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

Looking beyond the 2019/2020 Budget

By Sameer Sharma

Much has been said about the 2019/2020 budget of Mauritius. While a rosy picture of the economy was painted by the government, the reality is somewhat more nuanced. Growth over the past decade has gradually been slowing because both labour input growth and capital input growth have been consistently decelerating. Back in the 1980s, a major jump in female labour participation, a low base from which productivity growth could accelerate from and capital accumulation allowed gross domestic product (GDP) growth to shoot up. In the 1990s, the fruits of a higher quality education system (back then) coming from a lower base allowed labour input growth to continue to increase along with capital accumulation and total factor productivity growth. Mauritian policy makers embraced capitalism and openness to trade, and understood at least that a prudent wage growth and exchange rate policy would be key to maintaining growth momentum. The gradual increase in hand-outs and political largesse could be offset by preferential trade deals with the West. In the 2000s, the fruits of vision from local policy makers and a favourable tax treaty with India helped to offset the erosion in preferential trade with the West.

100ème numéro !

Le premier numéro de *Conjoncture* parut en septembre 2005 avec pour devise de « penser autrement ». D'un mensuel, le journal est devenu un bimestriel, tant sont rares les professionnels qui écrivent. L'écrit exige de la discipline et de la rigueur, contrairement à un simple entretien de presse. Ainsi, en ce 100ème numéro, PluriConseil tient à remercier tous ses collaborateurs, qui ont contribué à faire de cette plateforme un vrai agitateur d'idées.

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The International Monetary Fund, in its Selected Issues 2019 paper ("Unlocking Structural Transformation in Mauritius, Challenges and Opportunities"), reports that between 1980 and 2000, labour input growth's weighted contribution to GDP was 3% while capital input growth's contribution stood at 2.3% during the same period. From the 2000s till date, labour input contribution slowed to average 1.2% annually while capital input contribution to GDP growth fell down to 1.4%. The small residual between GDP growth and growth in the factors of production was led by productivity growth as the economy transitioned towards a services economy. While the purpose of this article is not to dwell into the well known reasons as to why Mauritian input growth slowed, it aims to tackle the future. The reality is that since 2010 at least, policy makers have failed to address the structural challenges which torment the economy.

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Director: Eric Ng Ping Cheun
Address: 38, Aldrin Street, Pointe aux Sables, 11128, Mauritius
Tel: +230 289 6719 Fax: +230 234 2761 Email: pluriconseil@intnet.mu

For example, with an ageing population, stagnating women labour force participation, the lingering impact of the brain drain of the 1990s and 2000s and an education system which is simply not working anymore, labour input growth will not be accelerating anytime soon and admittedly, unless we are more open to immigration, it will not happen easily. On the capital input growth side, domestic private investment has been declining (it gets worse if you exclude real estate related activities) and this will not change unless the structure and the business ecosystem of the corporate sector change.

Mauritian companies, especially the larger non financial ones, tend to be asset rich and free cash flow poor (which should make any CFA student ponder about asset valuation standards). Just have a look at the Return on Capital Employed (ROCE) of non bank related listed companies, and it will not be hard to see that large non financial corporations cannot sustain ROCE levels above their cost of debt for a sustainable period. Just exclude the listed banks over the past two years, and you will find that there has been little profit growth when comparing similar quarters to each other. Over the past eight years, this chart would not look stellar either. In fact the last five years have seen a slew of corporate debt restructurings with many taking advantage of the mispricing of credit risk in the corporate bond market with a focus on optimising balance sheets and unlocking liquidity.

The theme has been more about getting one's house in order and improving cash flows and return on capital versus actually investing on aggregate. The reality is that the investment capacity of the corporate sector is limited, and this situation is further complicated by an outlook wherein most business opportunities would not see returns on capital above the weighted average cost of capital, let alone the cost of debt. With the tourism sector facing obvious headwinds and with troubles within the sugar and manufacturing sectors, a meaningful break from the zigzag pattern of corporate profits looks unlikely in 2019. While the government has done all it can via middle class tax breaks and higher wages for those at the bottom of the wage scale, if the falling trend in core inflation is to be believed, there has been little left when it comes to accelerating consumer spending growth from current levels.

(Source: Non bank annual reports of listed companies, CARE Ratings Financial Summaries)

Now if we go down to smaller non listed companies, almost 60% of small and medium enterprises are subsistence corporations with limited growth capacity. The bulk of the rest are not doing that well or are unable to scale up to the next level given the market size, oligopolistic tendencies of some larger peers, the lack of fair opportunities from the public sector, sub-optimal capital structures, corporate governance issues and capacity constraints. What sustains Mauritius' private investment to GDP ratio is actually not real investment but increasingly luxury villa purchases by foreigners.

There are two economies in Mauritius

Given the current set of policy parameters, it is very hard to see how productive private investment will materially increase. What is left then to be able to grow at 5% plus is our ability to triple our 40-year total factor productivity growth track record of 1% annual contribution. For Mauritius to achieve 5% plus levels of growth, it needs significant structural reforms. The budget may forecast all the 4% plus growth it wishes to, but it is unlikely to happen unless we change a great many things.

To make matters worse, policy makers since 2010 have been increasingly reliant on the Value Added Tax as the major source of revenue leading to an increasingly imbalanced tax structure. Thomas Piketty, who seems to inspire some policy makers, would certainly not argue that a tax system which is so dependent on the VAT could genuinely help to fight increasing wealth inequality. The current set of fiscal policies has essentially pushed the majority of middle class and below Mauritians to consume. Wage increases and tax breaks should be viewed in this light. Such an approach cannot possibly result in effectively tackling rising wealth inequality.

The current government has been engaged in a policy to stimulate consumption growth, but in a country that imports most of what it consumes, such policies can only lead to wider trade imbalances which cannot be sustained. In its last Article IV consultation, the IMF warned that the external balance of Mauritius had worsened and that the rupee itself was overvalued by more than 15%! In layman terms, consumption growth which has been part and parcel of policy making and tax revenue accumulation has pushed import growth upwards which has pushed the authorities to encourage more luxury villa sales to plug the rising external deficit (to finance the imports) to keep the party going. This, when coupled with income from the offshore sector, has brought such large flows (although recent trends are reversing on the flow side) that the rupee has not depreciated as it would have in any market where the trade balance is as weak as that of Mauritius.

An unsustainable wage rate policy above productivity growth by various governments over the past decade has almost killed the manufacturing and export oriented sectors in general, making us even more dependent on the "foreign direct investment" which is really mostly villa sales to keep everyone happy (except for the exporters of course). It has been a nightmarish and vicious cycle of an unsustainable wage rate policy and consumption growth focus resulting in weakening trade imbalances leading to the further encouragement of flows resulting in a currency that does not adjust. There are two economies in Mauritius, and the real effective exchange rate seems to reflect that of real estate developers and the services sector to the detriment of the sugar, manufacturing and tourism sectors.

The deteriorating terms of trade is not sustainable and remains by far the biggest risk to the Mauritian economy.

Public investment has tried to make up for the lack of domestic private investment, but beyond efficiency issues, it too has, in the short term at least, not helped on the import side given the imports associated with the metro project. The deteriorating terms of trade is not sustainable and remains by far the biggest risk to the Mauritian economy given our dependence on the stability and continuation of these flows. The recent weakening trend in our balance of payments then should be viewed very seriously. The purpose of this article then is to precisely address the challenge of how Mauritius can get back on the right track. However all solutions will require significant structural reforms and arguably a change in the political system of patronage itself. We have allowed the unsustainable party to continue for so long that the next dispensation will make it, or the economy will run out of its spree of good luck.

In its latest selected issues research on Mauritius, the IMF developed a financial conditions index for Mauritius. What is clear from this paper is that financial conditions and GDP growth are related with obvious lag effects, and that the main drivers of financial conditions are exogenous

(emerging market equities and debt performance), which essentially showcases our increasing dependence on capital flows and positive global investor sentiment. Worryingly, the fact that local factors appeared to be less important in determining the degree of loosening or tightening of financial conditions should be analysed and introspected upon.

The world economy is slowing and even the US Federal Reserve appears to be shifting to a more dovish stance. We may of course ignore all the signs that our good luck may soon run against a brick wall at our own peril.

How do we handle the national debt?

There are essentially two schools of thought making the rounds in Mauritius. One school says that the debt to GDP ratio is high and unsustainable and that Mauritius will go broke, while another smaller school of thought as was written in Business Magazine by a high ranking policy maker warned against abrupt fiscal consolidation and alarmists. The latter gentleman's argument was that as long as nominal GDP growth could be kept higher than the average cost of debt of government, the level of debt could be sustainable. In my last article, I spoke about a still hotly debated theory known as Modern Monetary Theory. MMT theorists argue that a country that has a strong degree of sovereignty over its currency cannot run out of its currency to pay local debt or any local liability as it has a monopoly over its currency. The reality is that states are not households.

The cost of running fiscal deficits is not measured by interest rates but by inflation which needs to be clearly defined and quantified. The fiscal deficit is simply how much more money you put into the system in a given year versus how much money you took out of the system in the form of taxes. The level of domestic debt is simply an accumulation of deficits which works out to accumulated private savings. When a government chooses to borrow, or when the state pushes liquidity into a system, this goes to the private sector. Taxation then exists to tackle wealth concentrations if private savings becomes concentrated.

Admittedly MMT is intuitive if one understands monetary operations and holds a lot of promise, but if misunderstood, it can create more harm than good especially when there is no official inflation target. Given the recent debate on government borrowing and central bank operations, let me try to explain how this would work in an MMT setting.

Let us assume that the government of country X wishes to constrain or reduce borrowings from the bond market: it can for example approach the central bank and offer it a special bond. This bond would not be traded and the interest rate charged on this long term bond would actually be at a discount to equivalent maturity yields but higher than a central banks' cost of conducting monetary policy.

> The cost of running fiscal deficits is not measured by interest rates but by inflation which needs to be clearly defined and quantified.

So let's say that the government of that country wants to borrow Currency X 20 billion from its central bank: it would give a bond which the central bank would hold as an asset on its balance sheet and, yes, the government would pay interest at a discount every 6 months until maturity. In return for this asset, the central bank would literally credit the account of government held at that same central bank with the money. In this setup, the central bank gains an interest earning asset, it allows it to improve its margin and asset liability mix because the coupon rate is higher than the cost of monetary operations, its holdings of domestic asset reduces foreign currency risk, and the borrowed money stays at the central bank as a liability.

The government has just created a special strategic fund (or any name you wish) to either finance capital expenditure, investment vehicles, re-skilling or pay down debt in the domestic bond market. In this case, the government has a liability to pay its central bank while the central bank

has an asset. At the state level, and this includes the central bank and government, this cancels out, i.e. this is not considered as debt by the likes of the IMF. Of course if country X borrows money from the central bank, the independent central bank must agree to the rate and must have the power to control the flow of money into the system from the account. This is also not a one time operation but can be repeated, and coordination is key.

It is not like the government can redeem all the money at once and distort monetary policy making. You will note here that there is no reduction of the level of capital of the central bank. This is an example of what MMT theorists have been arguing as a way for governments and central banks to coordinate with each other and not engage in severe fiscal consolidation which, in the current context, can hurt growth.

Another approach would be for the central bank of a country to simply purchase bonds in the secondary bond market which would de facto reduce the outstanding value of domestic debt. By the way, quantitative easing in the West does just this. Such a policy has its limits given where one wishes interest rates to be. The impact on liquidity in the secondary bond market can in turn be reduced by targeting the purchase of smaller issues which can help reduce bond market fragmentation.

Obviously when it comes to Mauritius, this is not what was announced. There is however one big caveat to a proper implementation of Modern Monetary Theory (not to be confused with what was announced) and this revolves around what you can and cannot do with the money. If we raise money in the way I described but end up giving away freebies to everyone so that they can consume more, we will end up worsening the current account deficit, and this will make a bad problem worse. In this case, domestic monetary operations can be disastrous. MMT is only useful when it is limited to policies that aim to increase the factors of production of the economy over time.

The financing of recurrent expenditure and consumption-led growth can not only be very inflationary, especially when a country does not quantify an inflation target as a checks and balances, but it can also have a dangerous impact on the external balance and on the currency. Given the high degree of import content of exporters, stimulating consumption spending via the printing press can indeed be dangerous. This is certainly not what I am proposing to do when arguing for a more MMT driven approach. Those who wish for fiscal consolidation have yet to clearly explain how they will help to increase GDP growth given the realities of the local private sector and structural challenges.

Domestic debt and foreign debt are not the same thing. Mauritius will not run out of rupees to pay or print although inflation is the cost there, but it can certainly default on foreign liabilities. Given the low level of foreign public debt to GDP however, this is not a major concern (unlike our trade imbalance). We should not obsess about our current level of debt to GDP but really obsess about how we make use of the money we borrow (and our external imbalance).

Take Singapore for example. It has a debt to GDP ratio of more than 106% but yet has one of the highest credit ratings in the world. There is one little difference, however, which is the crux of my argument. Singapore does not mostly issue debt to fund recurrent expenditure but largely engages in debt issuance to keep a vibrant secondary bond market (and pension funds happy) and channels domestic borrowings to the Monetary Authority of Singapore which gradually converts these funds into foreign currency (actually it is a swap) and transfers this to the GIC. Despite the debt level of Singapore, the ratings are high because Singapore has positive net assets. The issue is not about the level of the debt but about how you use it.

In Mauritius, we talk about being this amazing platform for Africa but we do not put a lot of money into it ourselves and nor do we really have any grand strategic influence and knowledge about what is going on in the continent. Mauritius has simply never built the right ecosystem as a platform where capital can be raised or seeded from.

Singapore GIC

The GIC, which was originally funded by a part transfer of the international reserves of Singapore managed by the Monetary Authority of Singapore (MAS) in exchange for a bond (again it is always double sided) as part of a swap in the early 1980s, is Singapore's sovereign wealth fund. Singapore only had six months worth of imports as international reserves at that time, but the Singaporeans had the vision with a transfer of around 2-3 months worth of imports to the GIC. It was a small start for a still small country but over time, things changed.

You can imagine that the IMF was not too happy despite the fact that the GIC could still provide foreign exchange liquidity to the MAS, but this was a very visionary leader occupying the top job in Singapore! The GIC has gradually evolved into a major global investor, it hires the best in the world based on merit (no favouritism and nepotism like in Mauritius), good governance and focuses on generating returns that are higher than the cost of getting that money in the first place. The GIC also has a dual purpose beyond being a key catalyst to the development of a modern and vibrant asset management industry in Singapore.

You see way back in the early 1980s, Singapore's policy makers recognized the fact that Asia would take off, and that if they could be a seed investor in multiple ventures along with major global investors across the region and gain access to networks (part of the portfolio invested in public and private equity early on), they would become the go to value added platform for Asia. The GIC knows what is happening across Asia because they invest in the continent and sit directly or indirectly on multiple corporate boards. By being a large investor in multiple countries, they gain geopolitical clout in Asia. Asian countries in which Singapore invests have a symbiotic relationship. Contrast this with what is happening with Mauritius and Senegal right now. We have a one way street.

When the world wants to go to Asia, it makes sense to go through Singapore. The Goldman Sachs, the JP Morgans, the CITI, the Morgan Stanleys of the world are all there with genuine investment banking operations. The GIC has a dividend distribution policy when it generates excess returns over a certain time period and over a threshold, and this money is paid back to government which then uses this money to help fund expenses. It allows Singapore to diversify its sources of revenues from a budget perspective. The GIC is a long term investor and its backers understand very well that short termism when market volatility picks up is an opportunity, not something to be scared about especially given the team at its disposal and the degree of sophistication of the GIC board and advisory committees.

If we believed in the future of East Africa (let alone Africa), we should have put our money where our mouth is unless we do not really believe in the continent's future. In South Africa, its public pension fund has a dedicated Africa allocation. Do we have a pragmatic view of asset allocation given our liabilities made worse with falling local bond yields?

I would also argue that GIC-type setups require a very different meritocratic mentality which is not always very obvious in Mauritius. Good governance is about having the right people at the right places along with greater transparency and accountability. As long as Mauritius does not create the proper ecosystem for onward investments into Africa, it will remain a lower value added platform on aggregate. Incidentally this notion that we would be able to compete with Singapore since we have a slightly more favourable fiscal agreement with India has obviously been proven wrong. We have always needed a large gap in our favour. Policy makers never got the point that Singapore offers more value than we do. Mauritian policy makers have also failed to develop the kind of ecosystem we need for Indian corporates to raise capital on the island from global investors.

Inflation in Mauritius is currently low, private investment is not doing well (domestic) and abrupt fiscal consolidation will have a strong impact on growth. However, if we want to put MMT into practice, policy makers must learn to appreciate its many limits and downsides too especially as it

relates to a small and open economy with a large trade imbalance to boot. A little knowledge can indeed be quite dangerous.

Mauritius' high dependence on the VAT must be reviewed

Beyond GIC-like ideas where an important source of dividend income can come to diversify the government revenue base, Mauritius' high dependence on the VAT (which accounts for more than 57% of total revenues) must invariably be reviewed. While GIC- and MMT-like ideas should only focus on increasing the factors of production and strategic investments, taxation needs to meet recurrent expenditure. Mauritius should essentially never borrow to fund recurrent expenditure. The likes of Piketty essentially tell us that as long as the return on capital is higher than nominal GDP growth, wealth inequality will continue to worsen given the fact that capital ownership tends to be concentrated in fewer hands. Policies such as negative taxation pension increases, and the minimum wage will not make a meaningful dent in inequality if the overriding policy is to push them to consume and take the money back in the form of consumption taxation. Inequality goes beyond income and is about total wealth.

In the case of Mauritius where large scale land ownership is quite concentrated in a few hands, policies that aim to monetise land assets for real estate development and sales to foreigners must strike the right balance. Beyond rising inequality, a VAT focused revenue stream may do wonders for tax buoyancy, but it also distorts government policy making towards stimulating import-led consumption which invariably worsens trade imbalances.

> Mauritius should essentially never borrow to fund recurrent expenditure.

A small wealth tax and the conversions of developed villages such as Tamarin into towns making them eligible to pay municipal/property taxes remains important drivers of tax base diversification. The reality is that most of the rich in Mauritius live along the coast and in villages, the same areas whose district councils lack adequate funds, and these are the same areas with large pockets of poverty. On the spending front, the government has a few limited choices. It can increase taxes which, beyond some moderate forms of wealth taxation, may hurt the economy too, cut spending on everyone or review its spending priorities and move towards a more targeted approach when it comes to re-distillation. Obviously the biggest hurdle will be the system of political patronage itself.

There is also a need to engage in a meaningful reform of the civil service with a focus on ridding the country from the cancer of nepotism and favouritism. It is high time to implement a fair structure of fast promotions for those who add value and performance based bonuses linked to clearly defined key performance indicators. It is high time to professionalise the way human resources are managed and reduce the influence of politicians and occult forces in pushing their men at key posts which more often than not they are under-qualified to hold.

In a system where the civil servant feels that there is nepotism, favouritism and a lack of a career path, he/she will invariably push for maintaining a salary ratio system within regularly set and increasingly un-affordable salary increases. The example must also come from the top. Given the pace of wage increases within the civil service and growing pension fund liabilities for those who are still in defined benefit schemes, there is an urgent need of reform and evolution in the way the civil service is managed.

Seeking productivity enhancements

The government along with parastatal bodies are by far the largest employers of Mauritius and have significant influence on the current state of the economy. If the country wishes to triple total factor productivity growth then quite clearly, all government related bodies need to be de-politicized and reformed. A healthy democracy also requires a competent pool of technocrats but over the years, favouritism and nepotism have ensured that the wrong people are put at the

wrong places. Public institutions lack clearly defined key performance indicators and objectives, governance structures are laughable and senior employees too have increasingly been able to move up the ladder by the politics they play versus merit. Many parastatals do not even publish proper annual reports, and political nominees are more often than not clueless about what they need to do hold these institutions back.

Politicians often like to copy Singapore in areas where it may be convenient, but one should not forget that, be it ministers, senior officers or board members, Singapore ensures that base salaries are adequate but that the upside is mostly made up of performance base bonuses set on clearly defined Key Performance Indicators. I understand that the ethnic and exotic political setup in Mauritius is complex, but it would be good to have a system that ensures that interests are aligned.

Politicians and board members in the public service are free to appoint who they wish, but just like in Singapore, it would be good that the vast majority of their pay be linked to performance too within a 40% base salary and 60% performance bonus split. In order to avoid short termism, can we imagine a system where the bulk of performance based bonuses would be invested in the Mauritian stock market via passive index funds as a proxy for the economy with the Prime Minister allowed to only redeem 1/5 of paid bonuses each year?

Similar to how the private equity markets align interests, there would also be claw back provisions in case short term moves led to longer term losses. Perhaps this kind of setup would also reduce the number of yes men who swarm around politicians all the time in order to obtain key posts post electoral victory if they know that they actually have to deliver to make decent money.

A nominee of a public bank or airline company would have the bulk of his salary paid in bonuses via share options. There are many schemes which can be created also for non listed companies driven by clearly defined KPIs. I would argue that politicians' behaviour towards putting any Tom, Dick and Harry at key posts would see quite the change if the system ensured an alignment of interest. Suffice to say that this setup would apply to all senior officers as well.

Rather than receiving fixed per diems on expensive and frequent foreign trips and in the spirit of good governance and cost savings, corporate credit cards would also bring decent cost savings across public institutions. All officials travelling less than six hours, from minister down to the average officer, should also travel economy class and be treated equally. One cannot tell a civil servant or an officer of a parastatal to tighten his belt when he sees obvious abuse at the top. Politicians and their men must indeed lead by example if we truly wish to have fruitful negotiations with trade unions.

Clearly defined KPIs and a system that is more independent and meritocratic would do wonders to the way public setups are run and would certainly increase their weighted contribution to the economy. The bottom line is that we can throw stones at the way the local private sector functions in Mauritius, but there will be no 5% plus growth in Mauritius unless there are significant reforms in the way government related bodies are run and managed.

Focusing on measures to stimulate private investment

Politicians often wonder why so many Mauritians wish to become civil servants rather than entrepreneurs. The reason why the democratisation of the economy has failed is quite simple. Between the increasing trend of vertical integration of larger and more well established corporations, the lack of alternatives to traditional bank funding for capital structure optimisation and favouritism in obtaining government contracts (which seem to always land on in laws and nephews of ministers and leaders), what did we expect? Mauritius is a country where all the power is centralised towards the Prime Minister of the day, which is certainly not a sign of a healthy democracy where checks and balances exist. In this environment, corporatism rather than capitalism thrives.

In a country where the government and public bodies account for a large share of GDP, a fairer distribution of contracts across districts could do wonders in stimulating revenue growth of small and medium enterprises across communities. Secondly, public owned pension funds are major local equity investors but are extremely passive shareholders given the lack of independent and professionalised setups. In Europe, Asia or in the United States, if chief executive officers do not perform as expected, shareholders throw a fuss. In Mauritius, the minority shareholders are extremely passive and even brokers never put out a SELL recommendation (a HOLD is actually a SELL in Mauritius).

The tax and incentives system of government needs to be reviewed because many large private setups have made it a habit of depending on government money.

The tax and incentives system of government also needs to be reviewed because many large private setups have made it a habit of depending on government money. Mauritius simply does not currently have a system where those who do not perform perish. At the end of the day, corporations need to generate decent free cash flow yields, and over time, shareholder bases need to evolve towards one that is less concentrated, but in between large minority institutional investors need to push for greater performance and accountability. When it comes to vertical integration, while we cannot blame large corporations that seek to optimise their business models in a small country, the Competition Commission of Mauritius clearly has a larger role to play than it has.

That being said, when we speak of small and medium enterprises and even select larger ones, there is a dominant argument that there is no lack of financing in Mauritius. This is not accurate. There are certainly excess funds in the form of traditional plain vanilla bank debt ready for financing, but that may not always correspond to an optimal capital structure, and the type of financing also depends on the development stage of the firm in question.

Mauritius lacks a vibrant venture capital ecosystem and a private market which offers flexible capital funding to those who have good ideas and who are willing to accept certain conditions such as improvements in governance structures and accountability. Local pension funds, especially those run by the government and policy makers need to encourage identified companies which have the potential to scale up and provide flexible capital funding (from equity, not just some limited funds in the form of preference shares). Such policies would be ideal for export-oriented enterprises that showcase promise as regional exporters. Clustering too is needed.

On the pension fund side, the reality is that 3% plus real returns (returns above inflation) cannot be achieved by investing in fixed deposits and low yielding government bond yields alone. There is a need to professionalise setups and encourage the development of private markets as an asset class, as is done elsewhere. I am convinced that there is a lot of value which can be unlocked by local entrepreneurs if we create a vibrant private market in a low yield environment, bringing investors seeking higher returns and those seeking capital together. However, the running of such setups needs to be apolitical but accountable. Remember, the side providing the funding needs to make decent returns on investments.

We should also not be against funding larger corporations (rather than giving out inefficient tax breaks), especially companies seeking regional expansion that work in our national interest. Mauritius needs scope and scale in East Africa, and while we will not achieve this in the short term, we need to start somewhere and leverage the scale that co-investing and seed funding provide. Mauritian policy makers need to quickly setup a task force to stabilise the export sector. Otherwise, in the not so distant future, the growing trade imbalances and our dependence on foreign capital flows, which are invariably volatile, will hurt the economy economy in ways most Mauritians cannot begin to imagine.

There is no middle path to break out to the next level.

Be it the quality of education system, the lack of research and development funding versus comparable upper middle income peers, the need for greater funding to transition job guarantee (combined with re-skilling programmes) schemes or the setup of strategic investment vehicles which will help to not only create a better funding ecosystem but also bring about efficiency gains, a form of Modern Monetary Theory will invariably need to be considered by Mauritian policy makers in the coming years. Mauritius needs better ports and has to invest a great amount of money in the blue economy and in green technologies, and this will not happen unless the fiscal stance is supplemented in some form.

Before dreaming about Artificial Intelligence, we need to get the basics on the level of math in our education system right, we need to fix up our local public run universities. We have yet to find adequate resources for our Information and Communication Technology sector, and we are already dreaming about AI. As someone who works in the AI field and has lived in Mauritius for some time, there is a lot that needs to be done before we can move towards AI. This in itself deserves its own article.

On the recurrent expenditure front, Mauritius needs to review its tax policy and seek a system that is more balanced and one that genuinely attempts at least to slow rising wealth inequality. Mauritius needs to focus on schemes which will stimulate private investment and efficiency. Finally, no 5% growth target will be achieved unless total factor productivity growth triples. In turn, this will not happen unless there are significant reforms in the way the government and related corporations are run.

Be it this national budget or the previous ones, policy makers are either unwilling or unable to bring about such changes. At the end of the day, it will be about what the people wish for. I have often argued that Mauritius is too old (ageing population) and too far away from the happenings of the world to change and break out to the next level. I certainly hope that I am wrong. At the core of what I have said is a realisation that the current political system, key to where we as a nation have reached now, holds us back. Either we accept to change it and change it well, or we accept our fate. There is no middle path to break out to the next level. Bold decisions and vision are clearly the order of the day.

Sameer Sharma is a chartered alternative investment analyst and a certified financial risk manager.

Helicopter money

By Eric Ng Ping Cheun

The issue needs not be addressed in the form of a question: the Bank of Mauritius (BoM) has already launched an assault on the rupee. It is abundantly clear that the central bank has lately been depreciating the rupee to blow up the level of its equity (capital and reserves) with a view to transferring the exchange gains to government for repayment of public debt. The possible amendment to the Bank of Mauritius Act, allowing the Special Reserve Fund (SRF), which is part of the equity, to be used for fiscal purposes, will give government access to the printing press. Politicians will be able to create what

Ben Bernanke called "helicopter money", i.e. money created out of nothing, thereby stoking inflation. Reserves will be down while currency in circulation on the liabilities side will be up, which balances the accounting statement.

However, central banking is not accounting, and so accountants-turned-policymakers have messed up. This is dangerous not only because the authorities do not have an explicit inflation targeting framework, but also because there is an absence of coordination between monetary and fiscal policies due to the lack of independence of the BoM. There is no inflation target to stop government from printing all the money that they want.

As its reserves managers have quit, the BoM no more has competent people to actively manage risk exposures and maximise returns on its foreign assets. Without profits, it cannot pay out dividends to government to pay down debt. The BoM is now under pressure to make money from better reserves management, on which the ministry of finance henceforth demands "greater clarity".

The Governor of the Bank of Mauritius often flattered himself for having improved the operational efficiency of monetary policy with the alignment of the money market rate with the policy rate: "Following the gradual removal of the excess liquidity from the system, the average yield on the 91-day Bill has risen consistently to 3.62 per cent in June 2018," he stated in the last Annual Report. And he was praised by the International Monetary Fund for narrowing this gap, although issuance of securities to absorb liquidity entailed costs for the BoM.

However, suddenly before the budget presentation, the BoM stopped sterilising, did not roll over all the BoM securities, let excess liquidity grow and told public bodies to bid, with the result that the 91-day yield collapsed (2.69 per cent in May 2019). The aim was to constrain the central bank's liabilities' growth, increase instead its assets with the help of rupee depreciation, and then transfer the exchange gains to the SRF. The actual operation is money printing. Monetisation of the SRF is a sort of quantitative easing, except that the BoM does not buy government bonds but just gives money freely to government.

External public sector debt is low

A less damaging solution would be for the BoM to enter into a government bond purchase programme whereby it creates money by buying long term bonds at auction or on the secondary market. At the same time, it removes liquidity by issuing short term paper at cheaper rates, given the upward sloping yield curve: the BoM will make profits as it gains from term premium, and it will thus improve its balance sheet. Also, since the BoM is buying public debt, such a policy spread over some years will help government reduce, or at least stabilise, the level of public debt. Lastly, such operations will create a less fragmented bond market with fewer bonds of larger size at key maturity points.

There is no inflation target to stop government from printing all the money that they want.

Since external public sector debt is low (10.8% of GDP), it would be better to repay domestic debt. In this case, if the central bank buys government bonds and gives the money to the Treasury, at least it will hold a bond as an asset. Alternatively, government can do a swap whereby it issues a special bond to the BoM and pays it a minimal interest every year, in exchange for liquidity kept at the central bank and redeemed gradually in a way that does not distort the market rates.

But government is in a hurry, showing signs of desperation and emergency. It seems willing to switch to full domestic debt as it cannot default on that. The problem is that real assets are not created out of it and that productivity is not enhanced. Using debt to give freebies to people and to fund import-fuelled consumption worsens the current account deficit. In the event of a slowdown in sales of villas, a drastic fall in export receipts and a flight of global business deposits,

the BoM might not have enough ammunition to support the rupee. With the balance of payments registering a deficit in the last two quarters of 2018, it is most inappropriate to touch the foreign exchange reserves.

Over the last ten years, the level of our central bank's total equity has been on a declining trend, from Rs 23.7 billion as at 30 June 2009 to Rs 18.2 billion as at 30 June 2018. A study modelling its balance sheet with forward projections of assets and liabilities should be carried out to assess whether the BoM will run adequate equity after removal of Rs 18 billion from the SRF. With such a withdrawal, its capital-to-asset ratio would be less than 2 per cent, which means that the BoM would be significantly under-capitalised relative to the average of 7 per cent in emerging countries. Moreover, an appreciation of the rupee would bring about a decline in the value of the foreign assets and, consequently, wipe out all the capital of the BoM, thus jeopardising the reputation of our jurisdiction.

While a central bank cannot turn insolvent, the Bank of Mauritius Act requires the BoM to keep Rs 2 billion of core capital, failing which government must recapitalise it. This rule does not exist for many central banks that are really independent and accountable: no one cares that the Bank of Israel has negative equity. In Mauritius, checks and balances do not work.

Eric Ng Ping Cheun is the author of Fifty Economic Steps *(2018), on sale at Bookcourt, Editions Le Printemps, Editions de l'Océan Indien, Librairie Le Cygne and Librairie Petrusmok.*

Sans réserves

Par Eric Ng Ping Cheun

C'est sans réserves que de nombreux analystes économiques s'insurgent contre l'idée de puiser dans les réserves de la Banque de Maurice pour réduire de Rs 18 milliards la dette extérieure du gouvernement. Ils voient là un empiètement de l'indépendance de la banque centrale. Mais il y en a d'autres, comme la présence d'un représentant du ministère des finances dans le comité de politique monétaire et dans le comité d'adjudication des bons du Trésor. Jamais depuis l'indépendance du pays l'institut d'émission ne s'est montré aussi servile aux puissants du jour. Le First Deputy Governor le confirme de fort belle manière dans *Business Magazine* lorsque, flattant le Premier ministre sans retenue, il révèle qu'il « le côtoie assez régulièrement », sans doute plus que les ministres !

La Banque de Maurice est aujourd'hui instrumentalisée au service de la propagande politique. En pleine tempête sur cette annonce budgétaire des plus controversées, elle publie un communiqué pour préciser que « *it is an acceptable international practice by central banks to hold official foreign exchange reserves… to assist governments in meeting their external debt obligations* ». Voilà une manière délibérée de rendre le public confus en recentrant le débat sur les réserves en devises étrangères.

Deux jours plus tôt, le grand argentier avait déclaré dans son discours budgétaire qu'il comptait « *make early repayment of public sector debt by using part of the accumulated undistributed surplus held at the Bank of Mauritius* ». Ce « surplus » n'existe pas. Le ministre des finances ne sait même pas ce qu'on lui fait lire !

Il n'y a pas une seule ligne dans les documents du budget qui fait mention que les Rs 18 milliards seront tirées directement des réserves en devises (qui sont des actifs au bilan de la banque

centrale). En fait, il est dit que la Bank of Mauritius Act sera amendée « *to allow use of funds from the Special Reserve Fund for fiscal policy purposes as well* ». Tout le monde aura compris que c'est ce fonds spécial (qui fait partie des fonds propres de la banque centrale) qui sera utilisé pour réduire la dette publique. Ce qui n'est pas la même chose !

Ce fonds enregistre l'accumulation des gains de change obtenus sur les réserves en devises. Leur montant total serait de Rs 20 milliards au 14 juin 2019, selon une déclaration du Premier ministre au Parlement, contre Rs 13,5 milliards au 30 juin 2018. Si le Special Reserve Fund (SRF) a pu augmenter autant, c'est grâce à la dépréciation de la roupie. Pour faire simple, une appréciation d'une roupie du dollar génère des gains de change de six milliards de roupies sur les six milliards de dollars que constituent les réserves officielles. En revanche, au cas où la roupie s'apprécierait, la banque centrale subirait des pertes de change sur ses réserves officielles, pourrait se retrouver sous-capitalisée avec un SRF épuisé et devrait alors être recapitalisée par le gouvernement !

Les plus-values du SRF sont sur papier. Pour faire un transfert au Trésor public, la banque centrale devra créer 18 milliards de roupies. Le premier les utilisera pour acheter des devises de la seconde qui les prendra de ses réserves officielles. Ainsi donc, il ne peut pas piocher directement dans ces réserves sans la payer (en cash ou en obligations publiques).

La suffisance des réserves

Le remboursement de la dette publique extérieure ne se fera pas d'un seul coup, mais s'étalera sur plusieurs mois. Si, entre-temps, la roupie se déprécie, la valeur en roupies de toutes les dettes étrangères du pays (du gouvernement, des banques commerciales et des entreprises privées) augmentera. C'est donc bien plus que Rs 18 milliards que le gouvernement remboursera pour un montant donné de sa dette extérieure.

C'est justement au regard de tous les passifs extérieurs du pays qu'il faut analyser le niveau des réserves en devises. Il n'y a aucune fierté à clamer que celles-ci équivalent à Rs 240 milliards, car les opérateurs des pays étrangers ne demandent pas à être payés en roupies ! Et quand un pays dépend totalement d'un secteur aussi incertain que l'offshore pour régler sa note d'importation, ses réserves officielles peuvent fondre comme neige au soleil.

C'est par la consolidation fiscale qu'un gouvernement responsable réduit la dette publique.

C'est une ineptie de dire que la petite île Maurice peut limiter ses réserves officielles à seulement trois ou six mois d'importations. Ce qui compte n'est pas tant la couverture des importations que la suffisance des réserves (*reserve adequacy*), laquelle est évaluée par rapport au compte courant de la balance des paiements. Or celui-ci est maintenant structurellement déficitaire et ne cessera de s'accroître avec la baisse des recettes d'exportation du sucre et du textile et des revenus du tourisme et de l'offshore.

Dans son dernier rapport sur Maurice, le Fonds monétaire international prévoit un déficit courant de 7,4% du PIB pour 2019 alors que la norme, selon lui, est un surplus de 0,2% du PIB. Le FMI n'a jamais dit que le pays a trop de réserves officielles. Au contraire, à la page 13, il recommande que « *given the large size of the offshore sector, foreign exchange intervention policy should continue to build reserves* ». Il faudra, répète-t-il à la page 48, « *stronger buffers against external shocks* », et donc « *further reserve accumulation may be desirable* ». En clair, il faut continuer à accroître les réserves officielles, et non les diminuer !

C'est par la consolidation fiscale (hausse des revenus et baisse des dépenses) qu'un gouvernement responsable réduit la dette publique. Mais si le First Deputy Governor émet des réserves là-dessus, c'est que la Banque de Maurice n'est plus une banque centrale mais un appendice du Bâtiment du Trésor.

Le patronat institutionnel

NOUVELLE ORIENTATION STRATÉGIQUE

Business Mauritius veut être « une vraie force de proposition »

Lundi, Business Mauritius, qui regroupe plus de 1200 sociétés mauriciennes allant des PME aux plus grands groupes, a exposé sa nouvelle identité visuelle et sa nouvelle orientation stratégique. L'occasion, le temps d'une soirée, de revenir sur la collaboration entre les secteurs public et privé

De Joint Economic Council, le patronat institutionnel s'appelle maintenant Business Mauritius. Un changement de nom cosmétique, puisque rien n'a changé dans le fond. D'ailleurs, on continue à dire JEC pour désigner cette association de permanents syndicaux du patronat. Entre les consultations pré-budgétaires et la réunion tripartite sur la compensation salariale – des rencontres éphémères et futiles entre personnalités désireuses de paraître –, l'instance patronale reste pratiquement muette devant la propagande gouvernementale. Peu combative, elle laisse le champ libre à la classe politique et syndicale, et elle accepte que les gens disent n'importe quoi dans les médias. Et elle s'étonne ensuite du manque de courage politique en matière de réformes économiques.

Reconnaissons-le : dans son mémorandum budgétaire, Business Mauritius n'avait pas hésité à faire des propositions politiquement sensibles en cette année des élections, comme la pension de vieillesse à 65 ans. Il est donc difficile de croire que les principaux souscripteurs de Business Mauritius, qui sont de grandes entreprises, sont vraiment satisfaits de l'action gouvernementale. Néanmoins, le soir de la présentation du budget de 2019-2020, ils ont applaudi des deux mains ses nombreuses mesures électoralistes, comme pour ne pas faillir à la tradition. Ils sont restés dans le politiquement correct, passant sous silence ce qui n'est pas bon dans ce budget sans réformes. Le contexte pré-électoral ne s'y prête pas.

De toute façon, le secteur privé s'est toujours gardé de verser dans l'opposition au pouvoir en place. Les organisations patronales s'interdisent elles-mêmes le terrain du politique, sans doute par atavisme historique venant de la tradition française. En se voulant « apolitiques », elles manquent naturellement de mordant : au lieu de dicter la logique de l'entreprise, elles se laissent dicter par la logique de l'Etat. Cela les amène à se limiter à des revendications timides et à ne rechercher que des avantages particuliers. Ce neutralisme politique vaut au patronat institutionnel de se satisfaire d'un consensus de façade et de tomber dans l'insignifiance. La base continue de recevoir du sommet des messages de résignation et de patience, comme si les choses pourraient s'arranger !

Plutôt que de se rassurer aux moindres discours lénifiants du Premier ministre, Business Mauritius devrait s'engager ouvertement contre les mauvaises orientations gouvernementales. En ne choisissant pas de le faire, l'instance patronale est inévitablement perçue comme étant pro-gouvernement. Car le non choix est aussi un choix : ne pas dénoncer un bilan gouvernemental dont on est insatisfait, c'est choisir de ne pas faire le jeu de l'opposition, de peur de la voir remporter les élections. Dans le même esprit, attendre qu'un gouvernement soit affaibli pour commencer à le critiquer paraît suspicieux.

On ne demande pas aux organisations patronales de faire de la politique partisane, mais de participer pleinement au débat public pour faire pression sur les politiques. Car ce sont les politiques qui décident largement du sort des entreprises. Alors qu'on entend dire que « la solution est de nature politique », nos patrons n'ont-ils rien à dire sur un sujet aussi sensible pour le financement d'entreprise que l'*Insolvency Act* ? En Angleterre, en Allemagne, en Autriche et en Italie, les patrons sont très activement présents dans le débat politique, n'hésitant pas à interpeller les ministres et les parlementaires, à sensibiliser la population par de grandes campagnes de presse, et à soutenir les groupes de réflexion qui promeuvent la liberté économique.

> Il faut construire une île Maurice qui aime l'entreprise et qui fait confiance aux entrepreneurs.

Un patronat de combat

Business Mauritius doit aussi se donner les moyens pour informer l'opinion publique sur les véritables problèmes de l'entreprise. Elle gagnerait à créer un tissu d'instances locales, constituées d'entrepreneurs d'expérience, de structures de formation et d'information et de contacts dans tous les milieux, qui soient capables de peser dans le débat public pour démasquer les mensonges et les erreurs des politiques. C'est ainsi qu'elle bâtira un pacte de confiance entre les Mauriciens de toutes conditions et de toutes opinions.

Il faut donc un patronat de combat, qui n'est pas nécessairement en opposition avec un patronat de dialogue. Le dialogue est une arme dans le combat. Il faut bien dialoguer avec le gouvernement et les syndicats, mais sur des positions claires et prometteuses.

Le vrai dialogue est au sein de l'entreprise entre le patron et le personnel, valorisant le rôle de l'encadrement et diffusant la connaissance économique, pour persuader les employés des exigences de la concurrence internationale et des convergences des intérêts entre capital et travail. Pour cela, le patronat ne doit pas verser dans le corporatisme qui consiste à défendre ses propres intérêts à court terme, mais il doit sauvegarder la liberté d'entreprendre.

Alors que le patronat institutionnel se condamne au silence, invoquant le réalisme, il convient d'entendre les témoignages des patrons conscients qui n'ont aucune envie de se sacrifier sur l'autel de la dette publique, et dont la voix est couverte par le charivari des discours politiques. S'ils sont écrasés par le poids du patronat institutionnel, c'est parce que ce dernier a pour mission officielle d'être un « partenaire social », chargé de galérer entre les ministères et les administrations publiques, de négocier avec des syndicats sous la houlette de l'Etat. Il en résulte des compromis ponctuels plus ou moins heureux, mais qui n'influent en rien l'évolution de l'économie.

L'entreprise ne survivra pas dans une société bloquée qui évacue les valeurs de responsabilité individuelle et de mérite. Il faut construire une île Maurice qui aime l'entreprise, bien plus que la fonction publique, et qui fait confiance aux entrepreneurs. Pour que Business Mauritius porte bien son nom !

Eric Ng Ping Cheun vient de publier Maurice la cigale *(2019), en vente chez Bookcourt, Editions Le Printemps, Editions de l'Océan Indien, Librairie Petrusmok, Librairie Le Cygne et Librairie Le Trèfle.*

What constitutes a brand

By Mubarak Sooltangos

It is necessary to make the difference between a commodity and a brand. A commodity is a product which has no specific identity or name of its own which would differentiate it from other similar products. Examples are grains, cereals, petrol, minerals, and market vegetables. Commodities sell only on their visible assets, namely price, quality, ready availability and sometimes credit terms. Anyone of these assets may disappear at any moment and the product is liable to lose its appeal.

Commodity trading therefore rests on unstable grounds and it must be backed constantly by aggressive purchase price negotiation and intense selling efforts without any relaxation, and price competitiveness. This is why we say that commodity trading is volatile. It does not mean that this

trade has low profitability. True, commodities sell most of the time on price, but are handled in such large volumes that these make up for their low margins. Giants like EXXON MOBIL (petroleum products) and GAZPROM (natural gas) are commodity traders and yet churn out phenomenal profits year in, year out, without necessarily having competitive edges over their competitors.

An identity of its own

A brand is a product or a service which has an identity of its own. This can be a name (Perrier water), a competitive price which gives definite value for money (Toyota), a superior quality (Omega watches), a higher level of performance (Dyson vacuum cleaners), reliability and security (Mercedes Benz).

Strangely enough, buyers do not always buy a product solely on the basis of its solid and proven objective qualities or its price. Some brands sell on an image which can be very ephemeral. Examples of such brands are Orangina (unique round bottle), Toblerone (unique triangular presentation in its packaging), Ferrari (red colour) and Coca Cola (drinking sensation). In such cases, brand value depends on subjectivity, namely perception, which is a latent asset or quality which does not seem to obey to any objective marketing rules. This is the basis on which brand image is built, and the brand sells on the perception that it is vastly superior, like Christian Dior shirts and Lancôme perfumes.

Another driver of sales of exclusive and expensive products (what we usually call designer products) is the urge of their buyers to make a statement: that of conveying to people around them that they have means, or taste or that they do not want ordinary people to penetrate into the intimacy of their inner circles where everybody buys exclusive goods. Some people want to be seen to be superior or different, and this desired visibility in the case of designer shirts, for example, is given by placing the brand logo on the shirt pocket, to be ostensive. If this logo is hidden inside the collar, as for ordinary off-the-shelf shirts, it considerably reduces the appeal of the product.

Perception can make a brand a winner or a loser.

Smart and successful producers or distributors of image products analyse and diagnose what is behind the mind of their affluent buyers and smartly take advantage of their sense of superiority. They work on promoting their snobbism, by investing heavily to build the image of their products on exclusivity of design, special packaging, colour identity and sponsorship of elite events like horse riding shows (*équitation*), formula one racing and high level fashion shows.

Positive and negative perception

Perception is a feeling or a state of mind of a very pernicious nature, which obeys no rules, which cuts both ways. It can make a brand a winner (positive perception) or a loser (negative perception). Once a product acquires a negative perception, this tag stays for a long time with no apparent reason, to the extent of often compelling its producer to simply write off the brand and start anew. What follows is hardly believable. The same product, differently presented and packaged, under a different name, can be a winner if marketed with intelligence.

Strong brand loyalty and constancy in quality

Brand loyalty is an important component of the success of all market leader products. Once a consumer or user gives his loyalty to a brand, the brand owner can relax and invest minimally in marketing tools, like advertising, promotion and frequent change of packaging. He only has to do what is enough to keep the product in the mind of its customer as being always available, constant in its level of quality, at an affordable price which gives the buyer no reason to complain. These keep competitors at bay, at relatively low cost.

While all business gurus will tell you that all processes, equipment, and products must adapt to change, this is not an objective set in concrete for all products. Electronic equipment like computers, mobile phones, and software must be constantly enhanced and upgraded in performance to keep their competitive edge, their market leadership or their respective positions on their markets. Fashion clothing and fancy jewellery companies are constantly racing against time to be able to propose frequent changes in their product design which will make them first movers on their markets and bringers of innovation. This is what makes their customers buy more, even if the intrinsic need for more clothes and jewellery is not there.

The strength of many brands which bank on their customers' loyalty, quite to the contrary, is their constancy in their offering and this defeats the too often quoted paradigm that adaptation to change is a must in business. The success of Coca Cola, which I consider to be the biggest brand in the world, lies in its constancy. The day it changes the taste of its product, it will face an erosion of its customer base and may have to suffer the embarrassment of reverting to its original taste.

> Brand loyalty is an important component of the success of all market leader products.

Constancy in quality and strong brand loyalty are not the hallmark of powerful international brands only. In our small and relatively unsophisticated market, there is a brand called Mine Apollo (noodles). It is a monument of a brand which moved from innovation, as a first mover in its sector, to unchallenged market leadership, due to constancy in its quality and its positioning as an inexpensive household product. Today, if we have 3,000 food retailers in this country, it is present in all 3,000 outlets, and I can see only Coca Cola matching this.

To an equivalent degree, consumers have an acquired taste for most of the basic food items that they consume, and this goes from milk to butter, cheese, fruit juice and even the very basic commodity called water. There are two giant producers of bottled water in Mauritius, namely Crystal and Vital. Their respective market shares remain unchanged by whatever advertising they may do, precisely because of acquired taste, which is an important vector of brand loyalty.

Other exceptional types of brands

A product needs not be at the height of technology to be a big brand. Sometimes, brands are built on products which require only basic technology to manufacture. Some products have hardly any competitive advantage which they can sell for money.

Let me quote an example of such a product. It takes the most basic level of technology to manufacture a minted sweet, and there is practically no entry barrier to any producer who wishes to enter that market. Yet TIC-TAC has been made into a massive brand, sold worldwide at a price which is more than three times that of a generic minted sweet. It has created from scratch its own competitive edges, namely a small transparent plastic container which shows the product, with a flip top opening and a display rack which is different, and which displays the box in an oblique view. It is plain minted sweet, with probably a higher content of mint concentrate which makes the product different and more "burning" on the tongue. It has added "value" to a commodity. On top of this, it is sold in a packaging which compels you to buy more sweets than you actually require at the time of purchase.

A brand can also be an organisation, a company, a sports club and even an individual. Roland Garros, as a promoter of a grand slam tennis tournament, is a powerful brand which can command any price for its ticket and television rights. Epsom and Chantilly are powerful brands where only the elite goes and pay hefty entry tickets.

> A product needs not be at the height of technology to be a big brand.

Manchester United, Liverpool and Real Madrid are giant brands in football, which have been built on performance, success and constancy. They command high television rights worldwide and expensive entry tickets to their grounds, and yet selling more than 60% of their seats in advance of their league tournament, prior to having played even a single match. The added miracle they have achieved is that their fans' loyalty remains unmoved even when they slip down the league table due to mediocre performance, and they do not suffer any loss in revenue. Their fan loyalty is built on their tradition and the sense of belonging of their fans to the club, which has been built on regular communication of club news to them.

Many high achievers in sports are icons having considerable brand value. It would be superfluous to mention any of them, but there is a case worth mentioning. Maria Sharapova is an average performer in tennis, but a strong brand which makes her one of the highest earners as a sports woman. Her brand strength is based on constancy in her looks and mannerisms. She is constant in being smartly and decently dressed, sober in her attitude, not showing exuberance even in exhilarating moments and a body language that does not change. You may not like this icy attitude, but a majority of her fans do and she has caught the eyes of her sponsors as being able to hold high their respective brand images. I have no doubt that her image has been thought and planned and not just existed haphazardly. Serena Williams is probably the greatest female tennis player of all times, but she carries no brand value in my thinking and earns less than Sharapova.

Strong brands provide the ability to attract money. Human brands usually die on their demise. Mother Theresa was by no means a star, but a powerful brand that could collect considerable amounts of money for charity when it was needed. This money attracting power has gone with her demise. At the other extreme, the Elvis Presley brand, 40 years after his death, remains a money minting machine because the brand that he was, has been maintained, looked after and advertised.

The secret lies in being different

There is, in this exposé, considerable information as how to create a brand and break into a market, even if it has reached saturation. The secret lies in being different, in finding in a product, acquired or created, its definite competitive edges over the competition and to position the product in a segment that suits it most, be it in a niche market, in the mass market, in a price market or in a premium market.

The competitive edges having been identified, they need to be highlighted and communicated, either by advertising, tasting, exhibiting, free sampling (for products of low unit price) or free tasting (for food items). Communications regarding any brand is not an easy exercise. Producers or sellers must identify the appropriate media, bearing in mind the extent of the exposure it gives, as well as its price. Then they must determine the exact message to be conveyed, and the language that suits best and is most understood by the target market.

I have never read a single book on brand building in my professional life, and none of the ideas developed in this article have been borrowed. Yet, I have managed, throughout my involvement with fast moving consumer goods, to create or import products and nurture them in order to have at all times a product portfolio consisting of either market leaders or close challenges to the extent of 80%, and most of them selling at a premium price. The secret lies in: 1) having enough psychology to read into the minds of consumers what they would really appreciate in a product and what price they would be prepared to pay for it; 2) placing every product in its appropriate market segment and not be greedy in trying to secure the whole market; 3) positioning every product in a manner that attracts customers, be it quality wise, price wise or image wise; 4) communicating the competitive edges of each product to its correct audience in a chosen media and in language that they understand best.

Mubarak Sooltangos (msooltangos@gmail.com) is the author of Business Inside Out *(2018), a book inspired by his 40 years hands-on experience in business in a variety of sectors.*

Connecting Toto in Dodoland

By Dany Chung

Toto is our stereotype white-collar corporate employee, working in the city, enjoying some overseas business travels from time to time. Early morning, Toto gets ready to go to work. On the way, he has to drop his child at the nearby school and then endure the daily traffic jams on the 'motorways' to his office in the central business area. By the nature of his job, he could have easily worked from home, but there are two main set-backs: home office is not readily acceptable in the Mauritian work culture despite the recent legal amendments, and his home internet connection is too slow. So he has no choice but to endure the traffic and contribute to the pollution levels of "Sustainable Mauritius".

Recently, Toto got himself a hybrid car, which he can charge from the solar photovoltaic cells installed at home. Hence, he has a lower carbon foot print, but the same cannot be said for the other road users, and especially for the diesel buses sputtering out heavy, black smoke. Sitting in the traffic jams, he was wondering why the other road users, particularly the bus transport companies (public and private) do not follow his footsteps. He concluded that unlike him, not everybody can afford photovoltaic installations and hybrid cars, unless these are more heavily subsidised by the government to motivate road users. But then he thought at least the public bus transport companies should be using electric buses.

His thoughts were suddenly interrupted as he realised he has to do some quite significant detours from his usual route to reach his office, for many roads were blocked and unusable due to flooding from the recent heavy rain. Some recently built roads already had huge pot holes and were simply breaking apart. Toto was annoyed as not only he has a longer trip to do, but also he could not drive his nice German car at a decent speed. His car would have been more suitable on the German autobahns, whereby the roads are slanted to a slight degree to allow rain water to drain away quickly, enabling quite high speeds and efficient driving. Why the local roads are not similarly built with proper drains is just unfathomable.

Whilst making his way in inches of muddy water, he was wondering if it would be an option to use the new Metro system once it is ready. Although inconvenient for him as he does not live near one of the planned stations, he started thinking of ways, may be some Public Bike service, to reach a station and from the destination station to his office. He hopes that the Park & Ride and/or Bus to stations to enable multi-modal transport will be economically viable and practical options.

As Toto was dropping his child at school, he was reflecting that taking the Metro would mean his child would have to find another mode of transport. He was also worried as recent reports of drug usage were published, worsening the image of the school, a school which is also falling in ruins due to lack of maintenance.

Needless to say, the level of innovation and digitalisation also need many improvements. Carrying heavy school bags full of paper books are outdated nowadays. Replicating already in-use school apps and portals could be easily implemented for quick improvements. In order to curtail crime and drug usage, Toto was also thinking if there should be more emphasis on different mandatory or semi-mandatory activities like Scout, Police and/or Army service (like National Service in Singapore). The lack of respect for the police as seen in past episodes at La Gare Bus says it all. Furthermore, are our children being properly educated to tackle future disruptive technologies?

The power of being connected

As Toto drove out through further detours, he got temporarily lost and had to activate his Google maps to find his way back. Needless to say, in some forestry area, there was not a good enough LTE signal for his mobile phone. Toto had just to *prendre son mal en soi* and continue his way further until he could get a signal and finally got himself him back to the correct route. In these instances, he was wondering what was all the hype about 5G and latest mobile developments when he could not even get a signal.

Still dreaming of leveraging on the latest mobile technologies and apps, Toto stopped by a petrol station to tank up, and paid in cash. Strangely enough, cash and cheques are still used for such mundane transactions. In an era of AliPay, WeChat Pay, Paypal, Apple Pay, MasterPass, Mauritians are still carrying cash and cheque books.

Infant industry protectionism is outdated and wide open competition is needed.

Cash by its very nature enables a grey-black parallel economy. India's surprise move to ban 5,000- and 1,000-rupee notes overnight and recent efforts for a cashless economy dug out lots of illegal businesses. Digital or cashless economy brings many benefits, it saves time and also avoids the risks of physically carrying lots of cash. Looting, pick-pocketing and such attacks will decrease, and it will improve security of transactions, whilst adding revenue for the government by reducing tax avoidances.

Despite the baby steps of Mauritian banks to quasi re-invent the wheel and introduce locally developed cashless transactions, the level of market penetration and acceptance is too slow and locally focused. Infant industry protectionism is outdated and wide open competition is needed to spearhead such initiatives. Just imagine the wealthy tourists with their Apple pay, Alipay, Wechat, but unable to use them locally, whereas in other countries, these are readily acceptable and used.

In the meantime, Toto arrived in the central business area, and faced another huge traffic jam. Cars are moving literally at snail pace. In those instances, he reflected that he would be willing to pay some money to be able to move faster. A system similar to Singapore's Electronic Road Pricing or Dubai's Salik would relieve some unnecessary congestion. People who do not really need to be in the central business areas would then be deterred to drive there at the peak times.

Finally, Toto reached his destination and whilst parking his car, he noticed some other road users who were using parking coupons. He recalled from his last business trip in Dubai how easy it is to park and pay there. For non-smartphone users, all that was required was just to send an SMS with the car plate number, zone number and number of hours. For smartphone users, there was also an App which make the info input even easier as the App already has the car info. It then uses GPS localisation to determine the zone, and the only info required was just the number of parking hours.

Furthermore, once the parking time is over, to add subsequent time and payment, all that is needed is another SMS or a few touches on the App *et voilà*. No need for coupons which could be tampered and fraudulently reused. The parking costs are deducted via the phone bills by the mobile operators who subsequently pay the government authorities. To keep implementation costs low, the current zone signs can still be used, hence rendering it redundant to even place new signs.

Trump-style protectionism

Shaking his head in despair, Toto started walking the short distance to his office to come across a colleague who just got off a *taxi marron*. Due to the late rains, the bus transport was terrible, and his colleague had to resort to these *taxi marrons*, for which he also had to wait for a long time.

The *taxi marrons* roam around in residential areas and axes like Grand Bay, Goodlands, Flacq, Port Louis, looking for customers, polluting unnecessarily further our Sustainable Mauritius.

These unnecessary roaming could have been easily avoided with the latest modern technological trends like Uber. But unfortunately, Uber-like services is not allowed in Mauritius. According to some local surveys on social platforms, more than 80% of Mauritians would prefer to have some Uber style service. The Taxi Owners Union and Taxi Proprietors' Union think they have won a big battle, but overall, we are all losing by not having such latest technologies and derived services. This Trump-style protectionism mentality leads to nowhere. *Soleil pou tou dimounes*.

Connectivity, Artificial Intelligence, Big Data are must-have enablers to give us the right to play in the global competition.

In Singapore, normal taxis coexist with operators like Uber and Grab. Similarly, operators like Careem coexist with local taxis in countries like UAE (Dubai), MENA region, Turkey and Pakistan. In Germany, where Uber is not allowed, Volkwagen has started a common ride-sharing van service called Moia, leveraging on their VW vans. Such services will slowly weed out the illegal *taxi marrons*. In the same breath, more available taxi, ride-sharing services at competitive rates would avoid drunk driving and the related accidents which we hear on a quasi-daily basis.

Finally, Toto reached his office and can start working. At lunch time, Toto quickly rushed to the passport office to collect his renewed passport. He was wondering why he as a Mauritian should not have some slight privilege at the airport in his home country. Most of the times, upon arrival, the Resident queues are long while there are more desks for the tourists. Toto just envy people like Dubai residents who can wheeze through immigration with their Emirates ID through the Smart Gates. Europeans and some Asians have their EasyPASS also, wheezing through their e-Gates or e-Passport gates. But at SSR airport, Mauritians have to queue, like they queue up for their *dhall puris*, which is exactly what Toto did to grab a bite before returning back to his office.

At the end of the day, Toto drove back home, feeling tired and with a sense that he could have accomplished more, if only he would have more connectivity.

The era of Data Technology

Connectivity, Artificial Intelligence, Big Data are must-have enablers to give us the right to play in the forthcoming global competition. It is the only way to increase productivity, efficiency and safety whilst reducing transaction costs and not be a left behind island. But there must also be local training and empowerment to follow the trends. In China, mere vegetable sellers in markets are already using cashless Apps to run their business (https://youtu.be/dx6ZrlEhKU0). In Mauritius, there should be local training, especially for the older generations to be accompanied to embrace such new technologies. Alibaba's Jack Ma mentioned that IT is over, now is the era of DT – Data Technology, to empower others, leveraging internet connectivity.

Let us look at a simple example, AirBnB: many Mauritians of the older generation would like to be able to leverage such platforms, to rent out their villas to tourists. However, they do not know how to use the Internet, and as their children are mostly not around due overseas studies or work, they end up having their assets un- or under-utilised.

Estonia is an example for Mauritians to look up to, as its digital revolution has not only reduced transaction costs, saving money and rendering everything more efficient, but also sparked a booming tech sector, creating employment and added value. It is a goal we should aspire to, instead of focusing on stories of *karo kan*, selling clinics and running demagogy. In addition, of course, we can improve only when we have our basic needs covered, like running water 24/7. *A bon entendeur…*

Dany Chung is an economic and social observer, based in Germany.

Regulation of Airbnb is draconian

By Chris Hattingh

The government of South Africa published the Tourism Amendment Bill on 12 April 2019. If this had happened on 1st April, one could have believed that it was an April Fool's Joke, so comical is the logic underlying the bill. The amendment, once adopted, will mean that all 'short-term home rentals' are legislated under the Tourism Act.

The thinking behind the bill is so misguided that it will also allow the Minister of Tourism to specify certain 'thresholds' for Airbnbs in South Africa; these thresholds could include a limit on the number of nights a guest can stay in an Airbnb, or even how much income an Airbnb can earn. This proposed amendment is draconian – it grants the Minister too much power and severely limits the income and job opportunities people can generate for themselves and others through establishing an Airbnb hosting.

A spokesperson for the Department of Tourism told *BusinessTech* that: "These thresholds are not about being hard on (Airbnb) owners but making sure that everyone gets their fair share". It is far, far removed from the moral remit of government to decide who gets their 'fair share' of anything; by what measure does the Minister, or representative of the Department, decide what constitutes a 'fair share'? As always with these laws and edicts by government, the measure by which government decides who wins and who loses is left out of the discussion.

The philosophy behind this bill indicates that the Department views itself as the judge and jury of what you are 'allowed' to earn as an Airbnb host. What you earn as a host should be completely up to the rate you set and agree to with your customers, the demand for the accommodation you offer, and the quality of service you render. To presume that a government department must ensure that each bed and breakfast earns their 'fair share' indicates a fundamental lack of understanding of the nature of business, and of wealth, which is: each person is not entitled to a slice of the economy; wealth is created by each person, for himself. Each person's wealth is his own pie, to increase or lose based on his own decisions and choices. For the Department to place itself in the role of wealth 'granter' clearly shows that the officials who work there are completely ignorant of the concept of wealth; wealth is made, not granted or given.

Transformative potential in tourism

Airbnb has enabled people previously unable to do so to make a living for themselves. Just as Uber opened up a whole new market for people in transportation, Airbnb has the same transformative potential in tourism. South Africa's tourism is one of its last remaining and strongest selling points for foreigners to travel here and spend their international currencies. Anyone who tries to establish and run an Airbnb, just like a bed and breakfast (B&B), should be praised for the success they manage to attain. Taxes increase year on year; the price of petrol goes up, and, with it, the price of food. People are struggling to make a living and now the government is going to make it yet more difficult for those who are trying their utmost to improve their lives.

> You encourage economic growth by removing as many regulations and restrictions as possible.

If a customer decides to stay in an Airbnb instead of a 'traditional' B&B, that is because they think they can get more value for their money at the Airbnb. It is each customer's free, voluntary choice to trade with the establishment of his choice. And it is up to each Airbnb host and all other

establishments to make their product as alluring and competitive as possible. Every business, whether it is an Airbnb or any other, must stand or fall on its own merits, without government favour.

If the Department of Tourism is truly concerned for the welfare of traditional establishments, it could remove restrictions on those businesses to make it easier for them to compete with Airbnb hosts. Once government regulates some businesses over others, it distorts the market and any potential for supply and demand to interact as they would in a free market. This, in turn, distorts prices for consumers and they will suffer in the long run.

Furthermore, if any traditional B&B's are calling for regulations on Airbnb, they must know that such a request is deeply immoral. To call for government force against one's competitors indicates that one is unwilling to earn the customer's money; these older establishments already have an advantage over new entrants because they are well-known. They are playing a very dangerous game; government can very quickly turn its expanded regulatory powers on any target it deems 'too big' or 'earning too much'.

This Bill is an attempt by government to punish successful people who are working hard in an effort to better their lives. You do not encourage economic growth by imposing regulations; you encourage economic growth by removing as many regulations and restrictions as possible.

Chris Hattingh, a Researcher at the Free Market Foundation *based in Johannesburg, has a degree in business ethics.*