Address by Mr Rundheersing Bheenick, Governor, Bank of Mauritius, at the Presentation on Afreximbank to the Mauritian Business Community, 16 June 2009, Mauritius

Good morning ladies and gentlemen

It is with great pleasure that I welcome you all today to this Presentation of the Afreximbank. I extend a particularly warm welcome to Dr Oramah and Mr Chafa. This is a critical element in what might be called our frontier expansion policy, creating extended links between the core role of a central bank and the wider pastures of trade and the real economy. Last month at about the same date, the Bank was co-hosting the first Seminar of the Islamic Financial Services Board in Mauritius. Today's event is the fruit of the collaboration of our two institutions, Afreximbank and Bank of Mauritius.

On the occasion of a Board Meeting of Afreximbank held in Mauritius in December last, I had drawn the attention of the President and Chairman of the Board of Afreximbank, Mr Jean-Louis Ekra, on the lack of awareness about Afreximbank's programmes and facilities by the business community and I had expressed my views on how a knowledge of Afreximbank's products could represent a useful tool in the promotion of market and product diversification of our trade. I am extremely delighted that the President of Afreximbank has responded positively to my request and I convey my heartfelt thanks to him.

Today's event gives me the opportunity to share with you a few thoughts on the role of international trade and trade finance, especially in the context of the current economic turmoil, and as Paul Krugman has put it in his seminal book 'The Return to Depression Economics'; that 'Malign neglect' of the 'shadow banking system' that has led to the 'Loss of traction' of the central banks in steadying the real economy in the storm.

International trade

Over many years, we have seen that most countries have progressively opened their economies to international trade, either through the multilateral trading system, increased regional cooperation or as part of outward-oriented domestic reform programs. We have gone beyond the system with the third world being merely the exporter of raw materials and the importer of manufactures. International trade nowadays backed by the Internet has created the efficiency for raising standards and conditions of living. It has enabled all nations to produce on a higher efficiency scale. It has helped increase productivity. It has allowed the instant spread of knowledge and ideas so that the range of choices available to consumers has expanded continuously.

Trade and globalization have without doubt brought enormous benefits to many countries and citizens of the world. We might disagree on the exact modalities and the sequencing of trade and tariff reforms, but few of us would dispute that international trade has been a major driver of global economic growth since the end of the Second World War. Trade expansion boosted post-war economic recovery in the leading economies of today; Germany and Japan are notable examples that come to mind. It figures large in the 'growth miracles' of the Asian Tigers, Mauritius, but also China! But this has not happened without those countries facing their own crises.

The Impact of the Crisis on Trade Finance

Today we are facing the worst economic crisis in generations and this crisis is threatening to undo the economic development that many countries have achieved so far. Undoubtedly world trade has been one of the worst casualties in the global financial crisis. This is even threatening to "erode people's faith in an open international trading system." The negative impact on world trade finds its way through two main channels. First the credit crunch resulting from the financial market turbulences has led to a fall in the supply of trade finance, which has rightly been described as the oil of the wheels of international trade; and secondly the spillover of the financial crisis into the real economy has caused the worst recession since the Great Depression and fuelled a contraction of trade volumes. And those of us who believe in open trade almost as an article of faith, have watched with growing disbelief as the threat of protectionism started to rear its ugly head. As economic activity collapsed and unemployment soared in many countries, protectionist sentiment has risen along with the attraction of other trade-distorting policies. Many countries have implemented domestic stimulus packages aimed at protecting their businesses and industries, favouring domestic goods and services sometimes at the expense of imports. Policy-makers are perfectly aware that such policy actions have international implications – in the short term they can boost domestic demand but in the long term, they undermine the international trading system and global wealth and welfare.

Outlook for world trade for 2009

If we look at the prospects for world trade for 2009, we see that the World Bank has predicted that the volume of world trade in goods and services will decrease by around 6 percent. According to the World Trade Organisation (WTO), the collapse in global demand is expected to drive manufacturing exports down by roughly 9 percent in volume terms. International trade is thus forecast to continue deteriorating and there is even the emergence of a wide consensus arguing that in 2009 the global economy will shrink as recession strikes.

Against this bleak backdrop, I believe it is important to put things into the right perspective. Yes, trade can be a powerful engine to transmit shocks, whether positive or negative, from one part of the globe to another. But, no, it is certainly not the cause of the collapse in demand. The financial crisis, which transmuted into a global economic crisis, is what has driven the world economy to where it is now!

Lessons from previous crises

Crises are, without a doubt, challenging times but they bring along a wealth of lessons and opportunities for those willing to learn from past mistakes. As US President Obama has recently put it: we must not waste the opportunities this crisis presents.

The destructive protectionist streak in the aftermath of the Great Depression serves as a stark reminder about the dangers of reverting to the beggar-thy-neighbour policies of the past. We have learnt the lesson that the scarcity of trade finance is unavoidable during crises. The experience of South East Asian countries at the time of the Asian Financial crisis a decade ago; of Russia during 1997-98; of Turkey in 2000-01; and of Brazil and Argentina during the Argentine crisis of 2001-02, still resonates in our minds. Another lesson learnt is that multilateral cooperation can also help make trade finance more affordable and resilient in times of crisis.

WTO has advocated cooperation among all stakeholders in the trade finance market to keep the flow of trade finance going. Among the measures proposed at the G20 Summit is the injection of some USD250 billion to support trade finance. Here in Mauritius, despite the resilience of our domestic banking sector, on the first signs of difficulty last November, the Bank of Mauritius acted pre-emptively and created a line of credit of USD100 million for trade financing purposes.

Doha Round

Reviving the Doha Trade Talks - which were not so long ago considered to be as dead as our dear departed Dodo - is now increasingly seen as vital for global economic recovery. Political leaders and policy-makers of the G20 have committed to expedite the conclusion of the Round. This view is shared by WTO Director-General Lamy, who, underscoring the importance of concluding the Doha Round, warned that “the stress test of the multilateral trading system is still to come”.

I align myself with the view that the mutual benefits of trade are too important not to be preserved and it is in the interest of one and all to maintain and enhance trade openness at all costs. Indeed I strongly believe that, protectionist sentiment notwithstanding, trade continues to function as the hand-maiden of economic growth and will support global economic recovery.

Regional cooperation / Economic Integration

In Mauritius, our trade policy has always been one of openness, whether it is to the world economy or to the region. We have of course, never been averse to drawing benefits from preferential trade arrangements.

We are a member of various important international organisations such as WTO and of regional blocks such as COMESA and SADC. More importantly, we have been in the front line of African countries to benefit from the African Growth and Opportunity Act.

For little Mauritius, Africa represents a sizeable market for our products and services and has untapped potential. Many local companies are exporting to SADC and COMESA countries and they envisage extending their export network to other parts of the continent.

The Mauritian Banking Sector has been quite resilient to the financial market turbulence, but the interconnectedness that comes from living in a highly integrated world means that our banks are not immune to contagion effects. In the words of Ngozi Okonjo-Iweala, the managing director of the World Bank, we, in the emerging economies, are "innocent bystanders" in the global recession created by developed countries. But we are determined to avoid becoming victims of the credit crunch. We do recognize the need for collective action in order to get through these harsh economic times.

This gives me the opportunity to articulate my position regarding the strong lobbying of some of our exporters in favour of the continued depreciation of our currency. Export lobbies have been clamouring for a depreciation of the Rupee to ensure their competitiveness, if not to guarantee their very survival. But we need to look at the other side of the coin - consumer and producer price inflation arising from pass-through of higher import prices. At a time when one of our main concerns is protecting people and their purchasing power, intervention by the Bank of Mauritius to keep the Rupee at a depreciated level would not only be inappropriate, it would also be irresponsible!

And to put to rest, once and for all, the Rupee depreciation mantra, I need to add that a recent IMF mission has proposed to re-classify our exchange rate regime from managed float to freely floating. I am reminded here of the French writer, Jean Baptiste Poquelin – many of you probably know him under his more famous name, Molière. Molière had one well-known play, “Le Bourgeois Gentilhomme”. Le Bourgeois Gentilhomme in Molière was surprised to discover that he had been speaking prose all his life! We are surprised to discover that for the last year or so, we’ve been a free floater, not a managed floater. And the Fund has offered to re-classify us in the light of our past performance as a free floating regime. This puts us in the top category of countries in the likes of UK and the US. This is not an opportune time to embark on a drastic overhaul of our exchange rate regime; this proposal however does offer food for thought about the shape of things to come under the emerging new economic order. Financial mercantilism, whether at the level of countries or institutions, is simply not a viable way to national economic competitiveness.

The Additional Stimulus Package and the Budget Speech has made it clear that life support for moribund enterprises is not on the agenda. “Preparing for recovery” is!

In addition to the inescapable 'regulatory soul-searching', the financial crisis and the global recession also warrant a revolution in the ways we think about and conduct business. Going down the well-trodden path of pessimism while waiting for the tide to turn is certainly tempting, but ultimately our ability to harness the potential of the new internationalism will depend on how willing we are to move away from established 'comfort zones'.

Afreximbank – Opportunities for Mauritius

Today's event with Afreximbank is intended to serve as a reminder of the vast possibilities that beckon for enterprises and financial institutions that choose to view this crisis as an invitation to do things differently; to do things better!

The initiative of the Bank of Mauritius to lend its platform for Afreximbank to market its products is one more step in the direction of regional cooperation and economic integration. I know our local investors are looking forward to receive Afreximbank's support for their trade with African countries and other countries in the region as well as with the rest of the world.

The Bank of Mauritius has always favoured an approach geared towards opening up the banking sector to other players. We firmly believe that healthy competition always results in more choices, coupled with a better service for the users of financial products.

Traders around the world rely on a high level of trust and confidence in the counterparty to a trade operation. One of the things that traders look for in their exchange with buyers in other countries is the assurance that they will indeed receive their payments. The 2009 Budget Speech has proposed the setting up of an Export Credit Insurance Scheme. This reminds me of the major role played by the Bank of Mauritius in the 1980's in setting up the Export Credit Guarantee Scheme and in providing financial backing in setting up the Export Credit Insurance Scheme. This scheme was meant to protect Mauritian exporters against credit risks – both commercial and country risks. Both schemes were managed by the Development Bank of Mauritius but it was the Bank of Mauritius that guaranteed settlement of all claims in respect of the two schemes. The two schemes did not meet with much success and were short-lived. I hope we'll have better luck with the new version now on the drawing board.

Afreximbank is bringing to us today years of experience and know-how in providing insurance and guarantee services covering commercial and non-commercial risks associated with African exports. The experience and expertise of Afreximbank in this area could be quite useful.

REPSS

As you know, the developing COMESA system, the Regional Payment and Settlement System - REPSS will facilitate cross-border payment and settlement between Central Banks in the COMESA region; it is presently in the final stage of testing and will be launched soon. The system will stimulate and increase intra-regional trade by working in local currencies, thus reducing costs and saving time. I extend an invitation to Afreximbank to join our clearing system.

I now leave you in the able hands of Dr Oramah who will make a presentation on the range of products of Afreximbank. Those of you who have booked slots with the delegation from Afreximbank for one-to-one encounters will be able to attend the bilateral meetings in the afternoon and tomorrow morning. I hope and wish you to make the most of this presentation by Afreximbank.

Thank you all for your attention.