Titbits

FDI: Best practice policies

-- R. CHAND

In 2011 around 80% of the inward Foreign Direct investment (FDI) went exclusively to the real estate, construction and accommodation sectors. In 2012 we do not think it differed much with the exception of an inward investment of Rs 3 billion from the Barclays Bank that rescued, to some extent, the FDI figure for the year. These are one-off investment; it does not in any way boost our export potential or enhance our productivity and flexibility. There is no transfer technology or know-how or any multiplier effects on the economy especially for the IRS projects that are not integrated in the tourism industry. More recently there have been efforts at diversifying FDI inflows -- a timely shift from concern about quantity flows to the quality of FDI . By quality we mean high-value added FDI or FDI that have positive linkages and spillovers effects for the domestic economy.

But there are a variety strategies with different degrees of interventionist policies for different types of FDI. These different FDI strategies need to be classified into more concrete building blocks to generate the best-practice policies or combination of policies with respect to inward FDI. What are our best-practice policies? Are we opting for the more costly but risky pro-active stance towards FDI like in Singapore and Ireland? (Targeting specific firms that fit in our development strategy co-coordinated by one agency that can do promotion, negotiation, facilitation and policy advocacy).
We believe that a more strategic and targeted approach may produce better results. In Gujarat, for example, some 25 teams of officers coupled with more than 100 industrial houses have been scouting 34 identified countries for further investments. Malta is another example of those countries where

they have aggressively targeted firms specifically involving telephone calls, presentations, provision of research, visits, wining and dining and other meetings. Today 30% of Malta's GDP comes from manufacturing of microchips, generic pharmaceuticals, medical devices, car brakes, switch gears and a free zone container port among others. It is now aiming to be a preferred destination for industries such as biotechnology, logistics and transport, maritime and aviation services.

We should see our policies with respect to FDI as part of our development strategy to achieve pre-defined objectives. Is our policy too traditional and fragmented, too timid, or is it too risky, too expensive or does it lack economic fundamentals? We have to continually revisit these policies guided by new insights for new directions in the light of recent policy developments to achieve the long-term strategic vision of the nation.

Tourism: catering to our new customers

We are diversifying our markets, and there is a new focus on some emerging markets to reflect the structural changes in the world economy. In 2000-07, about 60% of the global GDP was contributed by the advanced economies; during 2008-2011, the same is being contributed by emerging economies. The 2012 India Wealth Report shows that the total individual wealth in the country is expected to double to IRs 179 trillion from the current IRS 92 trillion. A recent report of the World Tourism Organization noted that more than 80 million Chinese travelled overseas last year spending some $85 billion. How could we tap these fast growing markets, especially in the niche luxury wellness segment of the hospitality sector?

We have to rethink our product: we must now think in terms of customized products. For the South Asian tourists we may think of offering a mixture of the ancient healing culture of Asia along with contemporary international

therapies and practices – spa-zones, meditation caves, relaxation terraces and yoga pavilions. As for the Chinese tourists, who tend to reserve more than a third of their holiday budget for shopping, our duty free shops are essential stops whereas the luxurious hotels, lavish meals and lovely beaches of our enclave tourism do not seem to be their favourites.
The tourism industry has so far been focusing too intently on its own individual businesses and the traditional products and not enough on the new customers' overall experiences and needs. This is the challenge of diversifying not only our source markets but also our products and services.

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Opportunities missed

Now that the details of the 2012 budget deficit figure of 1.8% of GDP has been posted on the Ministry of Finance website, we can lend ourselves to some analysis and dissection of the figures. The first thing we noted was that the reduction in the budget deficit was not purely the result, as asserted by the Minister of Finance, of the tax efforts by government.

Table I

% of GDP	2007/08	2008/09	2010	2011	2012
Revenue	20.5	22.4	21.9	21.4	21.4
Taxes	18.4	18.8	18.5	18.3	18.8
Other Revenue	1.8	2.2	2.4	2.1	1.6
Expense	21.4	23.4	22.4	22.0	20.4
- Compensation of Employees	4.9	5.8	5.9	5.6	5.4
- Use of Goods and Services	1.6	1.8	2.1	1.9	1.9
- Interest	4.1	3.8	3.4	3.0	3.0
- Subsidies	0.4	0.3	0.3	0.4	0.3
- Grants	5.2	6.3	5.2	6.0	4.6
- Social Benefits	4.0	4.2	4.5	4.5	4.5
Capital Spending	1.7	2.0	2.7	2.7	2.8
Budget balance	- 2.7	- 3.0	- 3.2	-3.2	- 1.8

Total Revenue as a % of GDP was the same as in 2011 and lower than in 2008/09 and 2010. The lower Budget deficit figure in 2012 is explained wholly by the lower grants figure in 2012. Why is the grants figure so high for 2011? Because of the transfer of some Rs 6.5 billion to the Special Funds: it included Rs 4.2 billion to National Resilience Fund, Rs 1.5 million to the

Social Housing Fund, and Rs 500 million to the Road Decongestion Programme Fund. It is thus just by an accounting gimmick that the budget deficit had been reduced by 1.4%. If the budget figures are reworked without the colorable accounting, that is, by integrating the expenditures and receipts of Special Funds to the Budget, the new figures show a reduction of only 0.2 % in the budget deficit for 2012.

Table II

As a % of GDP	2011	2012 (Revised)	2013 (Estimates)
Budget Deficit	-3.2	-1.8	-2.2
Consolidated Budget Deficit	-2.4	-2.2	-3.5

Thus the reduction of the budget deficit is not the result of any bold policy decisions or of any substantive reforms. Moreover we had a cash hoard of some Rs 10 billion in the Special Funds. We missed an opportunity to advance a set of supportive and bolder policies along with some concrete steps to address the supply side bottlenecks that are imperative to revive growth. Indeed it was an opportunity missed in channeling public investments to the education sector, to building skills, to research and innovation, to export expansion and diversification and in boosting the overall growth rate of the economy.

We cannot continue to build the future of this country on the basis of populist measures like tablets for Form IV or hot meals for some school kids at Rs 75 per meal. These are measures that have been included in Budget 2013 without proper analysis and planning. We are not getting value for money from the mega-ministy, the Ministry of Finance (MOFED), which has just

recruited more than 50 new analysts. Is it not time for a demerging of MOFED and redirecting the ex-MEPD staff to the proposed National Strategic Planning Commission (NSTC)? These economists are presently being underutilized at MOFED.

This country needs to get its priorities right; it needs more of research, sector analysis and evaluation work to assist policy makers to make informed decisions based on policy trade-offs; it has to ensure more coherence in its development policies and develop more holistic approaches in its strategic plans while forging better linkages between the public and the private sector. We believe that the NSTC, by gathering under its roof the very core competencies that we can rely upon to resolve our national problems and challenges, will provide right ingredients to prioritize and frame the right policies for the economy to grow in the right direction.

Mauritius as a Centre of Higher Learning: Challenges ahead

Mauritius is positioning itself to be a key centre of higher learning in the region. Its tertiary education sector is aiming at achieving world-class status; it will be attracting international students, brand name institutions of higher learning and a highly-qualified teaching staff. Are we going in the right direction? Dr Harrish Bheemul, Director of Train to Go believes that we are still a long way behind and off target. So does Professor Dr Raj Gill, Pro Vice-Chancellor of the University of Middlesex who, in his intervention at the Mauritius International Knowledge Investment Forum, alerted us to some of the dire realities in relation with the transformation of the country into a knowledge-based economy with emphasis on the important contribution of the university sector. Besides the problems of air access, facilities for on job training and accommodation for international students, we have the issue of the quality of our tertiary institutions. *"Of the 65 private tertiary institutions,*

only 5 of them, that is a mere 8%, are worthy of being among the top of the higher institutions of learning."

To continue forging ahead in establishing ourselves as "world-class", "elite", or "flagship" universities that are expected to compete effectively with the best of the best, first of all we will need more financial resources for the huge costs involved in running world-class research-intensive universities. Second, we have to continue our efforts at attracting a critical mass of top students and outstanding faculty. Only such universities with a sophisticated level of teaching faculty, plus a highly productive and competent level of research capabilities and facilities for university faculty members will be able to select the best students and attract the most qualified professors and researchers. The Indians have shown interest to establish an institution in Mauritius on the lines of Indian Institutes of Technology. This will help not only in boosting the quality of tertiary education in Mauritius but also force our feeder system to adjust and upgrade itself to the higher entry standards of such institutions. Finally, we need a more powerful and effective Tertiary Education Commission which will have to assume its role as a driver of the tertiary sector, upgrading quality audits and enhancing the international comparability of its quality assurance framework for quality tertiary education.

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