensive plan of action that would meet the approval of the majority of those in attendance. That plan should then serve as blueprint for all stakeholders to follow and implement. Its primary function is to guarantee that the focus has been all the time on how to bring about a fully sustained economic recovery that would benefit the nation as a whole and not any particular economic sectors or individuals.

We are very confident that the blueprint would be a work of art and would serve the country very well as the best brains of the nation would have contributed to its creation. In the interim, however, we would like to propose the following as stopgap measures for a speedy economic recovery. Since our economy is sputtering, it needs to be stimulated by concerted efforts from both the government and the private sector. We suggest that the government makes available to all industries and entrepreneurs, through the Bank of Mauritius and all commercial banks, enough credit to allow them to expand and diversify their economic activities so that they may upgrade their equipment and infrastructure and hire more people in order to improve their performance, productivity and efficiency, thereby boosting our GDP.

We also advocate that as a nation in search of our own identity and economic independence, we adopt a new economic policy that will free us from the economic bondage that our colonial past has always kept us enslaved to, especially to our former masters, England and France. We should no longer be tied down economically to our European partners, especially now that we are not only no longer protected under any Sugar Protocol, but we have also to face a new surge of protectionism coming from their various economic and commercial sectors. We should be turning our interests towards China, Russia, South East Asia and Africa where our economic future lies. Our government and private sector should accordingly invest heavily in us penetrating these new promising regions both on our own behalf and on behalf of other major countries, like China, India and Russia, which may use our strategic geo-political location as an immutable platform for their respective economic and commercial activities. The return on our investment would be well worth the effort.

Bank Ethics and Profits

We all know that Mauritius has been spared the subprime problems that have overwhelmed the U.S. banking industry and to a lesser degree that of some European countries, like Iceland and Ireland, because of the way our banking industry is set up and operates. And while other sectors of our economy have been losing money or grinding to a halt due to the global crisis and recession, thereby forcing the government to come to their rescue with all kinds of stimulus packages at the cost of increasing significantly our national debt, most commercial banks have been making appalling profits in the billions of rupees. To add insult to injury, the banks began to reduce dramatically the credit flow to their customers thereby depriving them of a primary source of finance to develop, diversify or simply to run their business, with the result that the construction, hotel and tourism industries, the manufacturing sector, the real estate market (especially IRS & RES), and the SMEs are being unduly affected and are being forced to scale down their activities, reduce their respective workforce or close down altogether.

There is no doubt in anybody's mind that the credit crunch initiated by the commercial banks is not only harming the Mauritian economy, it is also responsible for increasing government expenditures and reducing its expected revenues. So to make up for that loss and to penalize them for their self-centred mercenary practices, we urge the government to impose an additional Escalating Tax on all commercial bank profits to be determined by a special Committee on Bank Ethics and Practices to be chaired by the Minister of Finance or his representative and made up of the Governor of the Bank of Mauritius, the Financial Secretary, the Director General of MRA or his representative, and any other members whose credentials would be deemed critical to assist in the evaluation of the levy to be imposed. This initiative would go a long way towards assisting the government in increasing its revenues, in keeping the balance of payment deficit under control and in reducing the high cost of servicing it. Letting the commercial banks control the money supply available to the public and the business community is tantamount to putting them be in charge of the nation's monetary policy, a responsibility ascribed to our Central Bank.

High Cost of Living and Revenue Reduction

This double whammy is fortunately not of the making of the powers that be, but rather a by-product of

the degradation of the world economic conditions exacerbated, however, by ineffective and inefficient government policies, decisions and actions. Although the country has fared fairly well against the backdrop of the worst financial and economic crisis and the deepest recession that our world has ever witnessed, we are not out of the woods yet in spite of what the Governor of the Bank of Mauritius, Mr Rundheersing Bheenick ,may assert in his Letter to the Bank stakeholders. We are in recession and both the global crisis and the Euro crisis continue to have an inescapable crippling effect on our economy and way of life whether our political leaders or Mr. Bheenick, would care to admit it or not. Our growth is sluggish, to say the least, with most economic sectors, especially manufacturing, feeling the pinch. Inflation is climbing steadily possibly exceeding 7% by year end as the cost of almost every commodity and most services keeps going up. Unemployment is rearing its ugly head more significantly as more people join the labour market while others are losing their jobs with no hope of finding another one soon.

The government stimulus policy and initiatives are not working as expected as even companies which have received financial assistance worth tens of millions of rupees are still fighting for their survival or going into receivership (case in point, Infinity BPO). The net result is that government revenues are conspicuously lower forcing it to cut spending thereby putting the recovery at risk by taking vital money out of the economy. People are fast losing confidence in the government's economic reforms. They are more pessimistic about the future than they were last year. Their purchasing power has been eroded and they can feel the spectre of a spiralling inflationary trend developing and lingering for years to come.

So what's the cure? What should the powers that be do that they don't have the vision, the foresight, the innovative spirit and resourcefulness to accomplish? First and foremost, they should ensure that the primary economic engines that drive our sluggish economy are operating on full throttle. One option would be to slash the Repo Rate, increase the money supply, keep borrowing on the world market and inject massive amounts of money into the economy, especially in public infrastructure initiatives. This bold fiscal policy will no doubt increase significantly our national debt (already at almost 60% of GDP), making it more expensive for us to borrow and to service the cost; it will also create an environment conducive for inflation to return with a vengeance. But it might be well worth it if it is managed fairly and judiciously as it will stimulate all economic activities, increase both productivity and job creation thereby making the recovery less volatile. But most of all, it will instil in the people some hope that the future is not that bleak and that their leaders do have their interests at heart and are working together to improve their livelihood.

As for increasing government's revenues, we know that some departments, like the MRA, have already in place a number of initiatives to do just that. However, we feel that's not enough as they are missing sorely on what constitutes an unprecedented opportunity to tap into an underground economy that is worth billions of rupees or the equivalent of 25% to 50% of our GDP for developing countries if we were to believe empirical studies conducted on existing parallel economies. What the MRA is collecting in loss revenues by going after teachers, doctors, people of the legal profession and street vendors who are not paying their fair share of taxes is but the tip of the iceberg. It should extend its net to include what those studies have shown to be the economic activities most prone to subscribe to the underground economy,

namely, the construction industry, real estate transactions, manufacturing, the gaming/betting industry, most commercial transactions, the foreign exchange market, government handouts to cronies, lobbyists; the retail industry acting as fronts for unsavoury activities that spell influence and undeclared income, and a host of other business dealings far too many to enumerate here. Should the powers that be and the MRA be really keen and serious about doing something concrete and constructive about the parallel economy that is sucking so much legitimate money out of our economic activities thereby affecting so significantly our economic performance, they should appeal for help from Singapore, Hong Kong, Malaya and Indonesia who have battled long and hard to minimize the debilitating effects of this world renowned black economic plague.

In the meantime, however, can we humbly suggest that the MRA focus its attention on those people who are not only investing heavily in real estate, new expensive vehicles, the stock market, commercial ventures or other money generating operations, but whose lifestyles clearly demonstrate that they are living beyond their legitimate means. Without being cynical, we have only to cast a cursory look around our streets to witness the kind of luxurious homes or apartments that are being built or purchased, or the kind and number of expensive cars that some lucky people are driving today; or to check the travel agencies to assess the inordinate number of our compatriots who are constantly travelling, either for business or pleasure. When we consider the exorbitant prices of real estate, cars and travelling today, we have to wonder where does the money come from to permit such an envious lifestyle. The MRA should investigate.

The National Debt

It stands currently at 175 billion rupees or 60.5% of our GDP ranking us at number 33 out of 131 nations on the List of Sovereign States by Public Debt, placing us ahead of Zimbabwe, Japan, Greece, Italy, Iceland, Singapore, Ireland, United States, France, Canada, Portugal, Egypt, UK, Germany, Israel and a host of other developed and developing countries. Accordingly, our national debt is still considered acceptable and manageable relative to established norms. However, there is quite a price to pay for the privilege of owing others so much money even if the practice is world-wide and forms an integral part of any government's economic policy and trade and commerce initiatives.

Servicing any national debt costs money. It increases considerably government expenditures leading very often to a never-ending budget deficit, spending cuts, higher taxes, higher cost of living, high interest rates and inflationary tendencies, all of which can contribute significantly in stifling the economy by making it so much harder for business people, especially entrepreneurs, to conduct their affairs in a favourable environment. So how should our leaders deal with this necessary evil? Very cautiously and judiciously. To begin with, they should not do anything rash, especially if it concerns affecting the livelihood of those who can least afford to pay the consequences. If taxes have to go up, then tax fairly and equitably those who can pay. Start with big businesses like banks, insurance companies, the stock market, real estate transactions, gaming and betting facilities, the media industry and others, including the tourism and offshore industries. If necessary, impose, additional taxes on capital gains, on professionals, like doctors, dentists, lawyers, solicitors, accountants, bankers, engineers, IT specialists,

teachers, business consultants, etc., but avoid burdening further the lives of society's least favoured segment.

In dealing with our deficit, the powers that be should perform a very delicate balancing act while keeping in mind the following premise: no one can sustain a deficit forever, so it needs to be controlled, contained and eventually eliminated; but without one, no economic growth or recovery is remotely feasible. So what's the prescription to solve this catch-22? Our leaders should initiate the creation of an Economic Think Tank consisting of the best brains of the country with the mission to come up with as many effective ideas as possible to deal constructively and efficiently with the national debt. We suggest they find as many innovative and creative ways and means to raise money to pare down the deficit gradually until it is eliminated altogether. We propose, for instance, that they recommend a hefty extraordinary tax on all gaming and/or betting gains, including all lottery winnings, as well as a special levy or surcharge on all highly profitable economic activities, industries, services, business entities or professional groups that will be applied exclusively to reduce and eventually eradicate the deficit. However, whatever the recommendations of the Think Tank might be, they should not harm any further the economic development, growth and prospects of the nation. They should ensure rather that through their proper implementation, social justice would prevail and the economic and psychological welfare of the population would be assured and sustained. That would be the fairest and most judicious way of dealing with our deficit, considered by most economists and politicians as the thorniest economic challenge that all countries have to face, irrespective of their status as a developing, emerging or developed nation.

A national debt is nothing more than owing money and having the obligation to pay it back. It is a liability that needs to be honoured if we want our international reputation to mean something, to be preserved and to allow us to continue to function politically, economically and financially on the global market. However, we require a flourishing economy to meet our financial obligations which keep going up substantially year after year. How are we then to fulfill our commitments in a new world order where the engines of growth, the spirit of innovation and the intensity competitiveness seem to have shifted permanently to the emerging economies?

The answer is to boldly assume a new political and economic stand, to go beyond where we have treaded before, to adopt a new global economic strategy rather than a primarily European and African focused economic and commercial policy. We are uniquely positioned to reap the benefits of the world new economic order by making optimum use of our geopolitical clout, influence, achievements and reputation. We should therefore capitalize on our assets and be the platform that links Africa with the rest of the world, but especially the Far East, the Middle East, South East Asia and Russia. We have all the wherewithal to meet that challenge: we have political, economic, fiscal and social stability as well as a high credibility among a number of nations. We have a very positive image and reputation and we can play quite an important role and have quite a positive impact on any potential economic and commercial relationships that we might initiate. The future lies in the new emerging economies, the drivers of global economic growth. We would be derelict of duty if we were to fail to capitalize on this unique opportunity that History usually offers only once to a privileged number of nations.