Address of Mr Rundheersing Bheenick, Governor of the Bank of Mauritius, at the 8th Annual General Meeting of the American Chamber of Commerce - Mauritius (AMCHAM)

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I thank you for inviting me to this event. I congratulate you for work you have done over the past eight years as part of a worldwide network and I hope that your focus today on trade and investment will lead us to even bigger things in the future.

The doing-business environment of Mauritius is improving and there are good prospects for attracting still more significant FDI flows to Mauritius in the medium term on account of the numerous mega projects in both the public and private sectors. These relate mainly to the tourism Integrated Resort Scheme projects, the Chinese integrated industrial project, and some real estate development projects. At last week's Africa-Americas-Asia Business Summit organized jointly by the Commonwealth Business Council and the Board of Investment, the Executive President of the Dubai Group, Mr Soud Ba'alawy, announced that his Group was proposing to invest about USD250 million in Mauritius over the next few years. One of the areas of interest to them, as you may know, is Islamic Banking and I have been talking to them to try to steer them in that particular direction.

Let me begin by trying to situate a little the bilateral relations between the US and Mauritius. We all know that for geographical and historical reasons, the US has been of little importance as a source of imports and in 2007, it only accounted for 2.3 per cent of our total imports. It was more important as an export destination, absorbing 7 per cent of our total exports in that same year. The worrying feature is that exports have been declining over the last couple of years, driven largely by the drop in EPZ exports, which fell by 14 per cent in 2006 and another 4 per cent in 2007 to stand at Rs4.2 billion. But, the importance of the greenback goes well beyond our bilateral trade relations as is normal for a reserve currency.

A significant percentage of our external trade is dollar denominated. In 2007, 58 per cent of our total trade was denominated in USD. This represented a drop from 61 per cent in 2006. A similar decline is visible in the denomination of our imports where the dollar was the currency used for 65 per cent of our import trade in 2007 as against 72 per cent in 2006. On the export side, slightly over a third of our exports were denominated in USD in 2007, down from 43 per cent the year before. Again, there is an imbalance between our export trade and our import trade currency denomination and this is very important because to some of your members this complicates the life of monetary management and complicates the exchange management stance.

The good thing about the US-Mauritius relationship is more on the capital front. Foreign Direct Investment (FDI) from the US increased a thousand-fold between 2000 and 2007, rising from Rs2.5 million in 2000 to Rs2.4 billion in 2007. So, if only our exports to the US would rise by that much, we would be laughing all the way to the bank. I think this is an area we must build on and that is also something very symbolic on the way we want to go. We are heading towards more dependence on capital and investment flows as we try to become an international investment centre and we de-emphasise our role as an exporter of low grade textiles commodity-end market. We have to go up-market, we have to do things that require us to live by our wits to add value to whatever we can, and to try to enhance our productivity domestically.

Let me now dwell a little on the origins of the Africa Growth and Opportunity Act (AGOA), which was enacted in May 2000, as part of the Trade Development Act of 2000. As former Minister of Economic Development, Productivity and Regional Development, which I then was, I played a prominent role in lobbying the US House of Representatives and US Senate to put back on track this important piece of legislation which was stuck in the sand at the Committee Stage. I do recall how in the course of our lobbying, we had mustered the support of our regional organisations, both COMESA and SADC. As Chairman of the COMESA Council of Ministers, I headed a delegation comprising Mr Erastus Mwencha, the Secretary General of COMESA, Mr Musa Ali, then Vice-President of Uganda, and Ms Edith Namkawa, the former finance Minister of Zambia, for discussions and lobbying in Washington.

When we landed in town in Washington, they were least concerned by our Bill, the Africa Growth and Opportunity Bill. The biggest show in town was the other Bill. The other Bill had apparently become a very naughty boy with a lady called Monica Lewinsky. So there was a media circus in town and there were batteries and cameras and so on all focusing on them. And we were there just a tiny delegation trying to get our Bill back on track. When we actually managed to get a hearing with the Senator who was sitting on the Bill, he told us that the President of Africa was in town and he had never raised the issue. This left us a bit puzzled. Who was this President of Africa who was in town last week? We talked about African Union or the United States of Africa but there was nobody around calling himself President. And we discovered that the President was Nelson Mandela who was actually there a week before, received in the Whitehouse and he had never once used the word 'AGOA' or the 'Africa Growth and Opportunity Bill', so who are we to say that it is important. Later on, we followed up on this particular issue in Mauritius when we hosted the SADC summit in Grand Baie in 1998. As some of you would recall, Mauritius managed to host both COMESA and SADC in the same year. SADC Heads of States summit was actually chaired by Nelson Mandela. We were able to persuade the Chairman to issue a letter pressing for the enactment of the AGOA legislation which we saw as potentially beneficial for countries in the Sub-Saharan region. Again, a second point where Mauritius put its weight behind the Bill.

I am very happy that so many countries in Africa and many entrepreneurs in Mauritius benefited from the AGOA and we are pleased that we were able to make some contribution to that particular success story.

I was going to talk about the signature, in September 2006, of a Trade and Investment Framework Agreement (TIFA) between the US and Mauritius to strengthen and expand trade ties between the two countries, but the Chairman, I think, has done that beautifully, there is no point for me to mention that. Just to say that perhaps over and above TIFA, what is more important for a small open country such as ours is to have a free international trading point as it is just not possible for us to deal on a bilateral basis with each and every market that exists.

So much then for the AGOA and the TIFA; let me come to the issue of what is happening right now in the US economy generally. I think all of you know for a year now we have been living what is called the 'sub prime crisis' which in fact is no longer a 'sub prime crisis'; it has now begun to affect prime markets as well. The Ambassador asked us for suggestions just now. The best suggestion we can give is to get your act together, get started again, get going so that you can pull the rest of the world along with you. I know it is fashionable to say that it is no longer true that when the US sneezes the rest of the world catches a cold. Partly because the axis of the world has changed, now we talk about the Russias, Indias and Chinas of this world. But even if you add them all up, it does not come up anywhere near the US economy.

I hope that we see the end of the sub prime crisis very quickly and that the various attempts of the Chairman of the Fed together with the major central banks, which have systemic importance in the world, will help in trying to stave off the recession, will help to get the US economy going again. If the main locomotive which has been driving growth since the Second World War runs out of steam, I think it is bad news for all of us. So I hope, very much, that the efforts which are ongoing right now to address the problem, and its any ramifications in the asset markets, will succeed.

Let me say a word or two now about our own particular problem which is arising from perhaps having been too successful in some ways. I think managing success is as difficult a problem as trying to get out of a rut. We have been getting massive inflows of capital. The more capital comes our way, the more the rupee appreciates and the more the rupee appreciates, the more difficult it becomes to stay competitive without trying to put pressure on the central bank to depreciate the currency. In the old days when they had annual wage rise as part of the way of conducting business when what was good for sugar was going to be good for the rest of the economy, we could make a case for gradual sustained depreciation over the years. But this is no longer the case. What is good for sugar is no longer good for the rest, what is good for EPZ is no longer good for the rest of the country. The economy has become much more diversified. If any particular sector runs into some problem arising from exchange rate turbulence, then a solution must be found within that sector itself. It is just not possible for the other sectors to take up the run and make up for loss of competitiveness in a particular sector. This applies to the EPZ today, at least some sectors of the EPZ. And I am very aware of the problem it causes, I am very aware that rapid appreciation of the currency is causing serious problems for managing your balance sheets. And I know it is very easy to say 'why does the central bank not buy all the foreign currency?' There is a limit to what we can buy. Today, just before coming here we bought up something like USD60 million. And this is in addition to something like USD190 million, which we have bought since the beginning of the year. This amounts to a quarter billion dollars that we have bought. We just cannot carry on like this because when we are buying US dollars, we have to issue Bank of Mauritius rupee bills on which we have to pay interest, which costs us much more than what we are getting on our dollar deposits. So, if we look down the line, the outlook for the Bank of Mauritius balance sheet is very bad. And that is why, recently, I have been setting out calls to the Minister of Finance to start listening to the Bank of Mauritius. It is high time that the Bank and the Government get their act together. It is high time that the nexus between monetary policy and treasury policy be given a new lease of life and that we do not expect monetary policy to do all the running. The economy is changing under our eyes. We are moving very rapidly to become a financial centre. In a financial centre, we have currency flows coming our way. This is going to create some turmoil to all local operators and if we are not prudent in the way we manage it, we might end up with what is called the 'Dutch' disease, which is when all exporters begin to lose market share as they are unable to export. We have to manage those inflows and this is exactly what we are trying to do. So, bear with us as we try to grapple with this new problem that is engulfing us. We have never been there before. At the Bank of Mauritius, we have not got the instruments to cope with the excess liquidity in the market right now. I have been discussing with the banking sector and I have discussed with the MPC yesterday about how we can come up with a new range of short term instruments to try to mop up liquidity. And at the same time, we believe that it is high time now that those who have excess cash, and that includes many of government's core operators like the National Pension Fund, the State Investment Corporation and many others, start turning gradually to quasi sovereign wealth funds. Instead of focusing all their effort and all their investments in local paper, government paper and bank paper, these institutions could divert their attention away from Mauritius to relieve the pressure on our exchange rate. We need a consolidated effort from government, from major operators and from banks so that they also play the game by enhancing the level of exposure that they can countenance in foreign exchange. By the regulations we have in place now, any bank is allowed to go up to 30 per cent of its capital in terms of foreign exchange exposure. But there are very few banks that go anywhere near them. The closest we get is about 20 per cent and there are many large banks that are below 10 per cent. We feel that banks should play their share to make this foreign exchange market more liquid and spread the risk. We believe the time is now right to develop an active forex swap and futures market instead of putting all the pressure on the spot market which ends up in the Bank of Mauritius mopping the whole amount. This is the direction we think we should go and there is nothing new there.

If you look at the way Singapore and Hong Kong have gone, this is the way where we can have some salvation. Salvation does not lie in trying to depreciate the currency, longer term salvation lies in trying to find productivity, trying to increase all sources of extra competitiveness you can find. Long-term competitiveness depends not on exchange rate changes but on productivity growth. Short-term exchange rate accommodation can only serve to postpone the need to address the real issues relating to productivity improvement and good management. So I very much hope that all of you, for the next few years down the line, will be able to benefit from a rising US economy, you will benefit from an international trading environment that is more conducive to free flows of exchange and that domestically, the currency will find some more stability as opposed to the recent appreciation.

So with these few words, I wish AMCHAM full success for the years ahead and rest assured that we will accompany you every step of the way.

Thank you